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xandros

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# We Fight for Oil

*"It is even probable that the supremacy of nations may be determined by the possession of available petroleum and its products."* —President Coolidge

Alfred A Knopf, 1928

# AMERICA conquers BRITAIN

A RECORD of ECONOMIC WAR

Alfred A Knopf, 1930

## CHAPTER ONE

*Concerning the Larger Anglo-American Conflict*

A HISTORY of the oil war must wait. The war is not over. Contemporary records can be set down by observers in different countries. From many such incomplete reports future historians may round out the story.

Origins of the struggle have been studied by several men, most of them Europeans. They described the rivalry among the Powers over petroleum riches of Russia and the Near East in the period immediately following the Great War. No one, apparently, has attempted to bring the record down to the present.

Since 1925 the battle lines have shifted. The struggle for Russian resources has grown more bitter. Another Mosul dispute is in the making. The Mexican situation has completely changed. There are new and more important fronts. In Venezuela and Colombia, Great Britain is manoeuvring for position dangerously near the Panama Canal.

The British Government is directly involved. It owns and directs the most aggressive company in this international competition. While British companies help drain diminishing reserves of the United States, Great Britain excludes American companies from most of the petroleum lands of the Empire.

To meet the emergency the Washington Government exerts a "strong" policy. It formally challenges British oil imperialism, protests nationalization laws of Mexico and other foreign fields and markets. Fearing a domestic shortage, Washington wants foreign reserves essential to the nation in peace and war. Subsoil supplies in the United States are sufficient theoretically for only six years at the present consumption rate, according to the Federal Oil Conservation Board.

Anglo-American strife over foreign resources has become a major factor in international affairs. *The British perhaps have been more militant, because their need has been until now so much greater than ours. But in motive and in method there is little difference between the contending forces.*

Oil diplomacy in London and Washington is determined by commercial and military considerations. It is hidden most of the time. Corporations do not reveal their secrets. Governments do not publish their army and navy war plans. But sometimes when hard pressed a Sir Henri Deterding and a Standard Oil official try to gain public support by telling the worst about each other. Or a diplomatic note shows the close connexion between foreign policy and commercial rivalry.

Then one sees that this oil war is not important in itself. It is significant only as part of a larger struggle for world mastery between two great economic empires. Seen alone it seems fantastic, impossible; against the background of the wider conflict it appears tragically inevitable. There would be no serious oil war had not America suddenly grown into an empire threatening Great

Britain's long commercial and naval supremacy.

Modern international power is economic. The nation which controls oil and other raw materials, foreign markets, and credits will rule the world.[1]

Before the Great War the United States was a debtor nation, owing the world \$5,000,000,000. By 1927 the world owed the United States \$25,600,000,000. Great Britain at the height of her power as world banker had less than \$20,000,000,000 of foreign investments. Foreign debts to the United States Government total more than \$11,000,000,000. Foreign investments of Americans in 1927 amounted to \$14,500,000,000, and were increasing at a rate above \$2,000,000,000, a year. The world is paying America an annual tribute, in dividends and interest alone, well over \$1,000,000,000. The yearly American foreign trade turnover exceeds \$9,000,000,000.[2]

This economic power carries inevitable international responsibilities. Political isolation—ordained by the fathers of the Republic as the basis of American foreign policy—ceased with the Spanish-American war and resulting territorial expansion overseas. "Isolation is no longer possible or desirable," President McKinley said. Later President Wilson for a time convinced a sceptical America that: "We are participants whether we would or not in the life of the world. The interests of all nations are ours also. We are partners with the rest. What effects mankind is inevitably our affair as well as the affair of the nations of Europe and Asia." We could not keep out of the Great War. From that vast destruction of men and wealth, other Powers both victor and vanquished emerged terribly weakened. The balance of international power moved westward toward America. The United States became an economic empire, circling seas and continents, penetrating the very capitals of older empires. Now no major development can occur in any foreign country without touching some American interest.

America apparently cannot stop the historic process which is extending her empire. She cannot escape the accompanying entanglements. With Europe poor from the war, with undeveloped continents opening to exploitation, America's surplus wealth will continue to flow outward. To protect that wealth, American diplomacy follows. And sometimes American battleships.

American entanglements abroad are only a matter of degree. In western Europe our political influence is exercised indirectly, as in the Dawes reparations system or in the credit embargo against France. In eastern Europe and the Near East there are American financial advisers with almost as much authority as dictators. In Liberia, America rules in all but name. We share in China with other Powers control of tariffs and finance, maintain our own courts and army.

In the Western Hemisphere, under a much-stretched Monroe Doctrine, our control is wider. The Caribbean is an American lake. No Central American government can defy the will of Washington and live. Virtual American protectorates extend over Cuba and Panama. American marines occupy Haiti and Nicaragua. In 14 of the 20 Latin American republics, there is some form of fiscal, political, or military power wielded by the United States.

There is also our territorial empire, acquired by purchase or conquest—the Philippines, Alaska, Hawaii, Guam, Porto Rico, and the Virgin Islands.

But these territorial possessions and larger economic domains are not enough. We reach for more.

And as we extend our power over other peoples, they rise up to curse us.

The peoples of Europe envy and distrust us. European governments discriminate against our trade. We have outlawed Russia. In China our gunboats and marines must protect Americans from anti-foreign frenzy. Throughout Mexico and Latin America we are hated and feared. Japan, humiliated by the insult of immigration exclusion and suspecting our Pacific policy, watches and waits.

Overshadowing all stands Great Britain, blocking the path of American empire. Empire is built on sea supremacy, foreign markets, and control of raw materials such as oil. Without these the British Empire cannot continue dominant. Without these the American empire cannot rise. Hence the conflict. Despite hands-across-the-sea speeches and talk of Anglo-American unity, the two empires are now in combat on the economic fronts of the world.

Great Britain enters this conflict with the advantages and disadvantages of age. She has possession of much of the earth. She has imperial experience. But most of her vitality is spent. She finds it increasingly difficult to rule her own household. Her organization and technique are of a past age. The territorial type of empire seems ill adapted to the future. While she faces encroachments of a newer competing empire, she must reconstruct her Empire into a so-called commonwealth.<sup>[3]</sup> And still the revolt in India, in Egypt, grows.

America enters the conflict with the handicap and strength of youth. With the physical security of two ocean barriers, with natural resources making her uniquely self-sufficient in an emergency, and enriched by war which impoverished her competitor, America is formidable. Her daring compensates for her inexperience in empire building. Driven by a self-righteous faith in American civilization, she has the crusader's zeal and unscrupulousness which has usually conquered others.

There is a growing number of economists who believe that any permanent revival of Great Britain as the world's industrial centre is highly improbable. <sup>[4]</sup> Her past commercial dominance was achieved by acting as "middleman" for eastern Europe and backward continents, converting their crops and minerals into goods which she re-sold to them. Now that those undeveloped countries are becoming industrialized, there is less need for the British middleman. Unfortunately for England she has no adequate agricultural industry which she can develop to compensate for her commercial losses.

Industrialization of backward countries not only restricts the market for certain manufactured products, such as cotton goods which have been England's chief stock in trade; it creates other markets for machinery and products of light industry. Anglo-American commercial competition is thus intensified by the restriction of old markets and emergence of new ones.

Great Britain is less able than the United States to meet such competition. Our favoured geographic position, efficient production methods, and larger credit facilities, enable us to supply developing countries with most of the industrial machinery required by them. These advantages bring them to us as the logical market for manifold accessories of "civilization" which primitive countries demand in becoming modernized. More than Great Britain, the United States is sharing in the industrialization of South America and Asia, indirectly by furnishing desired financial capital

and directly by ownership of industry in the new areas.

To compete effectively with her American rival in a changing world market, Great Britain is “Americanizing” her industrial plant and sales system. The Mackenzie Delegation of Inquiry, composed of British employers and trade union officials searching for causes of American industrial superiority, came to this country in 1926. Their report, issued by the British Ministry of Labour, stressed the following factors:

The United States’ natural resources and raw materials, its freedom from internal trade barriers and tariff walls, industrial technical efficiency, simplification processes, standardization of products, cheap power, Prohibition’s effect on the population as producers and consumers, and co-operation between capital and labour. “Organized labour have accepted what may be termed the machine-age as an inevitable development of modern industry,” according to the Delegation. “It is their avowed policy to co-operate with management [employers] to the best of their ability in increasing production.”

The report might have added that American organized labour is weaker in numbers and influence, and much less class conscious than British labour. One-quarter of American workers in the manufacturing, mining and transport industries are trade union members, compared with almost one-half in Great Britain. Organized labour in this country has little effective control of production, except in the clothing industry. In Great Britain labour increasingly controls most basic industries, at least in negative manner. British labour’s superior power comes not only from larger organized numbers driven by fear of poverty, but also from a political Labour Party and unions organized by industries in addition to the craft-union American system. Whatever may be the ultimate merits from the workers’ standpoint of class war unionism compared with the “co-operative” policy of the American Federation of Labour, the latter gives American capital an advantage over British capital in the competition for domestic and foreign markets.

“The penalty of commercial and industrial efficiency inevitably is war,” Rear-Admiral Charles P. Plunkett, commandant of the Brooklyn Navy Yard, declared January 21, 1928, in defence of the proposed Coolidge \$500,000,000 naval program. “If I read history correctly, this country is nearer war than ever before, because its commercial position today places us in competition with other great commercial nations” [5]—meaning Great Britain. Was he indiscreet to reveal publicly the American naval mind? Of course there were official denials. But they do not alter the fact, which can be verified by examining our naval building program or by talking with almost any naval officer. Rightly or wrongly, we are actively preparing for the Anglo-American war which our naval men believe will be fought to determine commercial supremacy. The American people are now less opposed than formerly to such preparedness against Great Britain. They think—justly or unjustly—that Great Britain at the Coolidge Geneva Conference tried to trick America into permanent naval inferiority and refused American pleas for equality. To understand this attitude, fostered by United States officials, one must start with the Washington Arms Conference.

Secretary of State Hughes opened that Conference with the proposal for a 5-5-3 ratio as among Great Britain, the United States and Japan. Lord Balfour, head of the British Delegation, accepted



that ratio. This was to be expected since Great Britain in confidential negotiations with the United States had been first to propose both the Conference and the "Hughes plan." By that plan and its acceptance in treaty form, Great Britain checked the American capital ship program which threatened British supremacy. Great Britain did not have enough money to win a capital ship building race; therefore she called it off, declaring it a tie. Moreover, the Great War had increased doubts of most naval men as to the importance of capital ships. There was less incentive for unrestricted building of expensive ships which might soon become obsolete. Naval strategy was turning to smaller ships and newer weapons, the light cruiser, destroyer, submarine, and aircraft. These auxiliary craft are the weapons of commercial rivalry, for blockade, for protecting and for attacking merchant shipping and trade routes.

Great Britain came out of the Washington Conference with her sea supremacy more secure than when she went in. By limiting expensive capital ships, in which she was about to be surpassed, she made cheaper cruisers the gauge of naval strength. She had more modern cruisers than the United States and all other Powers combined.

This result of the Washington Conference was achieved partly by skilful British diplomacy and partly by France's refusal to abolish or limit submarines. With the submarine their only effective security against England in a possible war for European hegemony, the French would not sacrifice this inexpensive weapon. Unable to force abolition of the submarine, Great Britain prevented cruiser limitation. Mr. Hughes, despite protest of the American naval experts, first granted parity in capital ships in which America was potentially stronger, and then begged unsuccessfully for equality in cruisers in which Great Britain was stronger. Being weak in cruisers, the United States had nothing left with which to bargain. She watched the Conference break up, leaving Great Britain mistress of the seas through cruiser superiority.

The American public was inclined to blame France for preventing complete naval limitation. But the American admirals said: The British have trimmed us again.

After the Washington Conference London started a large cruiser building program, widening further the gap between British and American strength. Then the American admirals were able to force from an "economy first" Administration a pledge to close that gap—either through a treaty establishing cruiser parity, or by building more Yankee cruisers. The admirals said: It is no use to try for treaty equality because the British never will grant that until we are stronger than they are. Mr. Coolidge replied: Give them a chance. So the President in his message of December 1926, asked Congress to postpone its cruiser program pending efforts for a limitation treaty.

As a result of the abortive Geneva Conference this Government is now convinced of the accuracy of the navy's traditional contention that Great Britain—or at least the Tory Government—is determined to "rule the waves" through cruiser superiority. Rightly or wrongly, Washington believes London rejected the several American proposals at Geneva because they involved a paper equality, and that every British proposal was an attempt to prevent either paper or actual parity. Granting the British argument that their longer Empire lines and trade routes require for defence more cruisers than the United States needs, their refusal to grant paper parity at Geneva helped

create a situation in which not only the American Navy Department but a majority of the American people demand a large building program. However sincere the Admiralty's policy at Geneva may have been, it is difficult to understand what Great Britain expects to gain by it. The United States is preparing for war, as Rear-Admiral Plunkett indicated.

Both nations would lose by war. But Great Britain would lose more. Whatever happened to America, Great Britain would cease to exist as a world empire. The reasons are obvious:

The United States plans to have naval equality or superiority before hostilities begin, if there is to be a war. America's only major weakness, lack of an adequate merchant marine for service of supply and naval auxiliary, will be less acute probably within the next decade. America is vastly superior in manpower, raw materials, food supply, financial reserves, and natural defences. Great Britain would have serious labour and political disaffection at home probably, and native independence revolt in many of her colonies. Great Britain is exposed to air and submarine attack by her European neighbours, some of whom might welcome an opportunity to complete her downfall. Not that they love us but that they hate Great Britain more, as the nearer of two encroaching empires. Compared with this British disadvantage in war, most of the United States' potential enemies such as Mexico and the Caribbean states are relatively powerless. Direct Canadian intervention would be improbable and not decisive in any event. Even if Japan joined Great Britain to capture the Philippines and Hawaii, the attacking allies would still have to cross half the Pacific Ocean to threaten the American mainland. It is more probable that Japan would join the United States, or at least remain neutral in the hope that her two chief adversaries would destroy each other. Though Great Britain were unexpectedly the naval and military victor, she would have received external and internal injuries from which the aged Empire could not fully recover.

Doubtless everyone in Great Britain realizes this—except the Tory minority which controls the Admiralty and Foreign Office. But apparently few Britons of any party realize that the United States will soon be ready to fight to attain commercial and naval supremacy, unless Great Britain without war will share control of raw materials, markets, and the sea. The capitalists, politicians, and admirals who direct the American empire may lose; but they will not be bluffed by the British imperialists.

There are of course powerful personages in both countries seeking a compromise. The American naval program, American capture of more British foreign markets, and increasing American control of world credit, may make even the British Die-Hards cry for compromise. Great Britain's hold on three-quarters of the world's oil reserves, her near monopoly of rubber and other essential raw materials,<sup>[6]</sup> and the fact that an economic-financial empire such as ours can profit more from productive peace than from destructive war, may in turn convince American imperialists that compromise is the better way.

Any compromise agreement would be in effect an Anglo-American economic and political alliance, even though partial. It would tend probably to take the following form: Naval parity and joint control of the seas; a free hand politically for Great Britain in her colonies and spheres of influence in exchange for a free hand for the United States in Latin America, with Great Britain ultimately to

get out of British Honduras and Jamaica and immediately stop concession-hunting in Panaman, Colombian and other territory commanding the Panama Canal; Britain to agree not to encourage dismemberment of China and not to seek special commercial advantages there; the United States to hold the Philippines, and to that extent prevent Japanese expansion or further nationalist revolt in the lower Far East and India; the United States to scale down its high tariff wall to let in British goods, and hasten war debt cancellation; both Governments to practise the Open Door policy in regard to raw materials and markets in their territories and spheres of influence, except in strategic areas such as Panama and Suez; relaxation of restrictions against British shipping in American coastwise trade; freedom for nationals of each country to form international commercial combines; abolition of the British exclusion policy preventing American ownership of petroleum lands, and equitable division of joint exploitation by British and American oil companies of new foreign fields.

Such a complete economic and political alliance could not be formed, or at least not in one sweep. But an informal entente in incomplete form, beginning with the points of worst friction such as naval, communications, and oil rivalry, may be sought by both Governments to prevent ultimate war.

Possibility of an Anglo-American bloc has long been foreseen and dreaded by Latin and Oriental peoples. They fear that empire alliance, with its vast concentration of economic and political force, would master the world as no other power of church or state has ever done.

For better or for worse, then, it is possible the declining empire as the price of survival may make terms with the rising empire before the Anglo-American economic conflict ends in actual war.

Meanwhile, America has doubled the size of her pre-war army, trained a large military reserve force, projected the biggest naval program in her history.

And the struggle for oil goes on, menacing this flimsy peace.

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1. Cf., New York *International Conciliation*, Jan. 1927, "Raw Materials and Their Effect upon International Relations;" a general bibliography and reprint of articles by George Otis Smith, L.L. Summers, E. Dana Durand, Parker Thomas Moon, and Edward Mead Earle.

2. New York *Foreign Policy Association Information Service*, Supplement, March 1928, Max Winkler, "The Ascendancy of the Dollar." Dr. Winkler's figures are higher than official estimates. Cf., Commerce Department, T.I.B. No. 503, *The Balance of International Payments of the United States in 1926*; and T.I.B. No. 507, *Foreign Trade of the United States, 1926-27*.

3. Cf., New York *International Conciliation*, March 1927, "Inter-Imperial Relations Committee Report, 1926."

4. Cf., New York *Foreign Affairs*, July 1927, article by Clive Day.

5. New York *Times*, Jan. 22, 1928.

6. Cf., Commerce Department, T.I.B. No. 385, *Foreign Combinations to Control Prices of Raw Materials*. Ibid., press release, Nov. 1, 1925, address by Secretary Hoover at Erie, Pa.



## CHAPTER TWO

*The Oil War Begins*

OIL is “as necessary as blood in the battles of tomorrow.” That was Premier Clemenceau’s appeal to President Wilson for American petroleum in the winter of 1917. “The safety of the Allied nations is in the balance.” [7] After the war was won, Lord Curzon told the story: “The Allies floated to victory on a wave of oil.” [8]

Then the peace conferences—and the fight of the victors over the oil spoils. When Great Britain and France in 1919 were getting ready to divide the Near East between themselves in mandate form, M. Henri Berenger prepared a memorandum for his Government. M. Berenger, a French industrialist and senator, had been war-time Oil Commissioner and was to be Ambassador to Washington. The memorandum contained this warning:

“He who owns the oil will own the world, for he will rule the sea by means of the heavy oils, the air by means of the ultra refined oils, and the land by means of petrol and the illuminating oils. And in addition to these he will rule his fellow men in an economic sense, by reason of the fantastic wealth he will derive from oil—the wonderful substance which is more sought after and more precious today than gold itself.” [9]

How natural that this life blood of nations in war and peace should determine diplomacy. These years since the Armistice are described as the period of “the oil war.” The crisis is ahead. Here are some of the reasons:

Every large nation must look outside its own territories for an essential reserve. The United States has less than 12 per cent of world reserves. Great Britain within the Empire has six per cent. Others have less.

About 70 per cent is in countries whose weakness invites economic and political encroachment by major Powers. This applies especially to the Mexican Gulf-Caribbean region, the Near and Middle East, and Russia.

In self-defence many of these oil-bearing countries have passed laws vesting subsoil rights in the native governments, and laid down restrictive regulations, royalties and duties. This defiance of claimed property rights of foreign nationals is used by the Powers to justify diplomatic pressure and, in extreme cases, military intervention.

Large capital investment, often such as only American or British companies can provide, is necessary for successful exploration and production. Unusually large expenditure is required in most of these countries. Their resources can be tapped only by long pipe-lines across mountains, desert, or jungle to the sea. That is the situation in Persia, Mosul, Colombia, and less important fields.

Often a second weak country or territory is the only practicable outlet for otherwise inaccessible deposits; as the outlet for the south Persian field through the Baktiari tribe region, the Russian Caucasus gateway for the north Persian field, the projected pipe-lines across Syria or Palestine to tap Mosul in Iraq, and the Venezuelan passage out of the east Colombian pool. Thus the battle of foreigners for one field may extend from the producing territory to the transit country.

There is a larger international issue. An approximate balance between several Powers in an oil war might result in an armistice, so the strong could divide the riches of the weak. But two Powers have gained control of most of the world reserves. Great Britain and the United States are fighting for supremacy. The United States is losing. Great Britain has grabbed three-quarters of the Earth's known supply. Let a Briton describe the situation.

“America has recklessly and in 60 years run through a legacy that, properly conserved, should have lasted her for at least a century and a half,” according to Sir Edward Mackay Edgar, British petroleum banker.<sup>[10]</sup> “Just when Americans have become accustomed to use 20 times as much oil per head as is used in Great Britain; just when invention has indefinitely expanded the need for oil in industry; just when it has grown to be as common and as true a saying that ‘oil is king’ as it was 20 years ago that steel was king; just when the point has been reached where oil controls money instead of money controlling oil—the United States finds her chief source of domestic supply beginning to dry up and a time approaching when instead of ruling the oil market of the world she will have to compete with other countries for her share of the crude product. ... The British position is impregnable. All the known oil fields, all the likely or probable oil fields, outside of the United States itself, are in British hands or under British management or control, or financed by British capital.”

Sir Edward's apparent desire to crow over a defeated America led him to exaggerate in that now famous and regretted article in 1919. Nine years later the British boast is nearer the truth.

Sir Edward's statement leaves out the vital factor. That is the British Government. The struggle is not alone between American and British capital. It is between American capital and the London Government. Of the two dominant British companies, the London Government has close unofficial relations with one and has direct controlling ownership of the other. That makes oil an international explosive.

To equalize the contending forces American petroleum princes have sought State Department support. “The only thing needed now is an aggressive foreign policy on the part of the United States,” was the plea of Mr. A.C. Bedford, late chairman of Standard Oil of New Jersey. “All proper diplomatic support in obtaining and operating oil-producing property” abroad was recommended by the Federal Trade Commission in 1923.<sup>[11]</sup>

Such prodding was not needed by the State Department. Since 1902 its consuls had been active in behalf of Standard and other American companies abroad.<sup>[12]</sup> As the Anglo-American competition intensified, the Department from time to time had reminded its foreign representatives of their duties in this connexion. Specific instructions were sent by the Department to all United States diplomatic and consular officers on August 16, 1919, as follows:

“Gentlemen: The vital importance of securing adequate supplies of mineral oil both for present and future needs of the United States has been forcibly brought to the attention of the Department. The development of proven fields and exploration of new areas is being aggressively conducted in many parts of the world by nationals of various countries, and concessions for mineral oil rights are being actively sought. It is desired to have the most complete and recent information regarding such activities either by United States citizens or by others.

“You are accordingly instructed to obtain and forward promptly from time to time information regarding mineral oil concessions either proposed or granted, sale or transfer of such concessions, change of ownership of oil property or important changes in ownership or control of corporate companies concerned with oil production or distribution. Information regarding development of new oil fields or increased output of producing areas should also be forwarded. Comprehensive data are desired and reports should not be limited to points specifically mentioned above, but should include information regarding all matters of interest affecting the mineral oil industry which may arise from time to time.

“You are also instructed to lend all legitimate aid to reliable and responsible United States citizens or interests which are seeking mineral oil concessions or rights. Care should be taken, however, to distinguish between United States citizens representing United States capital and United States citizens representing foreign capital; also between companies incorporated in the United States and actually controlled by United States capital and those companies which are merely incorporated under United States laws but dominated by foreign capital.”<sup>[13]</sup>

Mr. Charles Evans Hughes testified before the Coolidge Federal Oil Conservation Board: “The foreign policy of the Government, which is expressed in the phrase ‘Open Door,’ consistently prosecuted by the Department of State, has made it possible for our American interests abroad to be intelligently fostered and the needs of our people, to no slight extent, to be appropriately safeguarded.”<sup>[14]</sup> The former Secretary of State and present counsel of the American Petroleum Institute and Standard Oil speaks with the authority of experience.

If the British Government by company ownership and direct participation in the struggle for foreign reserves has transformed oil into an international explosive, the Washington Government in challenging British supremacy may touch off that explosive. The most provocative activities of the State Department since the Great War have been in the service of oil.

With the Washington Government in the fight, how does it happen that American oil magnates, once world dictators of supply, have let Great Britain capture three-fourths of all reserves? The answer is a tale of melodrama such as even scenario writers have not conjured for the films. This “thriller” of course has a hero, and a villain. But which is hero, and which is villain, depends upon the nationality of the audience. One is Mr. John D. Rockefeller, called “the Oil King.” The other is Sir Henri W.A. Deterding, who prefers the name “Napoleon.”

The prologue of the international oil melodrama begins in that part of the world better known as the birthplace of Christianity. There in the Near East at the turn of the century appeared two gentlemen from afar. One was an American, Rear-Admiral Colby M. Chester. The other was a

Briton of the more adventurous sort, an Australian, Mr. William K. D'Arcy. While on a diplomatic mission to Turkey in 1899 to obtain redress for American losses in Armenian massacres, the Admiral scented oil. He hurried home, resigned his naval commission, and returned to the Sublime Porte. The American wanted railway, mining and petroleum concessions in Anatolia and Iraq, or Mesopotamia as it was then named. Meanwhile the mysterious Mr. D'Arcy was prospecting somewhere in the interior of Persia.

American Indians in western Pennsylvania almost three centuries earlier had led Father Joseph de la Roche D'Allion, a French Franciscan missionary, to a pool of black waters. Since then this miracle-working fluid had been used increasingly, first as a medicament and later as an illuminant. Out in Cleveland a Mr. Rockefeller had the happy idea of dominating the growing industry by pipe-line control, railroad rebates, legislative manipulation and unscrupulous competition.<sup>[15]</sup> Control of American production gave Mr. Rockefeller the premier position as world distributor. British and Dutch companies were springing up in the Far East, French and Russian capital was beginning to develop the Caucasus, but America was the largest producer and Standard the chief seller in foreign markets. Then in 1898 new gushers in the Caucasus sent Russian production upward till it surpassed American output for a time.<sup>[16]</sup> In other countries a few industrial dreamers were becoming oil conscious.

Hence the presence in the Near East of Admiral Chester and of Mr. D'Arcy. Unexpectedly, the latter's dream came true. He obtained in 1901 from the Shah a 60-year monopoly oil concession covering five-sixths of the Persian Empire, all except five northern Caspian provinces beyond the mountains. For these half-million square miles and their petroleum riches he paid \$20,000 cash, pledged the same amount and 16 per cent royalty.

Sultan Abdul Hamid of Turkey was less obliging than the Persian Shah. Admiral Chester got only promises from the Turk. Mr. D'Arcy had gone to London, organized what was later the Anglo-Persian Company to exploit his new concession, and was soon back in the Near East with his eyes on the Mesopotamian vilayets of Bagdad and Mosul. These were the areas sought by the Admiral. Then Germans appeared. Concession-hunters were crowding each other. At this point Abdul Hamid discerned that oil was a commodity not unworthy of the personal attention of Allah's anointed. He transferred the Bagdad-Mosul rights from his Government to his private account—and let it be known he was now ready to talk business with the foreign infidels.

The American Admiral lost. The Germans obtained the Anatolian Railway Company concession, with an option to drill the Bagdad-Mosul fields on shares with Abdul. Then for some unexplained reason the Sultan changed his mind, he was not sure about this German concession after all. Enter Mr. D'Arcy and Anglo-Persian. But before the British could close their deal, Abdul was swept out by revolution and the Young Turks were in power.

Again the American pushed forward. This time he got his concession promises in writing. But before his contract could be ratified the British and Germans had combined against him. They formed in 1912 the Turkish Petroleum Company, consisting of the British Dutch-Shell oil group, the Deutsche Bank of Berlin, and the Turkish National Bank in which there was much British



capital.<sup>[17]</sup> The new organization revived the 1904 German claim. Within a year the Turkish Bank's 50 per cent stock interest in the joint company was transferred to Anglo-Persian. Then it was apparent that no less a power than the British Government had played and won—from the American holder of the concession.

The London Government now came into the open. With the aid of the Berlin Foreign Office it forced Turkey to confirm the old German claim in the form of a Turkish Petroleum Company concession to the Bagdad-Mosul fields. That was in 1914. It was the last bit of Anglo-German co-operation for some time. Indeed the Kaiser's Government had certain ambitious plans for more than a quarter share in the Turkish Petroleum Company—a "*Drang nach Osten*" for political power, the Berlin-Bagdad railway and all the oil.

Intervention by the British Government to form the new company was opposed by some British oil men. This opposition was explained at the time by Sir Robert Waley Cohen, Shell Oil Company director: "These arrangements [reconstitution of the Turkish Petroleum Company] were entered into at the instance of the British Government. We do not believe in mixing up politics with business: it leads sometimes to corruption, always to inefficiency, and tends to convert what should be mere commercial rivalries into national animosities—a very serious disadvantage."<sup>[18]</sup>

But the London Ministry apparently was less concerned with preventing national animosities than with preparedness to win any war provoked by such animosities. Consciously and deliberately London had made a momentous decision. The British Government was going into the oil business as a direct participant in the struggle for foreign concessions and markets. This decision, which appeared a sudden one, had been maturing since 1905. In that year Mr. D'Arcy, after unsuccessful efforts to interest British capital in his Persian concession, was on the point of selling to foreigners. To prevent this Mr. E.G. Pretyman, Civil Lord of the Admiralty, and other officials secretly arranged for British private capital to operate the Anglo-Persian Company until it could be taken over openly by the British Government.

Why? Where had the British Government picked up so early the lesson of international oil power, which the rest of the world did not learn until the Great War? The London Government learned from that rare type of genius, a professional military man with imagination and without fear of bureaucratic superiors.

"The use of fuel oil adds 50 per cent to the value of any fleet that uses it." That is orthodox doctrine now. It was revolutionary heresy when Admiral Lord Fisher began to preach it to the British Government in 1882. Nevertheless it alarmed the London politicians to be told that Standard then controlled 30,000,000 of the world's 35,000,000 barrels of production of this stuff over which some "fool" naval officer was getting so excited.

"The use of oil fuel [would] increase the strength of the British navy 33 per cent because it can re-fuel at sea off the enemy's harbours," the Admiral reported later. "Coal necessitates about one-third of the fleet being absent refueling at a base. ... With two similar dreadnoughts oil gives three knots more speed—and speed is everything. Oil for steam-raising reduces the [coal] engine and boiler-room personnel over 60 per cent. [Engineers now say an equal amount of oil will produce twice as



much steam-power as coal]. ... At any moment during refueling the oil-engine ship can fight—the coal-burning ship cannot. ... Oil does not deteriorate by keeping. Coal does. ... It is a criminal folly to allow another pound of coal on board a fighting ship.”<sup>[19]</sup>

Lord Fisher not only discovered the method. He found the man. The man was a Holland clerk. He was rising as an official in the Royal Dutch Petroleum Company. The Admiral described this gentleman to the British Government as “Napoleonic in his audacity and Cromwellian in his thoroughness.”

Henri W.A. Deterding was the name of this new Napoleon. He lived up to Lord Fisher’s description. He extended the oil holdings of Royal Dutch into a dozen countries. He arranged for increased British capital control of this international trust. He merged the British Shell oil group with it, making of the two largest European organizations a united Dutch-Shell combine, the strongest in the world. He became a British citizen.<sup>[20]</sup> The British Government made him Sir Henri. And then he began to make British foreign policy.

By 1913, according to Lord Fisher’s Memorandum at the time, Sir Henri was “confessing” to the British Royal Commission on oil that: “He possesses in Roumania, in Russia, in California, in Trinidad, in the Dutch Indies, and shortly in Mexico, the controlling interest in oil. The Anglo-Persian Company also says he is getting Mesopotamia and squeezing Persia, which are practically untouched areas of immense size reeking with oil. ... Sir Thomas Browning says in his evidence that the Royal Dutch-Shell combination is more powerful and aggressive than ever was the great Standard Oil Trust of America. Let us therefore listen with deep attention to the words of a man [Deterding] who has the sole executive control of the most powerful organization on earth for the production of a source of power which almost doubles the power of our navy whilst our potential enemies remain normal in the strength of their fleets.”<sup>[21]</sup> This British Commission, “listening with deep attention” to the Oil Napoleon, was **getting ready for the war which Lord Fisher a decade before had predicted to the very year.**

To the Fisher-Deterding team was added the political power of Mr. Winston Churchill, then First Lord of the Admiralty. Just a year before the outbreak of the Great War, the First Lord revealed to the House of Commons the policy which has since made history.

“Our ultimate policy is that the Admiralty should become the independent owner and producer of its own supplies of liquid fuel,” he explained. “First, by building up an oil reserve in this country sufficient to make us safe in war and able to over-ride price fluctuations in peace; secondly, by acquiring the power to deal in crude oils as they come cheaply into the market. ... The third aspect of the ultimate policy is that we must become the owners, or, at any rate, the controllers at the source, of at least a proportion of the supply of natural oil which we require.”<sup>[22]</sup>

To carry out this policy the London Government moved rapidly. It reached for Mosul. The British had one-quarter interest with Germans and Turks in the Turkish Petroleum Company’s unrecognized German claim. Within a few months the London Cabinet had increased British

ownership in that company to three-quarters, left the Germans with only one-quarter interest in their own claim, shut out completely the Turks who controlled the territory and the Kurds who owned the oil land, and taken the concession from the American who held it.

That was only a beginning. The British Government bought for \$11,000,000 controlling interest in the Anglo-Persian Company. With this contract went 48 years of monopoly over most of the Persian Empire, with the then richest oil fields of the Eastern Hemisphere.

Then August 1914. Mr. Churchill's preparedness was "vindicated"—at least there was war. Lord Fisher was Vindicated—oil was the decisive weapon on sea, land, air. But out of the war strode a larger figure. It was he who had quietly guided them both in driving forward this British policy, Sir Henri.

The war, however, made demands which even this great Napoleon could not meet. "With the commencement of the war, oil and its products began to rank as among the principal agents by which they [the Allies] would conduct it and by which they could win it," Foreign Minister Curzon said.<sup>[23]</sup> "Without oil how could they have procured the mobility of the fleet, the transport of their troops, or the manufacture of several explosives?" Governments appointed Oil Ministers with Cabinet rank, and finally the Inter-Allied Petroleum Council was organized to ration the precious fluid. A famine was soon in sight. The Fisher British navy had 45 per cent of its ships burning oil. On the land fronts motor trucks and the new tanks and planes were consuming gasoline at an accelerating rate.

Germany, cut off from adequate oil supplies and forced to seek substitutes, was trying to reduce her enemies to the same crippled condition. She directed her submarine campaign especially against the Allies's sea train of tankers. As a result Great Britain was close to a naval oil shortage and capitulation by the end of 1917. At the same time Premier Clemenceau sent his famous appeal to President Wilson.

"A failure in the supply of petrol would cause the immediate paralysis of our armies, and might compel us to a peace unfavourable to the Allies," the old Tiger wrote.<sup>[24]</sup> "Now the minimum stock of petrol computed for the French armies by their Commander-in-Chief must be 44,000 tons, and the monthly consumption is 35,000 tons. This indispensable stock has fallen today to 28,000 tons, and threatens to fall almost to nothing if immediate and exceptional measures are not undertaken and carried out by the United States. These measures must be taken without a day's delay for the common safety of the Allies, the essential condition being that President Wilson shall obtain permanently from American oil companies tank steamers with a supplementary tonnage of 100,000 tons. ... The safety of the Allied nations is in the balance. If the Allies do not wish to lose the war, then, at the moment of the great German offensive, they must not let France lack the petrol which is as necessary as blood in the battles of tomorrow."

This testimony of the British Admiralty and the French Premier on petroleum shortage in the last war, when oil-burning navies, motor artillery, trucks, tanks and planes were not fully developed, demonstrates the even greater importance of control of oil reserves and sea transport in the next war. The British navy with half of its fleet using oil consumed 9,100,000 tons, the American

Petroleum Institute estimated.<sup>[25]</sup> The British army used an additional 1,219,000 tons, and the French army 1,855,000 tons more.

America answered the Allies's call for help. Standard and other companies, with tanker convoys of the United States navy, succeeded where Napoleon Deterding had failed. When the war was over, Foreign Minister Curzon said the United States had furnished "over 80 per cent of the Allied requirements of petroleum products."<sup>[26]</sup>

Oil was more than a major weapon of the military and naval campaigns. Often it was the objective of those campaigns. This is apparent in most of the war memoirs, especially those of Admirals Fisher and Jellicoe, Mr. Churchill, and General Ludendorff. Effort to obtain oil reserves for the successful prosecution of hostilities and for commercial strength after the war explained to a large extent British military operations in Iraq, the Turkish drive toward Baku, and the German campaigns in Galicia, Roumania and the Caucasus.

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7. Note of Dec. 15, 1917.

8. Address to Inter-Allied Petroleum Council, London, Nov. 21, 1928.

9. Quoted from Pierre l'Espagnol de la Tramerye, *The World Struggle for Oil*. 1923.

10. London *Sperling's Journal*, September 1919.

11. Federal Trade Commission, *Report on Foreign Ownership in the Petroleum Industry, 1923*, p. x.

12. *Ibid.*, p. 39.

13. 66th Congress, 2nd Session, Senate Document No. 272, p. 17.

14. Federal Oil Conservation Board, *Public Hearing, May, 27, 1926*, p. 7.

15. For a briefer account of Standard than Ida Tarbell, *History of the Standard Oil Company*, and the Government Printing Office index on anti-trust hearings and reports, cf., John Ise, *The United States Oil Policy*, pp. 46-51, 225-273. 1926.

16. Cf., Appendix B.

17. Cf., *Political Science Quarterly*, Vol. xxxix, No. 2, Edward Mead Earle, "The Turkish Petroleum Company—A Study in Oleaginous Diplomacy." Earle, *Turkey, the Great Powers and the Bagdad Railway*. 1923.

18. Quoted from E.H. Davenport and S.R. Cooke, *The Oil Trusts and Anglo-American Relations*, p. 27. 1923.

19. *Ibid.*, p. 5.

20. The New York *Wall Street Journal*, March 27, 1928, published the following: "Because of statements recently in various publications that Sir Henri Deterding, managing director of Royal Dutch-Shell Group, had changed from Dutch to British citizenship, Richard Airey, president of Asiatic Petroleum Co., a Royal Dutch subsidiary, states that Sir Henri has never changed his nationality. 'He was born a native Dutch subject, is, and in my opinion, will remain so until his death,' Mr. Airey states. He further points out Royal Dutch Co. charter requires all officers and directors be Dutch subjects. ... He further points out 60 per cent of the operating subsidiaries are owned by Royal Dutch Co. and 40 per cent by Shell Transport. Also that the British Government has repeatedly denied it owns any Royal Dutch stock." Although not directly stated, this apparently is intended to convey the impression that Dutch capital, rather than British capital, has majority control of Dutch-Shell.

The British Embassy, when questioned March 27, 1925, by the author, said to the best of its knowledge it believed Sir Henri was a naturalized British citizen, and added that the British title borne by him was not usually bestowed on an alien. The British *Who's Who* states he was knighted in 1920.

The British authors Davenport and Cooke, *supra*, p. 41, say: “The personality which engaged the attention of the P.I. P. Committee [British Petroleum Imperial Policy Committee of 1915] was Sir Henri Deterding, the Napoleon of the Royal Dutch-Shell combine. Even before the war his Napoleonism had given way to love of England in the affair of the Turkish Petroleum Company, and in December 1915 he had been naturalized. He now lent a willing ear to the Committee. What could be arranged? The objective would be most simply attained if the British interests in the Royal Dutch Company could increase their share holdings and obtain a majority stock control. How could this be effected? Obviously there might be a transfer of a block of shares to Sir Henri Deterding, and from him thence to British nominees. Sir Harry McGowan, as the civilian member of the Committee, was instructed to make the financial arrangements with Sir Henri Deterding. That something like the desired control was obtained is obvious from unguarded references in a speech made by Mr. Pretyman on a great oil occasion, the laying of the foundation-stone of the Anglo-Persian Oil Company’s refinery on May 7, 1919. ... It was, however, quite wrongly taken for granted that the British Government, directly or indirectly, was interested in the Royal Dutch-Shell combination. The Foreign Office has more than once given an unqualified denial to this report. The British State was not *officially* interested at all. But British citizens had quietly carried out a *coup d’état*. Without a British share control of the Royal Dutch Petroleum Company, which then held the majority control in the Royal Dutch-Shell group of companies, how else could the British Empire have been said [by Mr. Pretyman—L.D.] to be near controlling one half of the available supplies of petroleum in the world? Yet it was not the British Government, but British nationals, who effected the desired result. ... It will be remembered that the British Government had already, during the course of the war, taken over its nationals’ holdings in the Royal Dutch in order to stabilize the exchange. In the next war it might do likewise. And in that event it would take over shares amounting to majority control, thanks to the P.I.P. Committee. That, as Sir Henri Deterding must have argued, was the most effective and least objectionable way of making Royal Dutch-Shell another Anglo-Persian.”

For official discussions of British capital in Dutch-Shell, see 68th Congress, 1st Session, Senate Document No. 97, *Oil Concessions in Foreign Countries*, especially the British note of April 10, 1921, and United States reply of June 10, 1921. The latter quotes from a Memorandum of the Secretary of the Interior, the following (p. 17): “It will readily be seen that intentionally, or otherwise, the controlling interest in the ‘Royal Dutch-Shell’ combine, and its constituent or subsidiary corporations, is so inextricably confused that it would require weeks or more, and access to the minute books, as well as the Articles of Incorporation of the original, constituent, and subsidiary companies to ascertain exactly the controlling financial interest and the controlling direction in any given instance.”

21. Davenport and Cooke, *supra*, p. 15.
22. Statement to House of Commons, July 17, 1923.
23. Address to Inter-Allied Petroleum Council, Nov. 21, 1918.
24. Note of Dec. 15, 1917.
25. Cf., L.M. Fanning, *Oil in the World War*. 1922.
26. Address to Inter-Allied Petroleum Council, Nov. 21, 1918.



## CHAPTER THREE

*Napoleon Deterding Defeats King John D.*

THE London Government after the Armistice set out to get British control of the world's oil resources. A Cabinet Petroleum Imperial Policy Commission was organized. During the war the Government temporarily had taken over Dutch-Shell stock of British citizens. The new Petroleum Commission and Sir Henri now arranged for British private control of Dutch-Shell in peace-time and for quick transfer to direct governmental control on threat of war. Lord Long, war-time Petroleum Minister, was named First Lord of the Admiralty. Completion of the process of converting the coal-burning remnant of the navy into oil-burning ships was ordered. Similar conversion of the merchant marine was encouraged. By 1921 the Government was able to announce that "over 90 per cent of the British navy is oil-fired [compared with 45 per cent prewar], as is a rapidly increasing proportion of her merchant marine." A permanent oil reserve, sufficient for one year of war operations, was stored in England.

The Foreign Office strengthened its diplomatic lines to defend and extend claims to concessions in the Near East and elsewhere. British companies were encouraged to become more aggressive in seeking and obtaining lands and rights in foreign countries.

In addition to Dutch-Shell activities in this direction, two organizations were chosen to furnish scouts and shock troops for the new foreign concession drive. These were the D'Arcy Exploration Company, an Anglo-Persian subsidiary which the London Government owned directly, and British Controlled Oilfields, Ltd., having a specially organized board of trustees with two Government representatives.<sup>27</sup> One of the latter was Mr. Pretyman, former Civil Lord of the Admiralty and author of the earlier secret arrangement whereby Anglo-Persian had been kept from foreign hands and saved for the British Government.

As a final touch to the campaign plan, Great Britain tightened her Empire exclusion policy preventing Americans from acquiring petroleum lands or stock in British companies.

The plan worked well. There was much exulting in informed quarters in London. By May 1919, the London *Times* was quoting Mr. Pretyman, M.P., in this vein:

"When the war came, the position was that the British Government, with its vast interests in the whole world, controlled about two per cent of the world's petroleum supplies ... [Now] he thought that when adjustments were completed the British Empire would not be very far from controlling one-half of the available supplies of petroleum in the world."

These "adjustments," to which Mr. Pretyman referred, brought Great Britain increasingly into conflict with the State Department and American companies, and resulted in an American awakening.



Americans had been thinking about the oil lessons of the Great War. News of the British drive for world oil hegemony began to come across the Atlantic. Then there was that 1919 article by Sir Edward Mackay Edgar. It was widely reprinted in the United States. These repeated British jibes that America was rapidly exhausting her supply and would soon be dependent upon Great Britain, who dominated the world's oil future, produced an American reaction which was a mixture of oil consciousness and of anti-British nationalism.

British writers are inclined to shrug their shoulders over this American awakening. They attribute it chiefly to Standard Oil Company propaganda and influence in Washington. Perhaps. If so, the British themselves had painted the picture which lurid touches of Rockefeller artists could not make more alarming.

That Standard was hard hit in the world market by its growing British competitors was clear. The American oil king was in danger of being overthrown by the British Napoleon. The king 25 years earlier had a near-monopoly hold on European and Far East markets. After 1900 heavy Russian production of the Nobel-Rothschild interests, and rise of Royal Dutch and the Shell group had challenged Standard's sway. King John D. tried to dispose of his most dangerous European rival, Royal Dutch, by the same tactics which had defeated his many American competitors. He planned to buy out Royal Dutch or, failing in this, start a price-war to force Royal Dutch into his hands by the bankruptcy route. When Standard in 1898 had forced Royal Dutch close to surrender, it was the then obscure Mr. Deterding who saved the day. He got a loan from the Paris Rothschilds. Since then the French have held a minority non-controlling interest in Royal Dutch.<sup>28</sup> Having obtained financial reinforcements for continuing the price-war with Standard, Mr. Deterding in 1902 made a working agreement with Shell for joint action against the American trust. This led in 1907 to the Dutch-Shell merger.<sup>29</sup> The former Dutch clerk began to earn the title of oil emperor. He took some of the European territory from Standard. After another long and costly battle, the two agreed in 1911 to divide equally the Chinese and Japanese markets.

Soon Dutch-Shell renewed the attack, this time invading the United States. Beginning in 1912, Mr. Deterding's agents started to organize or purchase in this country producing companies such as California Oilfields Ltd., and Roxana Petroleum Company. He also was reaching southward into Mexico and the Caribbean area through such companies as La Corona, Mexican Eagle.<sup>30</sup>

Standard met Dutch-Shell expansion into the United States by stirring up the Washington Government and by loosing "British peril" propaganda. Mr. Deterding countered the Rockefeller propaganda by permitting American investors to buy minority shares in the Dutch-Shell American companies. He thereby incidentally let Americans furnish most of the actual capital for the British penetration of this country. So rapid was British development of wells that over half of Dutch-Shell's world production was soon coming from American fields. Standard charged the alien trust with pushing production here and holding back its non-American fields, deliberately to exhaust United States reserves.

This situation was reaching a critical point in 1917. But then the United States entered the Great War. On Washington's orders anti-British propaganda was suddenly turned into pro-British

propaganda. The Kaiser was elevated into Mr. Deterding's place as arch-fiend. There followed an Anglo-American oil truce, with Yankee wells and tankers furnishing 80 per cent of the "blood of battles which won the war."

After the signing of the Armistice, however, the new British oil drive was centred especially in the United States. After acquiring in 1919-20 the Union Oil Company of Delaware, Dutch-Shell grabbed for the Union Oil Company of California.<sup>31</sup> With the avowed purpose of checking British penetration, an American syndicate rescued the latter organization by restricting Dutch-Shell to 26 per cent of the capital stock.

In the midst of these manoeuvres and counter-manoevres, the London *Financial News* on February 24, 1920, announced as "a modest estimate" that Great Britain's "present command of the world's oil resources runs to no less than 75 per cent of their entirety, compared with two per cent when that country entered the war." But a greater one was to describe the situation in which the British had obtained world oil power and the Americans had awakened "too late."

"As regards competition, the fight for new production deserves our special attention," Sir Henri said in his 1920 annual report.<sup>32</sup> "This struggle became especially keen when the significance of fuel oil became generally manifest. ... The advantage of having production not concentrated in only one country, but scattered all over the whole world, so that it may be distributed under favourable geographical conditions, has been clearly proven. It needs hardly be mentioned that the American petroleum companies also realized, although too late, that it was not sufficient to have a large production in their own country. As regards our own group in this respect, its business has been built up primarily on the principle that each market must be supplied with products emanating from the fields which are most favourably situated geographically. It goes without saying that we are now reaping the benefits resulting from this advantageous position. In order, however, to maintain our position in the world market it is not sufficient to be satisfied with the advantages already obtained. We must not be outstripped in this struggle to obtain new territory. Our interests are therefore being considerably extended; our geologists are everywhere where any chance of success exists."

The Americans might be "too late," as Sir Henri and others claimed, but they were prepared at least to make a lot of noise about it.

The Senate in March 1920 asked the State Department what were the foreign government restrictions against American acquisition of oil fields abroad. Also the Senate wanted to know what the United States Government was doing to defend the sacred American foreign policy of the Open Door. The State Department's answer damned its late ally in the crusade for liberty, the British Government. In the preceding year the Department had sent out its renewed instructions to diplomats and consuls to help the American companies and report on activities of foreign companies and governments. So it was ready when the Senate called.

"The policy of the British Empire is reported to be to bring about the exclusion of aliens from the control of the petroleum supplies of the Empire and to endeavour to secure some measure of control over oil properties in foreign countries," the Department charged.<sup>33</sup> "This policy appears to

be developing along the following lines, which are directly or indirectly restrictive on citizens of the United States:

“1. By debarring foreigners and foreign nationals from owning or operating oil-producing properties in the British Isles, colonies, and protectorates.

“2. By direct participation in ownership and control of petroleum companies.

“3. By arrangements to prevent British oil companies from selling their properties to foreign-owned or controlled companies.

“4. By Orders In Council that prohibit the transfer of shares in British oil companies to other than British subjects or nationals.

“It is understood that the British Government has a controlling interest in the Anglo-Persian Oil Company and that it has also assisted in the development of the Papuan oil fields by bearing one-half of the expense and contributing experts.”

Congress promptly passed a mineral leasing law prohibiting acquisition of public lands by nationals of countries denying such rights to Americans.<sup>34</sup> The law, however, did not apply to private lands and therefore could not stop Dutch-Shell penetration here as British regulations excluded American producers from most of the Empire. A bill for that purpose failed.

While the State Department and Congress were indicting British policy, the London Government was negotiating secretly with France to get virtual British control in most of the major fields of the Eastern Hemisphere. The natural riches disposed of by the two Powers in that agreement belonged neither to Great Britain nor to France, but to Russia and the peoples of the Near East who had been “freed from the menace of German enslavement” by “the war to make the world safe for democracy.”

The San Remo Agreement of April 24, 1920, in addition to pledging mutual support in Roumanian and minor fields, provided in written or unwritten form for the following: A British-controlled company to take over the Mosul and Iraq fields, France receiving the 25 per cent share of the Turkish Petroleum Company sequestered from Germany and agreeing to construct outlet pipelines across Syria; France to support the British drive for monopoly concessions in Russia; Great Britain to get distribution and sales contracts with the French Government and French private consumers, and, in payment, to hand over Syria to France as a League of Nations mandate.

Articles of the written part of the pact relating to Russian and Iraq-Turkish fields state:

“In the territories belonging to the former Russian Empire the two Governments will give their joint support to their respective dependents in their common efforts with the view to obtain petroleum concessions and facilities for export, and to assure the delivery of petroleum supplies.

“The British Government binds itself to concede to the French Government, or the representative appointed by same, 25 per cent of the net production of crude oil at the current market price which His British Majesty’s Government may draw from the Mesopotamian petroleum regions in the event of these regions being made productive by virtue of Government exploitation; or in the event the Government has recourse to a private company to exploit the Mesopotamian petroleum regions, the

British Government will place at the disposal of the French Government a participation of 25 per cent in the said company. The amount to be paid for a participation of this kind should not exceed the amount paid by any other participant in the said petroleum company. It is also agreed that the said petroleum company is to be under the permanent control of Great Britain.

“It is mutually agreed in the event of the private petroleum company being constituted as aforesaid the Government of the country or other local interests are authorized, if they so desire, to participate up to 20 per cent in the shares capital of said company. The French are to contribute one-half of the first 10 per cent of such a local participation and the balance will be furnished by each participant in proportion to his holdings.”<sup>35</sup>

As it worked out France got Syria but Great Britain did not get all the oil—or, at least, has not yet. Great Britain was blocked partly by the Bolshevik regime in Moscow and from another angle by the Washington Government.

American public opinion was aroused by statements of Secretary of the Interior Lane and other officials.<sup>36</sup> Politicians on the Senate floor competed with each other in denouncing Great Britain. A movement was started to beat London at its own game by putting the United States Government directly into the business of obtaining foreign concessions in competition with the British Government companies. Senator Phelan of California introduced an unsuccessful resolution in May 1920 proposing organization of a Federal company—“The United States Oil Corporation”—to direct a general American oil drive overseas and itself acquire foreign concessions.<sup>37</sup>

The State Department, under pressure of the public, Congress, and Standard, struck hard and fast. Diplomatic notes shot back and forth between Washington and London filled with charges and counter-charges.

Washington’s notes emphasized the American “impression” that Great Britain as a general policy was “preparing quietly” to monopolize the Mosul and Iraq fields.<sup>38</sup> London replied with denials. The State Department answered with a quotation from the San Remo agreement that the company (Turkish Petroleum Company) exploiting the Mosul-Iraq fields “shall be under permanent British control.”<sup>39</sup> Downing Street countered with the charge that the United States Government had used its power in Costa Rica and Haiti “to secure the cancellation of oil concessions previously and legitimately obtained by British persons or companies.”<sup>40</sup> In contrast to this, Great Britain had not driven Standard out of Canada.

The State Department finally challenged the British-French division of Near East spoils on the ground that the United States as one of the Allied victors should not “be disassociated in the rights of peace from the usual consequences of association in war.” The British press screamed: “Hypocrites.”

“One observes that the [American] high-sounding note of the principle of economic equality [Open Door] has now sunk into the lower note of the principle of ‘sharing the swag,’” was the way Davenport and Cooke put it<sup>41</sup> “How had the mighty fallen! The United States had originally set a



fine example of charity by virtuously declining to take a mark of German reparations or a square mile of the German colonies, but after four years was found making an exception to its self-denying ordinance in the case of the oil fields in Mesopotamia.”

Only an occasional Briton questioned the wisdom of the British policy. Beeby Thompson, the geologist, wrote: “In the development of her [America’s] oil fields, foreigners have equally participated with American citizens, and it is therefore the more remarkable that our [British] Government should adopt an attitude of antagonism to the legitimate and national aspirations of our American friends.”<sup>42</sup> But this was not popular doctrine in London.

American protests served to delay League of Nations ratification of the mandate. Standard continued to stir up the American public. Senator Frank B. Kellogg, before his defeat by the voters of Minnesota and subsequent party promotion as Ambassador to London and Secretary of State, kept up the agitation in Congress. The State Department went on writing provocative notes.<sup>43</sup>

While the Americans talked and wrote, the British acted. Sir Henri pushed on into new foreign fields. He arranged with the Netherlands Government for Dutch-Shell to receive a monopoly concession in the new oil fields of Djambi, then believed to be the only resources in that area not already controlled by the British company. Standard and Sinclair interests, both angling for the concession, learned of the Deterding deal. The State Department wrote another note on the sanctity of the Open Door, this time to The Hague.

William Phillips, American Minister, after verbal protests to the Foreign Minister wrote to him April 19, 1921: “My Government is very greatly concerned when it becomes apparent that a monopoly of such far-reaching importance in the development of oil is about to be bestowed upon a company in which foreign capital other than American is so largely interested.”<sup>43</sup> Mr. Phillips threatened retaliation by excluding Dutch companies from American private, as well as public lands, if the Government of The Hague persisted in its discriminatory policy:

“I have pointed out that the United States has for years carried the burden of supplying a large part of the petroleum consumed by other countries, that Dutch capital has had free access to American oil deposits and that the petroleum resources of no other country have been so heavily drawn upon to meet foreign needs as the petroleum resources of the United States. I have pointed out that in the future ample supplies of petroleum have become indispensable to the life and prosperity of my country as a whole, because of the fact that the United States is an industrial nation in which distance renders transportation difficult and agriculture depends largely on labour-saving devices using petroleum products. In these circumstances, my Government finds no alternative than the adoption of the principle of equal opportunity, with the proviso that no foreign capital may operate in American public lands unless its Government accords similar or like privileges to American citizens; and furthermore I have submitted that in the light of the future needs of the United States such very limited and purely defensive provisions as the above might become inadequate should the principle of equality of opportunity not be recognized in foreign countries.”

An unsatisfactory reply from the Dutch Government brought from Washington the intimation of a



possible boycott of Dutch industries by American capital generally. "I have just received," the Minister wrote, "a further telegraphic instruction from the Secretary of State advising me that in view of the wide publicity which the matter of the Djambi concession is receiving in the United States, the practically complete exclusion of American interests from the Dutch oil industry did create an unfavourable impression and a situation of general discouragement to prospective American participants in other branches of Dutch industry." <sup>45</sup>

But these protests to The Hague were as ineffective as the Washington notes to London had been. Dutch-Shell got the Djambi concession. Nor did Washington carry out its threatened retaliation of excluding Dutch-Shell from the United States or of a general capital boycott of Dutch industry. Loss of the Djambi field was serious defeat of the Rockefeller firm. When that concession went to Mr. Deterding, there disappeared one of the few remaining opportunities for Standard to get what it had sought so long, a major producing field in the Far East.

Despite Standard's propaganda, the State Department's report to the Senate in 1920, the diplomatic controversies over Mosul and Djambi, and sporadic gusts of anti-British sentiment, apparently the American public did not realize the full significance of the oil war until publication of the long-awaited Report of the Federal Trade Commission, on Lincoln's Birthday 1923. The commission's summary, which was a sensation at the time, said:

"The more important facts developed in this report may be concisely stated as follows:

- "1. The Royal Dutch-Shell group, a combination of the Royal Dutch Company and the Shell Transport and Trading Company of London, has world-wide oil investments, including numerous refineries, an immense fleet of tank ships, and petroleum production in many lands, which, in 1921, was no less than 11 per cent of the world output.
- "2. The Royal Dutch-Shell group in February 1922 consummated a merger of the principal properties and investments of the Union Oil Company [Delaware] with its chief American subsidiaries in a new company, the Shell Union Oil Corporation.
- "3. The Shell Union Oil Corporation now controls over 240,000 acres of oil lands in the United States; has about 3.5 per cent of the total output of crude petroleum; owns extensive properties in refineries, pipelines, tank-cars, and marketing equipment; and is one of the larger companies in the domestic petroleum industry.
- "4. The Union Oil Company [Delaware] owned about 26 per cent of the stock of the Union Oil Company of California, but, to prevent the Royal Dutch-Shell group from gaining control, certain stockholders of the Union of California organized an American-controlled holding company, which now owns more than half of its issued stock.
- "5. The most important instances of discrimination by foreign governments against citizens of this country are the exclusive policies of the Governments of Great Britain and the Netherlands in respect to the oil fields of India and the Dutch East Indies, and the 1920 San Remo Agreement of Great Britain and France covering the undeveloped oil fields of Mesopotamia and of the British and French colonies.
- "6. Denial of reciprocity of treatment to citizens of this country appears to exist with respect to the petroleum industry of Australia, British Borneo, certain African colonies, British Honduras, British

Guiana and Trinidad; France and French possessions; Italy, and the Netherlands and its dependencies.

“7. Thus forced to modify its historic policy, Congress in 1920 enacted a mineral leasing law for public lands which forbids the acquisition of properties by the nationals of any foreign country that denies reciprocity to Americans, in consequence of which certain applications for petroleum leaseholds have been denied to the Royal Dutch-Shell group.

“What further efforts may be made by this combination to acquire privately-owned petroleum lands or competing oil companies, it is, of course, impossible to predict, or how far anti-trust laws may be effective to prevent them.

“The supply of crude petroleum in this country is being rapidly depleted to meet the requirements of a growing domestic consumption and foreign trade. The sources of supply of the domestic industry are concentrated within its own borders and in Mexico, while those of its principal competitor are widely distributed throughout the whole world. It appears obvious that a nation having widely distributed supply and storage facilities and owning the means of distribution will have certain advantages in world trade against one having concentrated supply.”<sup>46</sup>

The British, not content with excluding Standard and other American companies from the Near East and Far East and with penetrating the United States, had begun another successful flank attack on American entrenchments in Mexico and the Caribbean countries. This was a tactical error. The Washington Government had special interests in that area.

An oil Administration was in power in Washington. President Harding was an avowed friend of the Big Business interests which contributed so liberally to his campaign fund. Mr. Harding knew oil. Immediately after election he had gone out to the centre of the domestic oil fields in Oklahoma, and made a speech to the effect that: “Next to agriculture and transportation the petroleum industry has become, perhaps, the most important adjunct to our civilization and well-being.” In Mr. Harding’s Cabinet were several men with close oil connexions.

The most notorious was Albert B. Fall, Secretary of the Interior. Mr. Fall was an associate of Mr. Harry F. Sinclair and Mr. Edward L. Doheny, next to the Rockefellers the then largest American oil magnates. He accompanied the Sinclair party to Moscow seeking oil concessions. He had Mexican oil holdings in the Doheny companies. This was the patriot who sold out the United States naval oil reserves to Mr. Doheny and Mr. Sinclair. As the United States Supreme Court later found in the Teapot Dome case: “He was a faithless public officer. There is nothing in the record that tends to mitigate the sinister significance attaching to that enrichment. ... Fall had been willing to conspire [with Sinclair] to defraud the United States.” Of the Fall-Doheny deal in the Elk Hills reserve lease, that high court said: “The whole transaction was tainted with corruption.”<sup>47</sup>

But before these things were known, he had become a power in the international oil war. In Mexico City, in Moscow, in many capitals, policies were being shifted, concessions lost and won, because Mr. Fall was the Washington Government—or was supposed to be.

Open Door—Monroe Doctrine—Standard Oil—Doheny and Sinclair—Fall in the Harding Cabinet. Here were ingredients of an international explosion. An American payment of

\$25,000,000 had been arranged to settle Colombia's Panama Canal claims, partly to stop the British oil drive in Colombia. Now an American naval vessel was sent to the Tampico oil fields of Mexico. An American note was sent to London. The note was so strong, the diplomats decided it was "not fit to print." It shook even the British officials. Members of the London Government, who considered its function of maintaining friendly relations with the United States more important than its functions as an oil company, insisted on a general oil compromise.

"For the betterment of Anglo-American relations the British Government fell to bribing Standard Oil; the bribes were to be paid in the oil of Persia and Mesopotamia," say the Britons, Davenport and Cooke. But, they lament: "Did anyone suppose that Standard Oil could be silenced by sops from two of the world's oil fields as long as it did not control the rest?"<sup>48</sup>

The British Government chose Sir John Cadman to make the deal with New York and Washington. Sir John had been the British negotiator and signer of the San Remo Agreement. He was now an official of Anglo-Persian. He came to the United States with the British compromise offer. Standard was promised permission to continue its Palestine exploration, which had been blocked by the British. There was bigger bait. Standard also was to get an equal share with Anglo-Persian in the north Persian concession<sup>49</sup> (not to be confused with the Anglo-Persian monopoly concession over the remaining central and southern Persia), and a minor share in the Turkish Petroleum Company which was to have control in the Mosul field. These terms were acceptable to Standard and Washington, at least as a basis for later negotiations. The threatening State Department notes ceased. The much-stressed issues of Non-discrimination and the Open Door disappeared for a moment.

In the end this plan for an Anglo-American petroleum entente failed. Secretary Fall's ally, Mr. Sinclair, had been neglected. While the British and Standard were agreeing to share the north Persia fields, Sinclair representatives were negotiating with the Shah for the same concession. Franco-British conflict in the Near East and Turkey's claim to Mosul sovereignty caused some doubt as to whether Britain in any case would have this field to divide with Standard as promised. Sir Henri tried to exclude Standard and Sinclair from Russia. Emergence of Venezuela and Colombia as major fields of the future, and revival of the long Mexican dispute, set the British and Americans to fighting again in the dangerous Monroe Doctrine region.

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<sup>27</sup>. Cf., Chap. V.

<sup>28</sup>. De la Tramerye, *supra*, p. 45.

<sup>29</sup>. Federal Trade Commission, *supra*, pp. 3, 8, 11.

<sup>30</sup>. *Ibid.*, p. 14.

<sup>31</sup>. *Ibid.*, pp. 21-32, 70-88.

<sup>32</sup>. *Ibid.*, p. 13.

33. 66th Congress, 2nd Session, Senate Document No. 272.
34. 66th Congress, 1st Session, Senate Document No. 3334.
35. Federal Trade Commission, *supra*, pp, 103-105.
36. Interior Department, *Report of the Secretary, Year ending June 30, 1919*.
37. 66th Congress, 2nd Session, Senate Document No. 4396.
38. Note of May 12, 1920.
39. Note of Nov. 20, 1920.
40. Notes of Aug. 9, 1920, Feb. 28, 1921.
41. Davenport and Cooke, *supra*, p. 120.
42. *Tulsa Oil and Gas Journal*, Nov. 11, 1921.
43. 68th Congress, 1st Session, Senate Document No. 97, pp. 47-57.
44. *Ibid.*, p. 70.
45. *Ibid.*, p. 72.
46. Federal Trade Commission, *supra*, pp. ix-x.
47. *New York Times*, March 1, 1927.
48. Davenport and Cooke, *supra*, p. 112.
49. Federal Trade Commission, *supra*, p. 127.

## CHAPTER FOUR

*Mr. Doheny and Others Clean Out Mexico*

SECRETARY FALL'S friend, Mr. Edward L. Doheny, was the original oil tsar of Mexico. He had gone to the southern Republic with small capital and in 1900 acquired the Hacienda del Tulillo of 280,000 acres for \$325,000. Soon he was buying cheaply or seizing other lands, after providing financially for friendship of the dictator, President Diaz. By 1904, when Mexican production was 220,000 barrels, Mr. Doheny owned most of the important wells. Production rose to 14,000,000 barrels in 1910. The Potrero del Llano well began running 150,000 barrels a day. The Cerro Azul gusher broke the world's record with 200,000 barrels. Doheny production at times was worth more than \$1,000,000 a week.

President Diaz, watching the American "wild-catter" grow rich, decided he must check Mr. Doheny's increasing domination of Mexico. The dictator decided this could be accomplished with most gain to himself and with most harm to the Americans by bringing in the British. So he granted favoured concessions to Lord Cowdray. Mexican Eagle, the Cowdray company, had 58 per cent of the total Mexican production in 1910.

There followed a period in which Mr. Doheny and Standard fought the Cowdray interests with every conceivable weapon. "It was Mr. Pearson [Lord Cowdray] who, in spite of all difficulties and all Standard Oil's intrigues—the Americans even hired bands of Mexican brigands, who destroyed Pearson's oil-pipes and set his wells on fire—held on in Mexico, and thus prevented that country from altogether turning into an economic province of the United States," Dr. Anton Mohr, the Norwegian geographer, wrote in his book *The Oil War*.<sup>50</sup>

The Americans had reason to believe that the overthrow of Diaz after 35 years' reign was necessary to prevent British ascendancy in Mexican oil. According to the British, Doheny and Standard agents directly caused the 1911 Madero Revolution which unseated Diaz. Testimony of several witnesses at the U.S. Senate Foreign Relations Committee hearings in 1913 tended to show that American oil interests subsidized that revolution. Lawrence F. Converse, an American officer in the Madero army, testified: "Mr. Madero himself told me that as soon as the rebels made a good showing of strength several leading bankers in El Paso [U.S.A.] stood ready to advance him—I believe the sum of \$100,000; and these same men [Governor Gonzales of Chihuahua and Secretary of State Hernandez] told me also that the Standard Oil interests had bought bonds of the provisional government of Mexico. ... They said that the Standard Oil interests were backing them in their revolution. ... [Standard Oil] was to have a high rate of interest and there was a tentative agreement as to an oil concession in the southern states of Mexico."<sup>51</sup>

The Washington Government, by speedy diplomatic recognition and an arms embargo against Mexican counter-revolutionists, tried to keep President Madero in power. But within two years he was deposed and executed by General Huerta—the British favourite. Huerta was openly opposed



to the Yankee oil men and generous to Lord Cowdray. The latter confessed he was a subscriber to the Huerta counter-revolutionary “loan.”

Mr. Wilson had become President in Washington. He was as anxious to block British oil expansion in Mexico as was his Republican predecessor, Mr. Taft. President Wilson’s attitude, as reported by his *alter ego*, Colonel E.M. House, was: “We do not love him, for we think that between Cowdray and Carden [British Minister in Mexico] a large part of our troubles in Mexico has been made.”<sup>52</sup> Minister Carden was trying to get supplies for the British navy, which was being converted rapidly to oil-fuel power under the Fisher program for war with Germany. Colonel House charged that General Huerta rewarded Lord Cowdray with concessions.<sup>53</sup> Great Britain and other nations had recognized the Huerta Government, but President Wilson refused on the ground that the United States “can have no sympathy with those who seek to seize the power of government to advance their own personal interests or ambitions.” At the same time, however, Mr. Wilson extended diplomatic recognition to a similar revolutionary government in Peru.

When the British Foreign Office sent Sir William Tyrrell to Secretary of State Bryan to lessen the tension over Mexico, the latter told Sir William: “The Foreign Office had simply handed its Mexican policy over to the oil barons for predatory purposes.” The British diplomat replied: “Mr. Secretary, you are talking just like a Standard Oil man ... you are pursuing the policy which they have decided on.”<sup>54</sup> This exchange of diplomatic amenities is recounted in the *Life* of Page. It was Mr. Page, then American Ambassador to London, who asked:

“What the devil does the oil or commerce of Mexico or the investments there amount to in comparison with the close friendship between the United States and Great Britain? The two countries should agree upon this primary principle—to leave their oil interests to fight their own battles, legal and financial.” No one else in power agreed with the Ambassador.

“Mr. Wilson had many tempestuous conflicts with the British Foreign Office over the apparent support given to the Huerta regime by Sir Lionel Carden, the British Minister to Mexico, a support intensified to no small extent by the large British oil companies in Mexico whose influence in London official circles was appreciable,” according to Mr. David Lawrence.<sup>55</sup>

The Democratic and “Liberal” President was rapidly approaching the position of that heavy investor in Mexico and future dealer in American naval oil reserves, Mr. Fall. The latter was then demanding in the Senate that United States forces be ordered into Mexico to protect American lives and property “and lend their assistance to the restoration of order and the maintenance of peace in that unhappy country and the placing of the administrative functions in the hands of capable and patriotic citizens of Mexico.”<sup>56</sup>

While the British Foreign Office was uncovering the Standard pipe-lines leading into the White House and State Department, the American “Independents” were openly drilling in Congress and the press. Mr. Doheny spoke frankly to the Senate Foreign Relations Committee, which in 1913 was holding hearings on “Revolutions in Mexico.”

“Inasmuch as both Germany and Great Britain are seeking and acquiring sources of supply for large

quantities of petroleum, it seems to me that there can be no question but that the United States must avail itself of the enterprise and ability and pioneer spirit of its citizens to acquire and to have and to hold a reasonable portion of the world's petroleum supplies," declared this pioneer in Mexico. "If it does not, it will find that the supplies of petroleum not within the boundaries of United States territory will be rapidly acquired by citizens and governments of other nations. ... This oil field, discovered by Americans ... having a reasonable oil valuation of some billions of barrels, is the source to which the United States must look for the supply of petroleum which will justify the building of a commercial fleet that can compete for cost of operation with any other fleet which the great nations of the world may have or construct."<sup>57</sup>

At this point a new factor emerged which has since continued to influence United States-Mexican relations. Washington began to worry about the effect on Central America of Mexico's example of nationalist revolution and defiance of Yankee interference. Here was a "menace" to the much expanded and reinterpreted Monroe Doctrine. What of the safety of the Panama Canal? President Wilson presented the Mexican problem to Congress from this angle.

"The present situation in Mexico is incompatible with the fulfilment of international obligations on the part of Mexico, with the civilized development of Mexico herself, and with the maintenance of tolerable political and economic conditions in Central America," the Chief Executive said<sup>58</sup> And again he added, "Mexico lies at last where all the world looks on. Central America is about to be touched by the great routes of the world's trade and intercourse running free from Ocean to Ocean at the Isthmus. The future has much in store for Mexico, as for all the states of Central America; but the best gifts can come to her only if she be ready and free to receive them and to enjoy them honourably."

Having prepared the ground at home, he instructed United States consuls south of the Rio Grande "to convey to the authorities an intimation that any maltreatment of Americans is likely to raise the question of intervention." These instructions were followed by orders from Secretary Bryan to United States representatives to make known to Mexico the President's "clear judgment that it is his immediate duty to require Huerta's retirement from the Mexican Government, and that the Government of the United States must now proceed to employ such means as may be necessary to secure this result."<sup>59</sup> In the same month, November 1912, further orders were dispatched to "cut him [Huerta] off from foreign sympathy and aid and from domestic credit, whether moral or material, and to force him out. ... If General Huerta does not retire by force of circumstances it will become the duty of the United States to use less peaceful means to put him out." And this was following a relatively peaceful Mexican election in which President Huerta retained office.

Realizing belatedly that Washington would use military force if necessary to unseat the alleged British puppet, London tried to have a hand in picking the next dictator of Mexican concessions. This would have the double advantage of putting the new President partly under obligation to Britain, and at the same time enable the British Government to appear to save helpless Mexico from intervention by the hated Colossus of the North. London therefore proposed that European

Powers join in requesting President Huerta to resign, enabling him to get out but to “save his face.” Washington had no intention of sharing with Britain its “duty” of pacifying Mexico. Such a precedent might jeopardize the Monroe Doctrine, not to think of the American oil wells there desired by British Government companies. Secretary Bryan replied to Downing Street that President Wilson “warmly appreciates” the British proposal which, however, he must reject. The President instead intended to dispose of Huerta by giving American aid to the rebel chiefs. Or, as Mr. Bryan expressed it in his British note: “There is a more hopeful prospect of peace, of the security of property and of the early payment of foreign obligations if Mexico is left to the forces now reckoning with one another there. ... He [President Wilson] intends therefore, almost immediately, to remove the inhibition on the exportation of arms and ammunition from the United States.”<sup>60</sup>

The President was less successful at first in preventing Latin American governments from attempting to save Mexico from a Yankee-dictated settlement. But the result was the same. Wilsonian fears regarding the effect on Latin America of the Mexican revolutionary example were materializing. In an unexpected manner, however. Latin Americans apparently had been only mildly interested in Mexican oil and land legislation. But they became exceedingly alarmed over the spectacle of a sister Latin American country as a victim of the United States’ alleged imperialistic intervention. Their uneasiness increased when President Huerta asserted: “Mexico is defending not only her national sovereignty but that of all Latin America as well.” When Argentina, Brazil, and Chile, the three strongest South American governments, were moved by Mexican sympathy and a spirit of Latin American solidarity to offer to conciliate the Huerta-Wilson dispute, the American Executive found it expedient to accept—and equally expedient to block the ABC conference at Niagara Falls when it met. The Washington Government unaided was thus successful in putting out President Huerta through direct intervention, and at the same time was able effectively to sabotage South America’s effort to check growing Yankee control in the Caribbean countries.

When the Panama Canal tolls issue came to the fore, Washington was able to force Downing Street, though not the British oil men, to withdraw active support from General Huerta. Mr. Wilson then isolated the Huerta regime by a financial and munitions blockade, later permitting the rebel chiefs Carranza and Villa to get American arms. He used the Tampico flag incident as one excuse for American naval and military occupation of Vera Cruz, although General Huerta had apologized and offered to submit the dispute to The Hague tribunal for arbitration.<sup>61</sup>

American oil companies did their share in helping the President to get rid of the pro-British Huerta. They refused to pay taxes to his Government, and gave financial support to General Carranza. At the U.S. Senate Committee hearings in 1919 Mr. Doheny expressed the opinion that “every American corporation doing business in Mexico extended sympathy or aid, or both—and we extended both—to Carranza. ... It was a well-known fact that the British assisted in the sale of a large amount of Huerta bonds and they were distinctly favourable to the Huerta Government at that time. Our Government had shown its animosity to Huerta and its desire to support his

opponents. So that our action was in line with our Government and that of the British [oil interests] was in line with the supposed sympathies of the British Government.”<sup>62</sup> Mr. Doheny added that he advanced General Carranza \$100,000 in cash and \$685,000 in fuel credits.

But when President Carranza assumed office he did not reward his American oil friends. Instead he endeavoured to “vindicate” the 1911 revolution. The Carranza Constitution of 1917 attempted to regain for the Mexican people some of the country’s natural riches which had been parcelled out for a price by the dictator Diaz to foreign companies.

Since 1917 the American-Mexican conflict has centred around the Washington contention that Article 27 of the Constitution, and the laws and decrees putting that Article into effect, are retroactive and confiscatory. The Mexican Government from the beginning denied these charges and defended its sovereign right to enact the disputed measures.

Article 27 provides: “The ownership of lands and waters comprised within the limits of the national territory is vested originally in the Nation which has had, and has, the right to transmit title thereof to private persons, thereby constituting private property. ... In the Nation is vested the legal ownership [*dominio directo*] of all minerals ... petroleum, and all hydrocarbons—solid, liquid or gaseous. ... Legal capacity to acquire ownership of lands and waters of the Nation shall be governed by the following provisions: 1. Only Mexicans by birth or naturalization and Mexican companies have the right to acquire ownership in lands, waters and their appurtenances, or to obtain concessions to develop mines, waters, or mineral fuels, in the Republic of Mexico. The Nation may grant the same right to foreigners, provided they agree before the Department of Foreign Affairs, to be considered Mexicans in respect to such property, and accordingly not to invoke the protection of their governments in respect to the same, under penalty in case of breach, of forfeiture to the Nation of property so acquired. Within a zone of 100 kilometres from the frontiers and of 50 kilometres from the seacoast, no foreigner shall under any conditions acquire direct ownership of lands and waters.”<sup>63</sup>

Early decrees aiming to make effective this constitutional provision were not drastic, but left sufficient loopholes for American companies except in the matter of taxation. Therefore the State Department’s note of protest of April 2, 1918, against the first regulatory decree, stressed the argument that excessive taxation is a form of confiscation. “While the United States Government,” the note said, “is not disposed to request for its citizens exemption from the payment of their ordinary and just share of the burdens of taxation, so long as the tax is uniform and not discriminatory in its operation; and can fairly be considered a tax and not a confiscation or unfair imposition, and while the United States is not inclined to interpose in behalf of its citizens in case of expropriation of private property for sound reason of public welfare, and upon just compensation and by legal proceedings before tribunals, allowing fair and equal opportunity to be heard and giving due consideration to American rights, nevertheless the United States cannot acquiesce in any procedure ostensibly or nominally in the form of taxation or the exercise of eminent domain, but really resulting in confiscation of private rights and arbitrary deprivation of vested rights.”<sup>64</sup>



The Carranza Government informed Washington that the question of taxation was one of internal affairs inherent in its right as a sovereign state. "The action of the Mexican Government in this matter is not an innovation in international law, but the simple application of the principles of equality of nations practically forgotten by strong governments in their relations with weak countries," the Mexican note of August 17, 1918, stated. The State Department continued to hammer away on the issue of confiscation. By 1919 Mexican public opinion was pressing General Carranza to take a firm stand against interference from the north. In addressing Congress in September of that year he declared the American demands would "deliberately destroy our liberty for legislation and nullify the rights we have to progress in accordance with our ideas." Expressing the hope that "the northern Republic will respect the sovereignty and independence of Mexico," he affirmed that his Government "absolutely cannot accept the principle that the liberty of Mexicans to govern according to their own necessities should be limited."

Some American oil interests which had helped to place General Carranza in power were now trying as vigorously to overthrow him. The notorious General Pelaez, a local power in the Tampico district, who had been used by the oil men previously, was again brought forward as the "American hope." Within the period 1917-1919, American companies paid thousands of dollars for his "protection." In answer to a question in the Senate hearings as to whether the Washington Government was cognizant of this financial connexion between the oil companies and General Pelaez, Mr. Doheny testified: "Yes; not only aware of it, but, so far as they could without giving it in writing, they have approved of it."<sup>65</sup>

Article 27 had brought American and British oil men into a temporary entente for defence of their capitalist rights against the common menace of "nationalization." President Carranza's pro-German tendency completed his damnation so far as Anglo-Americans were concerned. The Great War made it inexpedient for Great Britain to continue the Mexican oil dispute with the United States. Hence the Carranza Constitution and the war created a temporary Anglo-American truce. The British broke the Mexican oil truce immediately after the Armistice in France.

Lord Cowdray had tired of operating oil properties suffering constant depredations by outlaw bands, allegedly hired by American oil men. But when he tried to sell part of his holdings to American competitors, the London Government intervened and forced the sale to Dutch-Shell and other British interests.<sup>66</sup>

In the spring and summer of 1920 the State Department protested new petroleum decrees of President Carranza. American companies contended that the decrees threatened confiscation of properties legally acquired before enactment of the objectionable Constitution. In repeating this argument the Department put into its note the veiled threat that it could not "remain insensible to the rights of its citizens."

When General Obregon came into power, Washington was determined as the price of diplomatic recognition to restrict application of the disputed Constitution to limits acceptable to the American oil men. President Obregon was of a different mind. He had been elected with agrarian and radical labour support.<sup>67</sup> His constituents were demanding a firm policy against alleged American



encroachments. He was also under financial pressure. To fill the empty national treasury by reclaiming a share of the Mexican wealth flowing out through foreign pipe-lines and tankers, Señor Obregon put down a 60 per cent export tax. This initial act, and the apparent determination of the new Government to make effective the paper Constitution, seemed to leave no opportunity for Washington to support the new Government.

Here was a chance for the British. They had visions of displacing the Americans as the dominant factor in Mexican oil. To this end they dealt secretly and separately with Señor Obregon. All the protests of Secretary Fall could not stop them. They were playing for big stakes. Mexican Government estimates place the total oil investments including lands at \$618,000,000. United States capital in 1923, with more than 58 per cent of total investments, had about 70 per cent of total production.<sup>68</sup> The British had only about 40 per cent of the investments and 27 per cent of production. There were other reasons for the British to deal separately with the Government. They were in a less vulnerable position under Article 27 than the Americans because of the early shrewdness of Lord Cowdray and other British companies in incorporating subsidiaries as Mexican companies.

President Obregon, instead of making separate terms with the British, played the foreign companies and governments against each other.

Paralleling these developments there was an oil “awakening” north of the Rio Grande. Talk in the United States of the menace of British oil invasion in the Americas and British exclusion policy abroad had resulted in the Federal Trade Commission investigation.

Washington in 1923 sought a settlement with Mexico. It wanted to check growing British power in the southern Republic, and so far as possible eliminate the Article 27 issue. It counted upon the Mexican financial stringency to put President Obregon in receptive mood. Such was the setting of the Warren-Payne negotiations in Mexico City which led to the agreement of September 1923.

The two Governments agreed to submit claims arising during the revolutionary and pre-revolutionary periods to special and general mixed claims commissions.<sup>69</sup> United States diplomatic recognition was accorded on the basis of a Mexican pledge not to apply retroactively the alleged confiscatory provisions of Article 27. That pledge was given in the negotiations at Mexico City, August 2, 1923. According to the official minutes, the Mexican commissioners stated:

“It is the duty of the Federal executive power, under the Constitution, to respect and enforce the decisions of the judicial power. In accordance with such a duty, the Executive has respected and enforced, and will continue to do so, the principles of the decisions of the Supreme Court of Justice in the Texal Oil Company case and the four other similar *amparo* cases, declaring that paragraph IV of Article 27 of the Constitution of 1917 is not retroactive in respect to all persons who have performed, prior to the promulgation of said Constitution, some positive act which would manifest the intention of the owner of the surface or of the persons entitled to exercise his rights to the oil under the surface to make use of or obtain the oil under the surface. ...

“The above statement has constituted and will constitute in the future the policy of the Mexican Government, in respect to lands and the subsoil upon which or in relation to which any of the above-

specified acts have been performed, or in relation to which any of the above specified intentions have been manifested; and the Mexican Government will grant to the owners, assignees or other persons entitled to the rights to the oil, drilling permits on such lands, subject only to police regulations, sanitary regulations and measures for public order and the right of the Mexican Government to levy general taxes. ...

“The American Commissioners have stated in behalf of their Government that the Government of the United States now reserves, and reserves should diplomatic relations between the two countries be resumed, all the rights of the citizens of the United States in respect to the subsoil under the surface of lands in Mexico owned by citizens of the United States, or in which they have an interest in whatever form owned or held, under the laws and Constitution of Mexico in force prior to the promulgation of the new Constitution, May 1, 1917, and under the principles of international law and equity.”<sup>70</sup>

As a result of the claims conventions, a foreign debt-funding agreement, and the Warren-Payne oil-land settlement, the Washington Government decided to support the Obregon regime as effectively as it had opposed previous administrations. Such an opportunity soon came. Adolfo de la Huerta, a former Obregon Minister, started a counter-revolution. Some American oil interests backed the rebellion. Its success, at least in part of the country, seemed assured provided Senor de la Huerta could get the American money and arms Mexican rebel chiefs were accustomed to receive. But Washington took effective measures to strangle the revolt. With the consent of New York bankers and some of the larger American oil interests, the State Department placed an embargo on shipments of arms and munitions to the rebels. As a double precaution against overthrow of Obregon, the Department sold to him military supplies of the United States army. In January 1924 the rebels made the mistake of defying the United States with an attempted blockade of Tampico, chief oil port. Washington dispatched the cruiser Richmond to Tampico and within a week the blockade was abandoned. The counter-revolutionists, lacking American monetary and military support, were soon defeated by the Obregon forces.

The Washington Administration had to explain to the American public and to the world its intervention in the civil war of a neighbouring state. There was a large body of American public opinion which, though sympathetic with President Obregon, opposed such partisan action which might be used by some future Administration as a precedent for less acceptable intervention. Secretary of State Hughes defended his policy on “moral” grounds, incidentally mentioning the oil factors involved. In a campaign document published by the Republican National Committee in 1924, Mr. Hughes explained:

“It [the de la Huerta revolt] was not a revolution instinct with the aspirations of an oppressed people; it was a matter of personal politics. It was an effort to seize the Presidency; it meant a subversion of all constitutional and orderly procedure. The contestants, seeking to overthrow the established Government, had taken possession of certain portions of the Mexican territory, and either were claiming tribute from peaceful and legitimate American commerce or were attempting to obstruct and destroy it. ... The refusal to aid the established Government would have thrown our

moral influence on the side of those who were challenging the peace and order of Mexico, and we should have incurred a grave responsibility for the consequent disturbances.”<sup>71</sup>

Decisive aid given the Obregon regime at a time of peril, and Mr. Hughes’s moral defence of such action, must be understood to appreciate the bitterness of Washington’s reaction later, when President Obregon allegedly “bit the hand that fed him.” In payment for American services received, the Mexican President was expected to put Article 27 in cold storage and keep it there. For a while this seemed to be the intention in Mexico City.

There was a brief reassertion of Mexican “rights” in the case of American oil interests which had willingly or unwillingly subsidized the counter-revolution by paying taxes to the rebels. But the State Department quickly forced President Obregon to back down. Mr. Hughes also explained this and other diplomatic oil victories over Mexico in that same 1924 campaign document.

“When the Mexican Government regained control of territory which had been temporarily occupied by rebels, Federal and state authorities attempted to force American citizens to repay taxes, duties and other charges previously paid to *de facto* authorities,” he said. “The [State] Department made representations to the Mexican Government, pointing out that, under the generally accepted rules and principles of international law, American citizens are entitled to pay duties and other taxes to persons exercising *de facto* authority and having made such payment to be free from further obligation in the matter. The outcome of the Department’s action was gratifying, as the Mexican Government promptly issued definite instructions to the appropriate agencies in Mexico that repayment of such duties and taxes should not be required. Furthermore, the Department made continuous efforts to obtain adequate protection for American properties during the revolutionary disturbances and these efforts were highly successful, as the losses and damages suffered by the American interests concerned were kept down to a minimum.”<sup>72</sup>

This Mexican-American accord was short-lived. Mr. Hughes left the State Department in March 1925, at the beginning of the “second” Coolidge Administration, to become counsel for the American Petroleum Institute, Standard Oil, and other corporations. General Obregon was succeeded by his friend, President Calles. Senor Calles was elected with the militant support of the CROM, or Mexican Federation of Labour. The CROM demanded that Article 27, after long delay since 1917, should now be made effective.

To handle this delicate situation, the United States had Ambassador Sheffield in its Mexico City Embassy and Mr. Frank B. Kellogg in the State Department. Soon there was trouble. Mr. Sheffield was summoned to Washington. President Coolidge through his “Official Spokesman” assured the country that all was well with Mexican relations. Mr. Sheffield also gave an interview to the press stating that Mexican conditions from the point of view of American interests were “hopeful.” But a few hours later, on June 12, 1925, Secretary Kellogg issued an astounding statement, which had been approved earlier in the week by Mr. Coolidge and the Ambassador.

The Kellogg statement precipitated two and a half years of strained relations, in which the United States repeatedly was on the point of breaking diplomatic relations or of intervening directly against

the Calles regime. It placed the Mexican Government “an trial before the world.” It gave encouragement to a counter-revolutionary movement being planned by certain American oil companies. It gave a battle cry to the radical supporters of President Calles who were demanding that he make effective the constitutional restrictions against foreign companies. The Kellogg statement is one of the few insults of its kind in diplomatic history which was not followed by diplomatic rupture or by war. It probably will be in the future, as in the past, an incentive to antiAmericanism in Mexico and in other Latin American countries where Yankee oil men operate. “Our relations with the Government are friendly but, nevertheless, conditions are not entirely satisfactory and we are looking to and expect the Mexican Government to restore properties illegally taken and to indemnify American citizens,” Mr. Kellogg announced. “A great deal of property of Americans has been taken under or in violation of the agrarian laws for which no compensation has been made, and other properties practically ruined and, in one instance, taken by the Mexican Government on account of unreasonable demands of labour. Mr. Sheffield will have the full support of this Government and we will insist that adequate protection under the recognized rules of international law be afforded American citizens. We believe it is the desire of the Mexican Government to carry out the [claims] conventions and to indemnify American citizens for property taken. So long as we are satisfied that this is the policy of the Mexican Government and this course of action is being carried out with a determination to meet its international obligations, that Government will have the support of the United States. ...

“I have seen the statement published in the press that another revolutionary movement may be impending in Mexico. I very much hope this is not true. This Government’s attitude toward Mexico and toward threatened revolutionary movements was clearly set forth in 1923 when there was such a movement threatening the constituted Government of that country, which had entered into solemn engagements with this Government and was making an effort to meet those obligations at home and abroad. The attitude taken by this Government at that time has since been maintained and it is now the policy of this Government to use its influence and its support in behalf of stability and orderly constitutional procedure, but it should be made clear that this Government will continue to support the Government in Mexico only so long as it protects American lives and American rights and complies with its international engagements and obligations. The Government of Mexico is now on trial before the world. We have the greatest interest in the stability, prosperity and independence of Mexico. We have been patient and realize, of course, that it takes time to bring about a stable Government but we cannot countenance violation of her obligations and failure to protect American citizens.”<sup>73</sup>

President Calles of course replied in kind. A group in each country pressed for an immediate break in diplomatic relations. Belligerent Americans wanted to “clean up Mexico.” In Mexico City there was much talk of “answering the Yankee insult.” But a majority group of American oil interests and New York bankers decided “anything might happen to American property” if the United States withdrew its diplomatic representatives. So Mr. Sheffield returned to his post and the battle of oil notes began.



Ten notes and memoranda were exchanged from November 1925 to March 1926<sup>74</sup> concerning the petroleum law, which was passed on December 18 in the midst of the diplomatic barrage. These exchanges cover from many angles the basic dispute between the United States and Mexico, which will probably reappear at intervals to threaten peaceful relations until Mexican wells cease to flow. These notes also probably outline the anticipated diplomatic conflict between the United States and other Latin American oil countries such as Venezuela and Colombia. A summary of the notes, previously published by the author, follows:

Secretary Kellogg's communication of November 17, an "aide mémoire of personal message," appealed to Mexico to remove "the clouds which I perceive on the horizon of friendship between the two countries" and suggested a new treaty of amity and commerce in line with the Warren-Payne Agreement of 1923. He pointed out the "economic aspects and consequences" of the proposed objectionable laws.

The Mexican Government replied on November 27 that there were no clouds on the horizon, that it was ready to negotiate a new treaty and that the pending law "has respected Americans in their acquired rights."

It denied, however, that the Warren-Payne Agreement resulted "in any formal agreement other than of the claims conventions."

On the same day the United States answered, expressing its "genuine apprehension" and repeating that the bill would "operate retroactively" and be "plainly confiscatory" in effect. Objection was also raised "to the provision requiring foreigners to waive their nationality and to agree not to invoke the protection of their respective Governments so far as their property rights are concerned under penalty of forfeiture."

On December 7 the Mexican Government replied, objecting to representations regarding pending laws still in a formative state, which it claimed could not be fairly judged until put into effect. The note added that similar and more severe laws existed in the United States regulating property acquisition by foreigners and cited Illinois laws as an example. The Arizona law, also cited, provides that only American citizens may acquire property and limits alien holdings in corporations to 30 per cent.

In a memorandum of December 22 the United States cited decisions of the Illinois courts holding that the Illinois law of 1887 could not be applied retroactively or given confiscatory effect. It then referred to a section of the Arizona law expressly limiting the alien restrictions to "future acquisitions."

Following passage of the Mexican law, the United States on January 8 reaffirmed its objections.

Mexico on January 20 insisted that the executive decree to be issued would prove that the law was non-retroactive. Considerable space was given in defence of provisions regarding so-called "positive acts," by which alien subsoil holders were required to prove that, by drilling or other acts, they had actually acquired oil titles.

Referring to the Warren-Payne Agreement, Mexico declared that its commissioners and President could not legally limit the constitutional powers of its Congress.



It cited as a similar case the “gentlemen’s agreement” between the American and Japanese Executives regarding immigration, which the American Congress later modified.

On January 28 the United States acknowledged the Mexican promise that the executive decrees would remove American objections to the law. This Government added, however, “that the exchange of a present title for a concession having a limited duration does not confirm the title.”

On February 12 Mexico used the American Prohibition law to prove that this Government itself had destroyed property rights. The Mexican note said in this connection:

“When the Prohibition law was enacted in the United States it paralysed established businesses falling under its provisions (the amendment meant to stop the whole business, *Hamilton vs. Kentucky Distilleries*, 251 U.S. 146, 151, No. 1), and completely to paralyse a business would seem to be tantamount to destroying lawfully acquired rights therein, but nevertheless the American Government was not deterred by that consideration.”

Secretary Kellogg replied on March 1 that “the liquor business in the United States has not been a property right, but a licensed occupation which was subject to the fullest extent at all times to the police powers of the States, to licence by the United States, to the war powers of the Federal Government and now subject under the constitutional amendment to the police powers of the United States.”

The final Mexican note of March 27, after answering in an apparently satisfactory manner Secretary Kellogg’s request for assurances that Articles 1, 2 and 3 of the land law would not be applied retroactively, gave the following interpretation of the much disputed Articles 4 and 5:

“It is true that an alien who, prior to the going into effect of the law, represented 50 per cent, or more of the total interest of any kind of association holding rural property for agricultural purposes, may retain the said interest without any need of a permit or without complying with Article 2, and that the right of his heirs to such interest in excess of 49 per cent is provided for in Article 6. As to its effect, however, upon foreign companies holding stock in Mexican companies under the aforesaid conditions, they must dispose of the said corporate interest in excess of 49 per cent within the term of ten years; which does not mean that the law is given retroactive effect in its application, since it has to do with an act in the future and not with an act in the past; but if any dispute should arise on that point, that is to say, as to whether or not the application of the law under the terms last mentioned is retroactive, it would be for the courts to determine it in accordance with the provision of Article 14 of the Constitution.”

Article 14 of the Constitution provides that no law shall be given retroactive effect to the prejudice of any person whatever. The Mexican Supreme Court in five decisions has upheld Article 14 by ruling that Article 27 of the Constitution, which the disputed oil and land laws make effective, shall not be applied retroactively.

One argument advanced to justify acceptance of these Mexican assurances as satisfactory was that although that Government might in the future contend that titles lapse with the expiration of the

confirmatory concessions, this would leave the American owner in the same but in no worse position than he had been in the period between the enactment of the 1917 Constitution and the passage of the land and petroleum laws in December 1925.

Mexico also in effect removed a second major American objection to provision of the law requiring alien owners or concessionaires to renounce protection of their own governments in respect to such specially acquired Mexican rights. Referring to the declarations of the Mexican commissioners who were party to the Warren-Payne Agreement of 1923, upon which this Government extended recognition to Mexico, Foreign Minister Saenz said:

“I have therefore no objection to acknowledging the declaration of the Mexican commissioners who affirmed in the name of my Government that ‘they would recognize the right of the Government of the United States to make any reservation of the rights of its citizens or in their name,’ which was made for the event of a resumption of diplomatic relations between the two countries. As admitted by Your Excellency, your note of January 28 referred to that reservation and said that ‘during the negotiations of 1923 the American commissioners reserved in behalf of their Government all the rights of its citizens in respect of lands acquired by them in Mexico before May 1, 1917.’”

In another place the Mexican note stated: “that even though an individual should renounce applying for the diplomatic protection of his Government [as required by the law] the Government does not forfeit the right to extend it in case of a denial of justice.”

The note gave a pledge that the laws regarded by the United States as confiscatory of American property would not be applied retroactively, but that renewable concessions would be given to American owners confirming their old ownership titles. Señor Saenz said: “I take these purposes [i. e., executive decrees] of the President of the Republic for my basis in extending to Your Excellency’s Government my assurances that in the regulations on the subject the rights to the subsoil held by American citizens who had performed any of the positive acts enumerated in my note of January 20, will be confirmed.” The “positive acts” referred to, and certain police powers governing the execution of the laws, were among the points remaining for clarification, either by the Mexican Congress or the Mexican courts or by both.

As a result of assurances given in the final Mexican note, there was a lull in the controversy. American newspapers generally described the situation as promising. The State Department changed its tone. All official Washington utterances were of hopeful character.

About this time Roman Catholic agitation in the United States was aroused by the alleged church persecution policy of the Calles Government, which had closed religious schools and convents and restricted political activities of the clergy.<sup>75</sup> The anti-Mexican campaign of certain archbishops and the Knights of Columbus in this country had an unintentional beneficial effect for Calles. It stimulated counter-pressure from certain Protestant and Ku Klux Klan groups. With this religious issue threatening to divide the American electorate, a situation was being created in which the State Department could not move against Calles in the oil controversy without being dubbed by the Klan as the “tool of Rome.” So when some American oil interests lost faith in the sincerity of Mexican

pledges not to apply the law retroactively, the Washington Administration found it expedient to counsel patience. A compromise settlement was thus in sight. Suddenly, however, a new issue arose. That issue was Nicaragua.<sup>76</sup>

From that time Nicaragua was the crux of the dispute, though Washington, with an eye to anti-Yankee feeling in Latin America, used oil as a screen for the larger issue.

The United States at the time was in a difficult position in relation to Nicaragua. General Chamorro, United States adherent and former President, had been defeated in the presidential election. He had then overthrown by force the constitutional Government. Washington could not expediently recognize his regime because of the 1923 treaty among the Central American Republics, which it had sponsored and approved. That treaty pledged non-recognition of revolutionary governments, a principle generally beneficial to the stability and order desired by American commercial interests in Central America. The deposed President Solorzano having fled to California, Vice-President Sacasa with support of the Liberal Party claimed to be the head of the constitutional Government. Civil war followed. Washington offered its "good offices." In October 1926 a peace conference was held at Corinto, with Admiral Latimer, American, acting as chairman. General Diaz, formerly an employee of American business interests, who had been lifted from a clerkship to the presidential chair during the previous American military intervention, was put forward in the Corinto Conference as a compromise candidate. The Liberals rejected him as a man distrusted by the Nicaraguan people for being an alleged "tool of New York bankers." Americans charged that the revolutionists refused to accept Diaz and defied the United States because of alleged orders from Mexico City.

Dr. Sacasa, as a fugitive, had spent several months in Washington. He was friendly to American interests in Nicaragua. For a time the State Department considered recognizing him as President. When it was apparent Senor Diaz would obtain Washington's favour, Dr. Sacasa started for the east coast of Nicaragua to establish a revolutionary capital. Mexico recognized him. Four ships carrying Mexican munitions to the rebels were traced by Washington. United States marines earlier had landed at Bluefields on the east coast to establish a "neutral zone." The revolutionists charged this was an unfriendly act of intervention aimed against them. But the White House vigorously denied any intention to intervene. Meanwhile General Chamorro, convinced of the impossibility of carrying on against Washington's disapproval, was preparing to leave the country. Machinery was oiled for making Seior Diaz "constitutional" President. After a brief interim in which an unimportant senator sat in the unstable presidential chair, General Diaz on November 11, 1926, was elevated to that position by a specially-summoned Congress. Three days later he was recognized by the United States.

Washington had revived the Mexican oil dispute and used it as a weapon in the larger struggle. Despite United States marine "neutral zones" in the territory where rebels were victorious, Diaz was threatened with defeat. He requested formal American intervention. Battleships and more marines were sent. Senator Borah led a group in Congress supporting constitutional claims of the unrecognized Sacasa Government.<sup>77</sup> The Administration stated the issue as Mexico versus the

United States in Central America and the Caribbean. Stories were written and speeches made regarding the alleged “Mexican bolshevist menace thrusting itself between the United States and the Panama Canal.”<sup>78</sup> President Coolidge, in a special message to Congress on January 10, 1927, explained his intervention policy on the ground that special interests of the United States in Nicaragua were at stake. He said:

“As a matter of fact, I have the most conclusive evidence that arms and munitions in large quantities have been on several occasions since August 1926 shipped to the revolutionists in Nicaragua. Boats carrying these munitions have been fitted out in Mexican ports, and some of the munitions bear evidence of having belonged to the Mexican Government. It also appears that the ships were fitted out with the full knowledge of and, in some cases, with the encouragement of Mexican officials and were in one instance, at least, commanded by a Mexican naval reserve officer. ... The proprietary rights of the United States in the Nicaraguan canal route, with the necessary implications growing out of it affecting the Panama Canal, together with the obligations flowing from the investments of all classes of our citizens in Nicaragua, place us in a position of peculiar responsibility. ... We have a very definite and special interest in the maintenance of order and good government in Nicaragua at the present time, and that the stability, prosperity, and independence of all Central American countries can never be a matter of indifference to us. The United States cannot, therefore, fail to view with deep concern any serious threat to stability and constitutional government in Nicaragua tending toward anarchy and jeopardizing American interests, especially if such state of affairs is contributed to or brought about by outside influences or by any foreign Power. It has always been and remains the policy of the United States in such circumstances to take the steps that may be necessary for the preservation and protection of the lives, the property, and the interests of its citizens and of this Government itself.”<sup>79</sup>

Three months later the President declared in a United Press speech in New York:

“Toward the governments of countries which we have recognized this side of the Panama Canal we feel a moral responsibility that does not attach to other nations. We wish them to feel that our recognition is of real value to them and that they can count on such support as we can lawfully give when they are beset with difficulties. We have undertaken to discourage revolutions within that area and to encourage settlement of political differences by the peaceful method of elections. This policy is bound to meet with some discouragements, but it is our hope and belief that ultimately it will prevail.”<sup>80</sup>

The Mexican Government denied it was supplying Nicaraguan rebels with money and munitions but affirmed its right to give such aid to a Government recognized by it, as Washington was helping Diaz.

The Nicaraguan dispute created an atmosphere in which settlement of the oil controversy was impossible. In the eyes of Washington the issue had become one of prestige in Latin America. The Administration was determined that the world should know that no foreign Power could challenge United States supremacy in the Caribbean. Washington was prepared at any cost to demonstrate its



strength. If a Nicaraguan revolutionary party with the aid of Mexico could defy Washington's will, anti-Yankee forces in the other Central American countries would be encouraged to do likewise. Thus strengthened, Mexico would be less ready to retreat from its "radical" oil legislation. The example of radical Mexican laws might spread southward to all Latin America. So at least Washington officials believed.

The Administration policy was successful from the State Department's point of view. The Nicaraguan revolutionists, on the verge of military victory at the gates of the Diaz capital, Managua, were forced by the United States to make terms. Col. Henry L. Stimson, former Secretary of War and later Governor-General of the Philippines, went to the war zone as President Coolidge's special representative. He divided the revolutionists. Sacasa refused to accept his terms, but General bloncada and most of the Liberal forces surrendered their arms to the marines. Col. Stimson's "pacification program" provided for disarming of both sides, the United States to police the country and guarantee a free and fair election in 1928, President Diaz remaining in power in the interim. General Sandino sided with Sacasa and against Moncada in refusing to accept the Stimson terms. He fled to the hills with several hundred armed followers. Marine casualties, and American bombing of native villages held by Sandino, revived United States congressional opposition to the intervention policy. But despite this, and Sandino's continuance in the field,<sup>81</sup> it appears in 1928 that the Nicaraguan revolution is broken for a little while. Charges of Mexican aid to the rebels are no longer being made.

When the Senate, at the height of the Nicaraguan controversy, unanimously passed a resolution favouring arbitration of issues between this country and Mexico, the State Department shelved the proposal. This action was in accord with the President's policy. In his United Press speech he said:

"Under the present circumstances I can see grave difficulties in formulating a question which the two Governments would agree to submit to such a tribunal. The principle that property is not to be confiscated and the duty of our Government to protect it are so well established that it is doubtful if they should be permitted to be questioned. Very likely Mexico would feel that the right to make a constitution and pass laws is a privilege of her sovereignty which she could not permit to be brought into question."

Washington's hostility to Calles during the Nicaraguan dispute encouraged certain American oil interests to support counter-revolution in Mexico. The State Department applied its arms embargo against the Mexican Government. Generals Gomez and Serrano prepared their military revolt. Both were presidential candidates, opposing former President Obregon, ally of President Calles. General Gomez promised American oil men to modify objectionable oil laws and regulations in line with State Department demands.<sup>82</sup>

Describing the connexion of some American officials and petroleum agents with Mexican counter-revolution during the Sheffield regime, Mr. Walter Lippmann, an editor of the *New York World*, wrote from Mexico City later:



“It is a notorious fact, for example, that in the recent past the personal associations of the United States officials were not with the Government to which they were accredited, but with that class of Mexicans, among whom are to be found the rich, cultivated and sometimes charming people, who are financing and provoking armed rebellion. It is no less a notorious fact that many of the lawyers and representatives of the oil companies were not satisfied to argue their claims under international law, but openly and persistently used all the influence they possessed to undermine the stability of the Mexican Government.”<sup>83</sup>

Whatever the degree of tangible and moral aid given the enemies of the Calles Government by Americans, it was not enough to save the rebellion of October 1927. After brief fighting, the few deserting Federal troops disbanded or surrendered. Gomez and Serrano were caught and executed. Though the Calles-Obregon party had won on the military field, it was losing on the economic front. Restrictive legislation and consequent sabotage by American companies had reduced oil production and Mexican revenues. Production dropped from 193,000,000 barrels in 1921 to 90,000,000 in 1926 and to 64,000,000 in 1927.<sup>84</sup> Oil revenues fell from \$42,000,000 in 1922, when they constituted almost one-third of the Government’s regular income, to less than \$18,000,000 in 1926 and an estimated \$14,000,000 in 1927. A fall in the price of silver, Mexico’s second most valued export, increased the Government’s financial stress. Mexico needed American capital.<sup>85</sup> Why continue the struggle against the stronger Power of the north?

As this conciliatory mood grew in the Presidential Palace in Mexico City, important changes were occurring in Washington. A national political campaign was coming on. The Senate had passed its arbitration resolution. Protestant opinion was suspicious of anti-Mexican policy. The New York bankers wanted payment on the funded Mexican foreign debt under the Lamont Agreement, but saw little prospect of getting their money unless Mexico was helped along the road to economic recovery. The oil men themselves were restive. A minority had supported the Gomez-Serrano revolt, and failed to dislodge the Calles-Obregon combination. The majority group wanted a State Department policy that would produce results. A theoretic victory in a diplomatic argument would not produce oil. Their capital was tied up in the Mexican field. No profits were coming in. So far as the White House was concerned its Nicaraguan victory had saved United States prestige, and Mexican gun-running had ceased.

Out of these political and economic factors sprang a new “policy.” President Coolidge took charge. Ambassador Sheffield, symbol of the unfriendly policy, was “allowed” to resign. Mr. Dwight W. Morrow, friend of the President and Morgan partner, was chosen as the new Ambassador. Mr. Morrow was expected to go to Mexico City, cut diplomatic red tape, get directly to President Calles and obtain a settlement. Thus a mood of compromise in both capitals made possible the quick developments which followed.

Immediately the Mexican Supreme Court handed down a long-awaited decision favourable to American oil interests. The unwritten decision upheld an *amparo* or injunction obtained by the Pan-American subsidiary, Mexican Petroleum Company of California (Standard), in the lower courts.<sup>86</sup> The *amparo* restrained the Mexican Government from enforcing its denial of drilling permits to

companies not complying with the disputed petroleum law. Companies representing about 75 per cent of Mexican oil production had failed to comply. In upholding rights of the companies to drill, a verbal decision of Supreme Court justices declared unconstitutional certain provisions of the law. Article 14 of the law required all foreign companies within one year to exchange titles for 50-year “confirmatory concessions.” Article 15 provided that companies should lose their rights for non-compliance with Article 14. The Supreme Court by a nine to two decision in the case held Articles 14 and 15 unconstitutional. This decision was hailed in Washington as “a step in the right direction,” but it was pointed out that the full purport of the decision could not be determined until the justices put it in written form. This had not been done up to May 1928. The effect of the ruling was also limited by Mexican procedure requiring five similar decisions to establish “jurisprudence.” Furthermore the Texas Company *amparo* case of several years previous was recalled, when even five Supreme Court decisions favourable to American companies had not restrained Mexico from continuing its restrictive legislation and decrees.<sup>87</sup>

American oil men were divided in their attitude toward the Court’s decision. Their representatives in Mexico City inclined to a more favourable interpretation than that of New York executives and lawyers. Legalists in New York argued that the decision did not declare the petroleum law as such unconstitutional; that the “positive acts” provision of the law, under which companies might lose undeveloped lands, still stood; that companies must still prove titles. This point of view was expressed by the *Wall Street Journal* December 6, 1927, as follows:

“The only thing the Court decided was that the cancellation of the permits in this one case was wrong because a 50-year limitation could not be put on a title in fee simple. Owners of leaseholds that have less than 50 years to run must surrender their titles to the Government and accept a ‘concession.’ The Court utterly failed to pass upon or even notice the oil company’s complaint that the law deprives a foreign corporation of the right of ownership. The decision leaves the American oil companies sitting on a limb with the confiscatory saw at work between them and the trunk of the tree.”

In questioning the decision’s value New York stressed the alleged desire of Luis N. Morones, labour leader and Mexican Minister of Industry, Commerce, and Labour, to ignore the ruling. Senor Morones through his Ministry’s official bulletin, *Revista Mensual de Petroleo*, characterized these reports as “malicious propaganda.” He affirmed the Government’s decision to interpret the law in the spirit of the decision, though that decision as yet lacked legal effect. The bulletin stated:

“The Supreme Court, on giving its judgment, respects the fundamental principles of our legislation and fixes the policy, which ought to adjust the true interpretation of the petroleum law as in the case which has just been judged. Thus, in the case just presented, the Court has solved a conflict in the application of the petroleum law, and has signalized the interpretation which it should give in a concrete case submitted to its justice; it is now the corresponding duty of the Secretariat of Industry to give compliance to this decision, and therefore will give it its respectful obedience as on former occasions, where former similar decisions have been rendered by this same Court, although there

have been efforts at some times, by offending propoganda against our Government, to make it appear just the opposite.”<sup>88</sup>

Despite the suspicious attitude of some oil interests, Ambassador Morrow advised that the Court decision be taken as evidence of Mexico’s intention to deal justly with American property rights—and as basis of hope for further action of the same character. Mr. Morrow meanwhile arranged for Col. Charles A. Lindbergh, America’s “Ambassador of Good Will” and hero of the New York-Paris non-stop flight, to fly from Washington to Mexico City. Col. Lindbergh’s visit had the desired effect of stimulating better feeling on the part of the Mexican masses toward the Colossus of the North. At the same time Mr. Will Rogers, “Ambassador of Wit,” was the guest of President Calles.

Under Morrow direction, the State Department refused to give comfort and aid to the Hearst newspapers, which were publishing an alleged documentary expose, purporting to prove the Mexican Government guilty of bribing American publicists, clergymen and senators. President Calles’s half-brother, Consul-General Elias of New York, testified by invitation at the Senate hearings. In repeating the Mexican Government’s denunciation of the documents as forgeries, the Consul-General requested the Senate Committee to examine all accounts of the Mexican Government in American banks and all telegraph and cable records pertaining to transmission of Mexican Government messages and funds. Such examination by the Committee completely cleared Mexican officials of guilt.<sup>89</sup> The Committee’s handwriting experts declared the documents to be forgeries, Mr. Hearst’s experts then joined in characterizing the papers as fakes. This episode, together with the gesture of the Mexican Consul-General in opening private records to inspection, tended to remove popular American suspicion of Mexico, as activities of Messrs. Morrow, Rogers, and Lindbergh had stimulated more friendly feeling in the neighbouring country.

While the United States was waiting for the written decision of the Mexican Supreme Court in the Mexican Petroleum *amparo* case, and for similar court decisions to eliminate the objectionable Articles 14 and 15 of the petroleum law, President Calles decided upon a short cut to a settlement. Mexican Ambassador Tellez in Washington urged a conciliatory policy. Calles also conferred with his predecessor in office, General Obregon, who was expected to be elected as his successor, and who therefore would have to carry out any commitments made by the existing Administration. Senor Obregon had become over a period of years one of the richest men in Mexico. In some of his land investments he was associated with American business interests. He felt the need of a working agreement between United States capital, for which Mr. Morrow was a spokesman, and Mexico, which was fronted with a serious reconstruction problem.

In December 1927, therefore, President Calles proposed sweeping amendments to Articles 14 and 15, which were passed by Congress. Texts of the original and amended provisions follow:<sup>90</sup>

## Amended Law

Article 14.—The following rights shall be confirmed without cost by means of the issuance of confirmatory concessions:

I. Those derived from lands upon which petroleum exploitation works were commenced prior to May 1, 1917.

II. Those derived from contracts entered into prior to May 1, 1917, by the owner of the surface or his representatives for petroleum exploitation purposes. Confirmations of these rights shall be granted without limit of time when they must be made in favour of the owners of the surface; and according to the time stipulated in the contract in the case of rights from contracts entered into by owners of the surface or their representatives.

III. To the holders of pipe-lines and refiners who may be working at present by virtue of concession or authorization issued by the Department of Industry, Commerce, and Labour, and with reference to those same concessions or authorizations.

Article 15.—A period of one year shall be given, counted from the day following the publication of these reforms to the same day, inclusive, of the following year, to solicit the confirmation of the rights to which the preceding Article refers and which have not been the object of confirmatory petitions during the period primarily set in this Article.

This term having expired, those rights shall be considered renounced, and rights the confirmation of which has not been solicited shall have no effect whatever against the Federal Government.

Transitory Article. Confirmations solicited within the year of 1926, and upon which the respective title has not been issued, shall be granted, if lawful, in accordance with these reforms. Confirmatory titles already issued shall likewise be rectified in accordance therewith.

## Original Law

Article 14.—The following rights will be confirmed without any cost whatever and by means of concessions granted in conformity with this law:

I. Those arising from lands in which works of petroleum exploitation were begun prior to May 1, 1917.

II. Those arising from contracts made before May 1, 1917, by the superficiary or his successors in title for express purposes of exploitation of petroleum.

The confirmation of these rights may not be granted for more than 50 years computed in the case of Fraction I, from the time the exploitation works began, and in the case of Fraction II, from the date upon which the contracts were made.

III. The owners of pipelines and refiners who are at present operating by virtue of a concession or authorization issued by the Department of Industry, Commerce, and Labour, and as to what has reference to said concessions or authorizations.

Article 15. Confirmation of the rights to which Articles 12 and 14 of this law refer shall be applied for within the period of one year, computed from the date of the going into effect of this law; that date having passed, said rights shall be considered as renounced and the rights, confirmation of which has not been applied for, shall have no effect whatever against the Federal Government.

New York oil officials and attorneys, who were suspicious of the Supreme Court decision in the Mexican Petroleum *amparo* case, were equally critical of the Calles amendments. Their objections were reflected in a series of articles in the *Wall Street Journal*. That newspaper stated on December



30, 1927:

“When these amendments are adopted and duly promulgated, the petroleum law will be, in nearly all respects, the same as it is now. It will still contain the following features: 1. Owners of lands acquired before May 1, 1927, must surrender their fee titles to the Government and accept a concession in return. 2. Before they can receive a concession in return for the titles they have surrendered owners in fee must establish an absolutely perfect title. 3. Owners of leases must surrender their leaseholds and receive a concession. 4. The doctrine of positive acts remains unchanged. 5. Foreign corporations cannot receive concessions. ... The proposed amendments are a gesture and nothing more. They give the oil companies nothing. The law of 1925, as interpreted by the Department of State, is confiscatory. If the law is amended as proposed those confiscatory provisions will stand intact. With or without the amendments, the law is meant to take away the property of American owners without compensation. The situation is no different today from what it was a year ago.”

But such fears did not prevent shares of the Mexican Petroleum Company, following the announcement of President Calles’s amendments, from advancing in Wall Street 60 points within one day on a comparatively small turnover.

Additional court and administrative rulings soon indicated the speed with which Mexico was approaching the American idea of oil rights.

Señor Morones in a letter to Huasteca Petroleum on January 9, 1928, issued the following decision:

“In view of the consideration which preceded the bill of amendment submitted by the Executive, this Department believes that the petition for confirmatory concession on the part of a national or foreign company does not imply the renunciation of rights acquired before May 1, of 1917, such confirmatory concession operating as the recognition of rights which will continue in force subject only to police regulations.”<sup>91</sup>

The American Embassy at Mexico City informed the State Department:

“On January 7, 1928, a decision was handed down by the Third Supernumerary District judge of the Federal District granting *amparos* [injunctions] to the Huasteca, Mexican, Tuxpan and Tamiahua Petroleum companies. The decision of the District Court declares that Articles 2, 4, 14 and 15 of the Petroleum Law of December 26, 1925, are unconstitutional, the decision being based on the ‘jurisprudence’ of the Federal Supreme Court in the group of five cases known generally as the Texas *amparo* decision by which it was established that Article 27 of the Mexican Constitution in the matter of petroleum is not retroactive ‘in spirit or in letter.’ The District judge holds that inasmuch as this ‘jurisprudence’ is binding on him as a Federal judge until such time as it may be modified by the Supreme Court it binds him in his decisions. The decision of the judge appears to refer not only to fee properties but also to leases in the case of the Huasteca Company [fee and leases] and Tuxpan and Tamiahua companies [leases exclusively].”



President Calles on March 27, 1928, signed an executive decree, regulating and making effective the December amendments to the law. The decree stated, in part:

“Article 147. In conformity with the provisions of Article 15, amended, of the law, private individuals or companies possessing rights referred to in Article 14 shall petition for confirmation before the respective agency, according to its jurisdiction, or directly, before the Department of Industry, Commerce, and Labour, within the period of one year, counted from January 11, 1928. ...

“Article 150. The confirmation of rights, as mentioned in Article 14 of the law, shall be effected without cost and by virtue of a concession after proof of said rights, in the manner provided by Articles 151 and 152.

“Article 151. The rights derived from works done prior to May 1, 1917, referred to in Section 1 of Article 14 of the law should be proved in the manner established by the laws on the subject or on the strength of documents authentic in the opinion of the Ministry of Industry, Commerce, and Labour which technically prove that the said work has been done. ...

“Article 155. The confirmatory concessions shall be issued in accordance with the provisions of Article 14 of the law, without limitations of time when they be issued in favour of surface owners, and for the term stipulated in the contracts when they be issued in favour of lessees or concessionaires. ...

“Article 159. For the purposes of Article 4 of the law, if the holder of the rights recognized by Articles 12 and 14 of the said law and 157 of these regulations is a foreign company or a Mexican company with foreign stockholders, in accordance with the provisions in Article 5 of the Organic Law and Section I of Article 27 of the Constitution, and Article 10 of its regulations, such rights may be held by the said company during the life of the contracts from which they flow, or, if the case arise, for the life of the company according to the articles of association. ...

“The titles which may be issued in respect of those petitions shall contain a clause in which it is stated that their granting does not prejudice the confirmable rights which might exist in the lands they cover and which may have been invoked in due form in the remainder of the term established in Article 15, amended, of the law.”<sup>92</sup>

As a result of the Calles decree, the State Department next day announced that the long dispute was practically over:

“The petroleum regulations just promulgated by President Calles constitute executive action which completes the process beginning with the decision made by the judicial branch of the Mexican Government on November 17, 1927, and followed by the enactment of the new petroleum law by the legislative branch on December 26 last. Together these steps voluntarily taken by the Mexican Government would appear to bring to practical conclusion the discussions which began ten years ago with reference to the effect of the Mexican Constitution and laws upon foreign oil companies. The Department feels, as does Ambassador Morrow, that such questions, if any, as may hereafter arise can be settled through the due operation of the Mexican administrative departments and the Mexican courts.”<sup>93</sup>

Though referred to so casually and lightly in this Department statement, the remaining questions in fact are considered very important by oil men and by the Department. The equally enthusiastic statement by Ambassador Morrow was somewhat franker than the Department on this point. He said:

“There remains, of course, the determination of what rights the oil companies held on May 1, 1917, the date the Constitution became effective. While there may well be honest differences on this point, there is no reason why any such differences cannot be satisfactorily settled through due operations of the Mexican governmental departments and the Mexican courts.”<sup>94</sup>

Press comment for the most part was as optimistic as the State Department and Morrow expressions. Indeed some drew from these official statements the logical—but probably premature—conclusion that the United States Government thereby formally accepted the Mexican law and renounced future rights of protest against its provisions.

“It may be assumed that henceforth the oil companies either accept the law, or, if they choose to fight it, fight with out diplomatic or moral support of the Government,” wrote Mr. Walter Lippmann of the New York World, recently returned from Mexico City.<sup>95</sup>

This also was the opinion, expressed in similar form, of the Mexico City *El Universal*:

“The declaration of Ambassador Morrow may be judged as a formal recognition of Mexico’s law to the extent that future oil companies will have no alternative except to abide thereby or by not abiding thereby do so at their own risk, remaining without hope of diplomatic assistance.”<sup>96</sup>

But the settlement, unfortunately, is not so complete as the official statements implied and the press believed.

The United States Government desires a clarification of the meaning of the word “concession” as used in Mexican legislation and decrees. Though the Calles Administration has removed the 50 to 80 years duration of concessions, it is still necessary for companies to exchange titles for these concessions. It is not sufficient, in the view of Washington, that such confirmatory concessions be valid for the duration of the original title, as provided in the amended law. The State Department, when it is expedient to do so, will reaffirm its contention that the only acceptable exchange, if any, for a fee simple title acquired by an American prior to the Constitution of 1917, is a confirmatory title, rather than a confirmatory concession. It will insist that this distinction involves more than a legalistic quibble over the words “title” and “concession.” The good faith of the present Mexican Executive, in recognizing “confirmatory concessions” as giving in effect all rights of fee simple titles, will not be questioned. But future Mexican Governments may be less liberal in interpreting the legal rights of concession holders, the Department will point out.

A second dispute, which Ambassador Morrow and the Department are holding back for the moment, involves the allied question of the validity of original titles. Under American law a property title is deemed valid until disproved. The Mexican law reverses this procedure and places

upon the foreign owner the burden of proving anew the validity of titles acquired before 1917 and not successfully questioned since that time. Mexico's motive in enacting legislation requiring such re-examination of all foreign oil titles arose from the casual manner in which Mr. Doheny and other Americans originally obtained certain lands. Some of the American titles—how many is unknown—were fraudulently and illegally acquired under then existing laws. Mexico is now determined to weed out those faulty titles. The State Department, of course, has based its entire case on defence of legally acquired titles. Even the most anti-Mexican Administration in Washington in the future is not apt to permit itself to be pushed by oil interests into the indefensible position of protecting illegal American titles in a foreign country.

This will not prevent the United States Government, however, from being thrown directly into the dispute over the validity of titles, which is certain to develop under the present law. Fear of the consequences of this provision of the law is not limited to companies desiring to retain corrupt titles. Holders of titles acquired in good faith are also apprehensive. Their concern is shared by the Washington Government for two reasons. First, titles in Mexico, as in most countries which have gone through cycles of dictatorship, revolution, and disorder, are notoriously shaky. In many cases Federal and local governmental records have been destroyed. In other cases records have been incomplete or contradictory from the beginning and therefore inevitably involved and difficult to decide. An equitable title decision can be derived, in Washington's judgment, only by properly constituted courts.

This explains the United States' second objection. Under the amended law the Mexican Executive through the Ministry of Industry, Commerce, and Labour, is empowered to pass upon validity of titles in the wholesale re-proving process required by the law. Standard and some other companies charge that the Ministry under Senor Morones is hostile to their interests. As a radical labour leader, surrounded by anti-capitalistic officials, he will not give them a fair deal, they say. Altogether apart from the personality of the present Minister the companies agree that any system placing such essentially juridical powers in the hands of political officials is conducive to favouritism and graft, and therefore equally undesirable from the standpoint of the Nation itself and of foreign producers.

Without aligning itself with these views, the State Department is expected to insist on the abstract principle that the Mexican courts by organization and experience are the proper and customary institution for determining title validity, if the Mexican Government insists upon such reexamination.

For the moment, however, Washington deems it expedient to sidetrack such arguments, thus permitting and encouraging Mexico under the new conciliatory mood to continue along its own line of compromise without apparent foreign pressure. During the Morrow-Calles negotiations the United States Government assured itself that the prospective President of Mexico, General Obregon, was an actual if unseen party to the Calles regulatory decree. Immediately upon its publication, Senor Obregon made his anticipated announcement: "I have read carefully the new oil regulations. I am convinced that the arrangement will be of equal benefit to the peoples of Mexico and the United States, as it is satisfactory to both Governments."<sup>97</sup> So the American diplomats and

oil operators think they can afford to wait.

Meanwhile they have gained major advantages. The time limit on confirmatory concessions has been extended to the length of the original titles. The forfeiture penalty of the original law, for non-compliance with the concession-application provision, affected foreign companies controlling 90 per cent of the petroleum-producing lands and 70 per cent of the output, Secretary of State Kellogg informed the Senate.<sup>98</sup> The companies were given another year in which to comply with the amended law. The controversy over the law both in its administrative and legal aspects is thus on new and more limited ground, and with a fresh period of grace.

The trend toward temporary *rapprochement* between the United States and Mexican Governments for the time being has thwarted British efforts to obtain a favoured position at the expense of American producers. During the Kellogg-Sheffield provocative tactics of 1926-27, the British tried to capitalize anti-Yankee sentiment in Mexico City. These efforts failed for several reasons. Dutch-Shell was beginning to concentrate in the new fields of Venezuela. Venezuela lacked the Mexican restrictive legislation, invited British exploitation, and geographically was in a better position for serving world markets than were the Tampico fields. If British oil capital was to expand in South America, it could not at the same time challenge successfully the entrenched American position in Mexico. This applied with greater force in the case of British Controlled Oilfields, which was close to bankruptcy because British Imperial policy rather than business judgment had determined its investments and activities. Anglo-Persian was preparing to capture a monopoly concession on Colombian national lands.<sup>99</sup> Most British companies were coming to question whether the Mexican game was worth the price. Unwillingness of the Calles Government to treat with them on satisfactory terms confirmed their pessimistic attitude toward Mexico's petroleum future.

The British therefore tend to accept the opinion of those geologists who believe Mexican resources, which may be profitably exploited, are almost exhausted. The accuracy of this opinion, which is shared by some American producers, is difficult to determine. Many geologists think present Mexican fields will be practically exhausted, at a reasonable rate of production, within a relatively short time, say, a decade. But Mr. Doheny, whose judgment on Mexican oil in the past has been better than that of his competitors, points out that the interior of that country has hardly been scratched. Mexicans assert that the petroleum regions of the interior equal those which Mr. Doheny and Lord Cowdray found on the Tampico seaboard before Standard and Dutch-Shell bought the majority holdings of those two pioneers. Even if Mexican contentions are substantiated by future exploration, the problem of transporting oil to the coast will make such interior fields somewhat less attractive than the present wells.

“While it is quite true that there has been a decrease in production since the peak total of 193,000,000 barrels was reached in 1921, unimpeachable and undeniable figures supplied by operators and verified by the Government inspectors prove that there is no actual foundation for the [pessimistic] opinion referred to, but that as a matter of fact the proven potential capacity of the existing oil wells was never so great as now, and that some other cause than a diminution of available supply or exhaustion of the fields is responsible,” according to a statement of the *Mexican News Bureau*,



Washington. "To those who do not understand the matter it should be explained at the outset that all Mexican oil wells are self-producing, no pumping being resorted to as in other fields. No attention would be paid to any well necessitating such a process. ... There have been 1793 new wells sunk to date since January 1920, with the immense total annual capacity, as proven by test, of 2,516,700,000 barrels. ... A recent summary of the amount of oil exported from Mexico between 1901, when the first shipments were made, and the end of the first six months of the present year, showed a total of 1,434,810,581 barrels, or over 1,000,000,000 barrels less than the total proven potential capacity of the new wells completed since 1920. This serves to demonstrate that the oil fields of Mexico may be depended upon to increase in their productive capacity for an indefinite period, while with no further additions to the number of new wells there can be produced and exported many times as much as the largest annual amount recorded." <sup>100</sup>

Nevertheless, in negotiating with Britons and Americans under the new conciliation tactics, the Calles Government has been aware of the reduced importance of Mexico in the petroleum world. Revival of the Russian industry, initial drilling in Mosul, new gushers in the United States Seminole, west Texas, and California fields, and particularly the emergence of Venezuela and Colombia within the last year as direct competitors of the Tampico fields, lessen the bargaining power of the Mexican Government in dealing with foreign interests.<sup>101</sup> The time is approaching, or has arrived, when foreign oil capital is more necessary to Mexico than Mexico is necessary to it.

Standard, Gulf and other American companies, of course, have to consider their present heavy investments there. Even though they shared in full the pessimistic point of view regarding future supplies and governmental restrictions, the American companies would be obliged to make the best of a bad matter and continue operations.

This interdependence of American companies and the Mexican Government explains in part the failure of the British to obtain a favoured position and the ability of Ambassador Morrow to make a temporary oil agreement with President Calles.

Mexico's dependence on American oil producers for taxes, industrial development, and employment of native labour is only part of her dependence on American capital as a whole. Mexico's economic crisis, caused by reduced oil revenues, fall of the silver market, and attempted counter-revolution, coincided with increased financial demands. The moratorium on foreign debt service expired on December 31, 1927, leaving the Government with \$59,000,000 to pay in interest and amortization in 1928.<sup>102</sup> To meet these obligations, 42 per cent of her estimated budget income would be required. This led President Calles in December to ask and receive from Congress extraordinary powers to deal with this problem. The situation was equally disconcerting to Mexico City and New York. The Mexican Government did not want to ruin its international credit, and the American bankers would lose if their debtor were forced toward bankruptcy. The bankers prepared to extend easier terms. In the interest of both parties a period of productive peace, based on Mexican-American co-operation, was essential. This thought was uppermost, perhaps, in the minds of the American banker-Ambassador and Senor Calles in their efforts to get the oil dispute temporarily out of the way. Moreover, new American capital is needed for

reconstruction and industrialization of the country. Mexico can exist without American financial participation in the development of natural resources, but the process would be a very slow one. Appreciation of the dependence of Mexico on American capital is buttressed by the dawning conviction of some Mexicans of the inevitable character of American economic expansion and imperialism. They think the American empire is too big for Mexico to fight successfully. This attitude was expressed by *El Universal* of Mexico City, in October 1927, as follows:

“American imperialism is a fatal product of economic evolution. It is useless trying to persuade our northern neighbours not to be imperialistic; they cannot help being so, no matter how excellent their intentions. ... Let us study the natural laws [of economic imperialism], in the hope of finding some method by which, instead of blindly opposing them, we can mitigate their action and turn it to our advantage.”

But this increasing financial dependence of Mexico upon the United States is accepted with regret. While both countries were rejoicing over the “final settlement” of the oil dispute as embodied in the Calles decree of March 27, 1928, the Mexico City *Excelsior* was lamenting that European capital, formerly so strong there, was now afraid to challenge the United States’ policy of financial and political “domination.” *Excelsior* concluded: “We find ourselves, then, at the mercy—Mexico the same as other continent Republics—of American capitalists, reigned over by bankers.”<sup>103</sup>

Recognition by Ambassador Morrow and President Calles of the advantages which can accrue both to American capital and to the Mexican Government from a co-operation policy was chiefly responsible for the conciliatory attitude in both capitals in the spring of 1928. But, in weighing the present situation and the probabilities of continued co-operation between the two Governments in handling the oil question, one factor is usually overlooked in the United States.

Mexico has paid almost the entire price for the present temporary *rapprochement*. She has retreated from her revolutionary principles of 1917. Granting that President Calles and General Obregon, who is expected to follow him, believe such a “strategic retreat”—to use the phrase made famous by Lenin—is necessary for the final victory of the revolution, the Mexican masses may soon be of different mind. There is little, if any, similarity between the Russian revolution and Mexican revolutions which preceded it, except the agrarian problems common to each. But just because the semi-socialistic Mexican Government has less immediate and direct control over the masses than has the Communist Moscow dictatorship, the former may be unable to force the Mexican workers and peons to accept the retreat tactics which the Russian dictators imposed with such difficulty. As the Mexican Government swings more and more to the Right to team with American capital, increased protests are anticipated from labour and agrarian organizations. If this radical movement does not succeed in dominating Mexican politics, presumably it at least will check somewhat the Calles-Obregon conservative policy.<sup>104</sup>

Protests of radical groups in Mexico against too complete compromise with American capital are apt to become acute over the land law issue. The Washington Government opposes the land law as confiscatory. The land and petroleum laws are of necessity so closely allied, any failure to reach a

final settlement on the former will react unfavourably on the present partial and unstable settlement of the oil dispute.

The crux of American-Mexican relations now, as in the past, is Washington's unwillingness to make major compromises on this general property rights dispute of which oil is a part. The much-lauded Morrow policy represents an important change in method, but no change whatever in aim. It has involved sacrifice of none of the principles asserted so belligerently by Washington since the enactment of the revolutionary 1917 Constitution. The Morrow method has been successful temporarily because it permits Mexico to retreat without losing face. But if and when Mexicans stop retreating and begin again to defend nationalization principles of the 1917 Revolution, the conflict between Washington and Mexico City probably will be renewed. And in a more costly manner than in the past. For the handicap of belligerent Washington Administrations in the past has been the indifference of the American people toward troubles of the American oil men, and the positive opposition of a strong group in Congress to American intervention in the southern Republic. Mexican Governments shrewdly have counted upon this attitude of the American people to balance the Rockefeller-Doheny-Mellon pressure in Washington. Pro-Mexican sentiment in this country is to be explained largely, however, by the feeling that Mexico has been the underdog and Washington usually the aggressor. Now, thanks to Ambassador Morrow and the extraordinary publicity which has attended his efforts, most Americans apparently are convinced that the United States Government has made large concessions, going more than half way to meet Mexico in the interests of peace and amity.

In this popular American misconception of the Morrow era as representing a change in policy, instead of a mere change in method, exists a danger for the future. If the Calles-Obregon regime does not continue its retreat, the Washington Government is in a position to say to the American people: "Mexico has betrayed our friendship. We have tried a conciliation policy, and it has been rejected. The only policy left for us, if we would protect legitimate American interests, is one of force." Believing that Washington and the oil men have made major sacrifices in the interests of peace, and not knowing that the compromise has been all by Mexico, the American people may be ready for the first time to support an intervention policy.

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67. Cf., Carlton Beals, *Mexico: An Interpretation*. 1923.
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80. New York *Times*, April 26, 1927.
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90. Translation by Mexican Embassy, Washington, from *Diario Oficial*, Jan. 10, 1928.
91. State Department, press release, Jan. 13, 1928.
92. Washington *United States Daily*, April 7, 1928.
93. Ibid., March 28, 1928.



94. New York *Times*, March 28, 1928.

95. New York *World*, March 28, 1928.

96. New York *Times*, March 30, 1928.

97. *Ibid.*, March 30, 1928.

98. 69th Congress, 2nd Session, Senate Document No. 210, p. 4.

99. Cf., Chap. VII.

100. Press release, October 22, 1927.

101. Cf., Appendix A.

102. New York *Wall Street Journal*, Dec. 23, 29, 1927.

103. New York *Herald Tribune*, April 1, 1928.

104. Cf., Beals, *supra*, on Labor and Agrarian Movements. Calles, *supra*, pp. 8-34, 55-61, 68-69, 183. William English Walling, *The Mexican Question*, pp, 81-144. 1927.

## CHAPTER FIVE

*“British [Government] Controlled Oilfields, Ltd.”*

WASHINGTON looks with suspicion and hostility on British penetration in the Caribbean. In that region the United States claims a special sphere of influence.

“The Americans are not going to yield their old supremacy without a struggle, least of all in those Spanish American republics which they regard as their natural preserve,” Mr. Sydney Brooks wrote in 1920, at the beginning of the American oil awakening. “The concessions which British subjects have acquired in Venezuela, Costa Rica, Colombia, Ecuador, and so on, are looked upon at Washington with peculiar jealousy. ... Moreover, in one of the greatest organizations that is fighting out the battle of oil, the British Government is itself the principle stockholder and an unavoidably official and national character is thus imparted to its operation.” <sup>105</sup>

Control in the Monroe Doctrine area was described by Sir Edward Mackay Edgar’s article in *Sperling’s Journal*: “I should say that two-thirds of the improved fields of Central and South America are in British hands. In Guatemala, Honduras, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, and Ecuador, a decisive and really overwhelming majority of the petroleum concessions are held by British subjects. ... The Alves group [British Controlled Oilfields, Ltd.], whose holdings encircle practically two-thirds of the Caribbean Sea, is wholly British, working under arrangements which insure that perpetual control of its undertakings shall remain in British hands. No American citizen and no American group has acquired or ever could acquire any such position in Central America as that which enterprise and personality have secured for Mr. Alves. ... Unfortunately for them—and fortunately for us—their eyes have been opened too late.” <sup>106</sup>

But perhaps neither an American nor a Briton should be trusted to judge this fight, which holds so much menace for future relations of the two Powers.

Let a Frenchman describe early British activities in the Caribbean, prompted allegedly “as a precaution in case war should break out between Britain and the United States; for, even with the help of the Japanese fleet, the British navy might not be able to seize the Panama Canal.” M. Pierre l’Espagnol de la Tramerye, in a chapter on “An American Balkanism” in his *World Struggle for Oil*, in 1923 said:

“The Anglo-Persian Oil is no longer sufficient for Great Britain, which founded a new company in 1918, the ‘British Controlled Oilfields,’ specially commissioned to fight the Standard Oil. ... Like the Anglo-Persian, it is entirely in the hands of the British Government under the system of the Voting Trust. It seems that an immense tract of oil-bearing territory exists from Mexico to the Argentine, a continuation of that of the United States. ... Of these deposits the British Controlled Oilfields wishes to gain possession on behalf of the British Government, thus completing the work of the Royal

Dutch-Shell in Venezuela and in the neighbourhood of the Panama Canal. ... Its concessions actually surround two-thirds of the Caribbean Sea: they are situated in the States of Guatemala, Honduras, Nicaragua, Costa Rica, Panama, British Guiana, Colombia, Venezuela, Peru, Ecuador, and the Island of Trinidad. The concessions of the British Controlled Oilfields are nearly always on the sea coast—or rather in close proximity to the sea—which is a considerable advantage. It has expressly chosen them, on both the Atlantic and the Pacific, as a precaution in case war should break out between Great Britain and the United States; for, even with the help of the Japanese fleet, the British navy might not be able to seize the Panama Canal. All its units must be in a position to replenish their stores of fuel without being obliged to make a long detour round the Magellan Straits. ... In order to obtain them [Costa Rican concessions], Great Britain did not hesitate to foment revolution in this little Republic. Unable to obtain anything from the established Government, it helped to place in power the revolutionary President Tinoco, from whom it got all it wanted: more than 6,000 square miles granted to the British Controlled Oilfields. Unfortunately Tinoco has been overthrown: the regular Government, restored to power, hastened to annul these concessions. **Great Britain**, to compel it to ratify these concessions, **stirred up a war** between Costa Rica and Panama, while she sent the cruiser Cambrian to the coast of Costa Rica in order to increase the pressure. Events went against her. Costa Rican troops invaded Panama. A landing took place on February 28, 1921, on the Pacific Coast, south of the Dulce Gulf, the eastern shore of which is common to both countries, and another less important one on the Atlantic, towards Bocas del Toro. Panama lost the territory of Coto. Mr. Alves, chairman of the British Controlled Oilfields, set out in March 1921 for Costa Rica, to study the question at issue. But the United States stepped in; and judge White, as arbitrator, pronounced in favour of Costa Rica. On August 26, 1922, an American naval detachment assisted the Costa Rican forces to take definite possession of the contested territory, in spite of the indignant protests of the Government of Panama against the violent measures of which it was the victim. There is continual warfare among the little republics of Central America. The imbroglio of British and American affairs around the Gulf of Mexico and the Caribbean Sea (British Controlled Oilfields, Mexican Eagle, Royal Dutch-Shell, Mexican Petroleum, Standard Oil) makes this region the Balkans of the oil world. The British Controlled Oilfields, the board of which includes a British admiral and a member of Parliament, is the result of long investigations pursued by Lord Fisher on behalf of the Admiralty. The results of these studies are being methodically turned to account in order to insure to Great Britain the supremacy of the sea by means of the supremacy of oil.”

The Costa Rican incident recounted by M. de la Tramerye grew out of British efforts as early as 1914 to obtain concessions in that Central American Republic. Immediately after its organization in 1918 to make Caribbean oil safe for the Union Jack, British Controlled Oilfields obtained a 7,000,000-acre concession from the revolutionary Tinoco Government. General Tinoco seized power with British help, according to Americans. His oil grant to the British company conflicted with earlier American concessions. London recognized the Tinoco regime. Washington refused to do so. “The attitude of the United States encouraged a successful rebellion against Tinoco in 1919,” according to Parker Thomas Moon. Dr. Moon adds: “Costa Rica is ‘independent,’ but her Government must respect the new Monroe Doctrine, the doctrine that the United States has a veto on concessions.” **107** The new Costa Rican Ministry cancelled the British concession.

Washington bided its time until 1921, and then permitted Panama to push a frontier dispute against Costa Rica. As soon as the boundary war got under way, Washington intervened and an American arbitrator drew a frontier which satisfied the Costa Rican Government. The latter having revoked the British concessions, later gave a 9,000,000-acre concession to the American Doheny interests and another to the Sinclair company.

Downing Street, in the exchange of notes on the San Remo-Mosul controversy, defended its Near East exclusion policy in part on the ground that the United States was guilty of the same practice in influencing the Costa Rican and Haitian Governments to revoke legally acquired British concessions.<sup>108</sup> The State Department denied this charge, asserting it could not recognize the Tinoco Government because the latter had acquired office by unconstitutional means. Not these British protests, but Costa Rican dissatisfaction over Washington's refusal to accept the Pan-American Court's ruling in the Nicaraguan dispute, later jeopardized United States prestige there and the Doheny-Sinclair concessions.

M. de la Tramerye and Sir Edward Mackay Edgar, as it turned out, were premature in forecasting complete British victory in Latin America. Their descriptions of the situation, however, were valuable as revelations of British purpose and tactics.

Despite repeated London denials, British Controlled Oilfields has been controlled by trustees, some of whom were nominated by the British Government. But the oil of diplomacy and of commerce does not always mix. From the standpoint of naval strategy this company has been most successful, especially in acquiring lands in the Panama Canal region. As a commercial organization, it has failed—though this is of less importance to the British Government. At the latter's suggestion the company was organized in a unique way, stockholders renouncing control in favour of seven "Voting Trustees." Following incorporation of the concern in Canada by Mr. Alves, the control system was established by a "Trust" on January 20, 1920. Trustees representing the London Government directly were Mr. E.G. Pretyman and Sir Edward Mackay Edgar, whose boasts of British supremacy in the Caribbean are quoted above. The Trustees were empowered to appoint directors. Company shares were distributed throughout the Empire but carried on the books in the name of Messrs. Sperlina, a bank of which Sir Edward is an official.

A revolt of these disfranchised stockholders led in 1925 to forced appointment of new directors. This board revealed that \$30,000,000, two-thirds of the company's capital, had been lost under the system and policy of political management. The struggle between the non-voting shareholders and the British Government, represented by the Trustees, continued until it was carried into the courts in the winter of 1926-27. Belatedly the Trustees agreed to abolition of the Voting Trust and to financial reorganization. But in the process of forcing this reorganization certain details of British Government policy in the Western Hemisphere inadvertently had been shown to the world.

The report of the new board of directors, January 4, 1927, stated: "The business of the company can never be conducted on a sound basis until its board can be chosen, can be criticized, and can, if necessary, be discharged by the whole body of the shareholders whose capital is engaged in the company and until these matters are no longer subject to the judgment or to the caprice of the



majority of a body of trustees of a Trust which was created in January 1920 by Messrs. Sperling and Co., to whom the whole of the company's common stock (save 100 shares) had been issued in part satisfaction of the purchase price of properties sold by them to the company.”<sup>109</sup>

Mr. E.A. Harney, L.P., in addressing a protest meeting of stockholders was quoted by the London Times, January 27, 1927 as follows: “when their own company started it was the suggestion of the British Government that things should be arranged in such a way that neither the Standard Oil Company nor any foreign company should get the oil which it was hoped would come out of the property, and two nominees of the British Government were placed upon the Trust.”

While stockholders were insisting on reorganization, the Voting Trustees issued on October 11, 1926, the following statement defending political control of the company on the ground that it served British Imperial interests:

“As was publicly stated at the inception of the company the dominant object for the creation of the Voting Trust was to secure the control of the company for all time by British subjects in order in times of need to be in a position to direct the output of the fields into channels best calculated to serve Imperial interests, and for this object, and this object alone, the Trustees accepted the Trust. Sir William Mercer, who held the office of Chief of the Crown Agents, obtained the sanction of the Colonial Office to his appointment, and Mr. Pretzman becoming a Voting Trustee at the request of Lord Long, who was the Cabinet minister at the head of the Petroleum Department. The Trustees were in no way responsible for the appointment of the original directors, but, in the pursuance of the trust imposed in them, they have from time to time reappointed boards of directors which, on the information available at the time, were in their opinion best competent to manage successfully the affairs of the company and control the oil supplies with the object set out above. From the latter point of view the Trustees have never regarded with satisfaction the agreement made by the present board with the Standard Oil Company, as to which they were not consulted, and they are gratified to learn of its imminent termination.”<sup>110</sup>

Heavy financial losses and failure to discover oil on some company tracts had led the directors to make temporary leases to Standard Oil of apparently undesirable portions of one Venezuelan concession. As shown in the foregoing Trustees's statement, even such a temporary connexion with an American company was held taboo by the British Government representatives and scheduled for discontinuance. One of its contracts with Standard was cancelled in 1926. It operates in Venezuela and other Latin American countries in part through Dutch-Shell. In Trinidad much of its land is worked by Anglo-Persian. Though the Alves organization under British Government influence succeeded in being first on the field and in acquiring more lands in Latin America than any other company, its actual production has never been large. Its output in 1927 was less than 2,500,000 barrels.<sup>111</sup>

Why British Government control in the case of the Alves company should have been so disastrous financially, in contrast to the commercial success of the British Government-owned Anglo-Persian Company, is not altogether clear. Americans believe that much of the Alves land was acquired and is retained, for strategic purposes, with the knowledge that oil is not present. In cases of actual oil

lands, the company in Venezuela and elsewhere has been unfortunate in its engineers. Moreover British Controlled Oilfields' area of operations has been in highly competitive and unknown territories, whose governments have not been amenable to London control. So the business hazards have been much greater than in Persia, where the British Government took over a rich company operating a huge developed monopoly concession in territory which was a quasi British protectorate.

Though such considerations explain in part the financial success of Anglo-Persian and Dutch-Shell, compared with the commercial failure of British Controlled Oilfields, they do not explain all. Both of these other companies operate in the Caribbean successfully. Anglo-Persian in some Latin American fields has made big money. In others it has followed the Alves example of spending large sums for what is apparently strategic territory of little actual petroleum value. Anglo-Persian profits from Persian wells and some Latin American pools are sufficient, however, to conceal "losses" incurred in political ventures.

Within 10 years after its purchase of Anglo-Persian control for \$11,000,000, the British Government had profited to the extent of \$200,000,000, according to Mr. Winston Churchill's estimate in his *The World Crisis*. Allowing for the Churchillian powers of exaggeration, the amount remains large. Profits of Anglo-Persian continue to rise despite the fall in petroleum prices. In 1926-27 its net profit was \$23,000,000, compared with \$21,500,000 in 1925-26, \$17,500,000 in 1924-25, and about \$12,500,000 in 1923-24 and 1922-23.<sup>112</sup> Ordinary dividends exclusive of stock bonuses have ranged from 10 to 20 per cent since 1920. In 1926-27 the dividend was reduced from 17½ per cent to 12½ per cent, but a 50 per cent stock bonus made the equivalent dividend 18¾ per cent. Royalty payments to the Persian Government increased from \$2,315,000 in 1920-21 to \$5,135,000 in 1926-27, being based upon company production and profits. The political—exploration activities of the company through subsidiaries in the Caribbean—South American region and elsewhere are shown by the company's balance sheet to be expanding rapidly. Though no details were given, the budget of expenditures submitted to the annual meeting for 1926-27 included an item of \$123,945,000 as "purchase price of concession, shares in and advances to associated companies," an increase within the year of \$14,545,000.

Dutch-Shell, which is not directly a Government company and therefore under less incentive to make political expenditures, pays even better than Anglo-Persian. Profits of the "Royal Dutch Company for the Netherlands Indies," the holding corporation, are indicated by dividends of 23 per cent in 1924 and 1925, and 23½ per cent in 1926.<sup>113</sup> These dividends were exclusive of profits of the Deterding operating companies. The Federal Trade Commission found that the cash and stock dividends of the Royal Dutch subsidiaries, other than holding companies, averaged in the 1902-1921 period 42 per cent.<sup>114</sup> Shell Transport and Trading Company, the holding company having 40 per cent interest in the Dutch-Shell combine, from 1909 to 1921 paid an annual average dividend of 31 per cent. Profits of this company, exclusive of producing and distributing subsidiaries, were \$24,000,000 in both 1924 and 1925, and \$26,800,000 in 1926; dividends in those years rising from 22½ per cent to 25 per cent.<sup>115</sup> Dutch-Shell losses in the Russo-India sales battle

of 1927-28 are discussed in Chapter Ten.

Activities of Dutch-Shell, Anglo-Persian and British Controlled Oilfields challenged commercial interests of Standard and other American companies and endangered the United States claim to special political interests in the Caribbean. Though the eyes of the Americans were opened late, to use the British phrase, the Yankees fought back. As a result, American holdings in the Caribbean region and southward are now much larger than the Edgars, de la Trameryes, and others, anticipated.<sup>116</sup>

American dominance was easy to achieve in countries over which the United States Government or its so-called "treaty officials" exercise wide authority. In the Dominican Republic, the Texas Company through its subsidiary Antillian Petroleum has acquired four concessions covering all of Azua province and parts of adjoining provinces. Drilling there began in March 1927.

The British have been more successful in Bolivia and Ecuador, though neither of those fields is important as yet. A London firm, Anglo-Ecuadorian, is the only company with commercial production in the latter country. It had 40 flowing wells in the fall of 1927. Production in that year doubled to 450,000 barrels. On the basis of an increase from 29,000, to 49,000 barrels a month at the close of 1927, the company proposed to increase its capital from \$5,000,000 to \$7,500,000. British interests in that year acquired a large block of stock of Inter-Continent Petroleum Corporation, a mixed company holding about 8,000,000 acres in Ecuador, Mexico, Guatemala, British Guiana, and Venezuela.

Though Brazil in 1926 nationalized all mineral deposits in anticipation of important petroleum discoveries, exploration and drilling operations are still in an initial stage.

Chile also has passed restrictive legislation. The foreign company chiefly interested is Chilean Oilfields, an Australian organization, which has not yet found oil in commercial quantities. Standard and Dutch-Shell have made drilling applications, which would be rejected under a quasi-nationalization bill pending in 1928. Another bill to place a prohibitive tax on oil imports, to force American copper companies to use native coal, was side-tracked in 1928 when Washington unofficially protested. Chile has purchased national rights to the German "Bergin" patents for making oil by the coal liquefaction process.

Argentina in 1927 with an increase of 800,000 barrels produced a total of 8,700,000 barrels, displacing British India in tenth place in world output. India is holding down under the British conservation policy. Argentina produces almost a third more than Poland and Trinidad.

Foreign capital has been at a disadvantage in Argentina. The Government exploits the best fields and practically prohibits export. Nationalization of the industry throughout the Republic, State monopoly of oil transportation, and exclusive State exploration are provided in a bill passed by the Argentina Chamber of Deputies in 1927. Foreign companies predicted in 1928 the bill would be killed by the Senate. Despite restrictive legislation and decrees, privately owned fields in the ten year period 1917-26 increased annual production from 11,000 to 477,000 tons. In the same decade Government fields raised their output from 167,000 to 680,000 tons. British Railways and Anglo-Persian are the largest private producers; Standard (N.J.) and Dutch-Shell output is insignificant.

Rising Argentine nationalist opposition to Standard and other foreign companies is indicated by the following survey in *O'Shaughnessy's South American Oil Reports*, March 1928:

“Practically from the beginning of the year [1927] there has been a tremendous interest in the question of petroleum legislation, largely the result of propaganda of a violent and entirely misleading nature directed against the Standard Oil Company, S.A. Argentina, especially, and its operations in the country. This was stimulated primarily by the Fiscal Petroleum Department and secondarily by the radical press and political elements. ...

“The theme of all this propaganda was that the Standard Oil Company (backed by the United States Government) as part of its world program, was endeavouring to monopolize or control the supposedly tremendous oil resources of the Argentine, and that it was essential that legislation be enacted immediately depriving the provinces of the ownership of petroleum wells and vesting all title and control in the Federal Government (nationalization) and thus prevent such a situation. ...

“It may be said that for one month the discussions in Congress were practically a continuous tirade against the Standard Oil Company, with a great deal of attention devoted to the alleged imperialistic ‘oil policy’ of the United States Government. ...

“By the time Congress convenes for the 1928 Ordinary Sessions the National elections will have ended and it will be very difficult for the present Congress and Administration to enact a definite petroleum law (which could only be executed by the succeeding Administration) even though they should wish to do so. The new Executive Power comes into office in October 1928, after the termination of the Ordinary Sessions of Congress for that year. Under the most favourable conditions it is unlikely that the incoming Congress and Administration will enact a definite petroleum law prior to 1929.” President-elect Irigoyen favours further oil nationalization.

Bolivia has been chosen by the British for a grandiose exploitation scheme under grants obtained by a London concern, Bolivia Concessions, Ltd.<sup>117</sup> This company is promoted by Sir Martin Conway, M.P., and others. The vast concession covers 50,000,000 acres, including 20,000,000 under option. The company's rights cover oil, mineral, timber, and agricultural concessions in the eastern part of the country. In 1928 the company appealed for English settlers to join a group of Tsarist Russian refugees in colonizing this territory. An added inducement of hidden Jesuit treasure lured the pioneers. A port has been built on the Paraguay River near the Brazilian border and 600 miles from the coast, and a railway and wireless station projected by the company. Apparently the tract is suitable for cultivation of rubber, coffee, cocoa, cotton, sugar, quinine, rice, and tobacco. But geologists are sceptical regarding ambitious estimates endowing this tract and the adjoining territory with “the greatest petroleum resources in the world.”

Petroleum deposits have been found in a score of places between Yacuiba and San Cruz, Bolivia. Standard has small productive wells in the Yacuiba territory, near the British concession. Guggenheim and other United States mining and financial interests are a power in that country. Unfavourable inland location of the country and transportation obstacles, however, have retarded oil development. A pipe-line across the Andes would have to cross Chilean and Peruvian territory, raising political difficulties in addition to the heavy investment required. The longer outlet down



the Paraguay River also might raise political questions, as that route touches other countries. But this transport solution will be the one attempted.

Peru is the most important oil country in South America, except Colombia and Venezuela. With an annual production of 9,800,000 barrels in 1927 it ranked ninth among the producing countries of the world. In 1926 it was eighth, but its output decreased 1,000,000 barrels while Colombian production rose 8,000,000, putting the latter in eighth position. There are three Peruvian fields on or near the coast, Zorritos, Lobitos, and Negritos. Less accessible are the Titicaca deposits in the Andes. Standard (N.J.), through its subsidiary, International Petroleum, the largest producer in Colombia, holds the La Brea y Parinas concession of 400,000 acres in north-eastern Peru, and smaller tracts aggregating 850,000 acres more. The Rockefeller company is holding output to about 7,000,000 barrels a year on account of present world over-production. But many of its wells are closed in and production can be increased rapidly on demand. Part of Standard's acreage was obtained from British Controlled Oilfields, when that company's near-bankruptcy was discovered by its stockholders.

A British concern, Lobitos, produced in 1927 about 2,500,000 barrels. With a working capital of \$3,000,000, Lobitos in the year 1926-27 earned \$1,300,000 and paid 35 per cent dividend. It is building 10 new storage tanks, with capacity of more than 500,000 barrels at the company's port, La Libertad.

Dutch-Shell, like British Controlled Oilfields, went into Peru several years ago, but grew discouraged too soon. The Deterding combine let its largest concession option lapse through failure to exploit the tract. An American company, Phillips Petroleum, in 1927 obtained that concession on a Government royalty basis. The tract includes from 1,000,000 to 1,500,000 acres along the coast in Piura Department. Other American companies are exploring Government lands.

A British promoter, Mr. G.V. Holden, became very active in Lima in 1927, finally winning the friendship of President Leguia. He was promised a refinery concession and gasoline sale "monopoly" on a 12½ per cent Government royalty basis. At the end of 25 years the refinery would revert to the Government gratis. Annual revenue on present Peruvian consumption of 10,000,000 gallons amounts to somewhat less than \$500,000. The Chamber of Deputies refused to ratify the Holden "monopoly" contract in October 1927, but reversed its decision in 1928.<sup>118</sup>

Apart from this apparent favouritism toward some British interests, American companies for the moment are fairly well satisfied with conditions in Peru. They were able in January 1927 to get from the President an executive decree, which "clarified" the petroleum nationalization law in line with American demands. The decree extended the length of concessions to 40 years. Various legislative and administrative restrictions also were relaxed. There is some fear, however, that the Government may return with greater zeal to a policy of nationalization.

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105. *Tulsa Oil and Gas Journal*, December 1920.

106. *London Sperling's Journal*, September 1919.

107. Thomas Parker Moon, *Imperialism and World Politics*, p. 429, 1926.
108. Notes of Aug. 9, 1920, Feb. 28, 1921.
109. London *Times*, Jan. 5, 1927.
110. *Ibid.*, Oct. 12, 1926.
111. New York *Wall Street Journal*, Dec. 7, 1927.
112. Report, Nov. 2, 1927.
113. London *Times*, June 6, 1927.
114. Federal Trade Commission, *supra*, p. xii.
115. London *Times*, June 11, 1927.
116. Cf., Tulsa *Oil and Gas Journal*, Dec. 29, 1927, and New York *O'Shaughnessy's South American Oil Reports*, April 1927–April 1928, for technical articles on Latin American oil industry.
117. Cf., New York *Times*, Jan. 13, 1928. Boston *Living Age*, April 1, 1927.
118. Commerce Department, *Foreign Trade Notes*, March 10, 1928.

## CHAPTER SIX

*Standard Arrives Late in Venezuela*

VENEZUELA has suddenly emerged as one of the important oil fields of the world.<sup>119</sup> It ranked second to the United States in monthly production in November 1927. In that year it almost doubled its output, and with a total of 64,400,000 barrels edged Mexico out of third place. Now it is racing Russia. Hence the Dutch-Shell and Standard struggle is being carried on in that South American country with vigour and bitterness.

The importance of Venezuelan wells is enhanced by the favourable position of the country. It is close to the Panama Canal, on the short-cut route to the Far East markets, and 100 miles nearer than Tampico, Mexico, to New York and 800 miles nearer London. Venezuelan oil was put to a severe test in 1927 when forced to compete on the United States market with low-priced American oil resulting from over-production in the new fields of west Texas and the Seminole. The Venezuelan product was put down in New York at \$1.10 a barrel, or 20 cents less than Texas crude. Mr. Deterding's organization was first on the ground. British Controlled Oilfields followed. Standard (Ind.) arrived four years later in 1922. Then came the Gulf interests of Andrew Mellon, United States Secretary of the Treasury.<sup>120</sup> Despite this time handicap American companies are now passing the British in output.

Political conditions are similar to those of Mexico in the days of Diaz. General Juan Vicente Gomez, President since 1908, gives the country a dictator's reign in which the rights of labour are restricted and foreign capital is favoured for a consideration. The British drilled into the Gomez regime and grabbed the best oil lands before the Americans realized the importance of Venezuela, just as the Americans had done in the Mexico of Diaz. Like Diaz, however, Senor Gomez has found it expedient to balance the monopolistic power of one foreign group by letting in a second group, in this case American.

Lawless methods of competition, running into violence, are charged against British and Americans.<sup>121</sup> Political graft has a part in obtaining and holding concessions. Much of the land is unsurveyed wilderness, hence disputed titles and bribery. The gushers of the La Rosa-Lagunillas district at Lake Maracaibo are in the state of Zulia, which is relatively inaccessible and far from the capital, Caracas. President Perez Soto of Zulia boasts of his alliance with foreign oil interests. Separation of Zulia from Venezuela is favoured by certain American companies fearing the fall of Gomez.

Petroleum and mineral rights are vested in the Federal Government. This is traditional, dating from colonial days when the Spanish Crown granted land titles but retained the mineral resources. Under the present law the landowner has no vested subsoil rights. Concessions granted by the Government are limited by the hydrocarbons law of 1925 to 40 years. Royalties, from which the Government received \$4,000,000 in 1927, range from 7½ to 11¼ per cent. There is no

corporation tax. Other oil taxes include 10 per cent on production at market value, and small taxes on export, tanker clearance, exploration, and exploitation.

After passing mining laws not entirely satisfactory to foreign capital, the Venezuelan Government in 1922 called in American and British oil men to write a law practically to suit themselves. With only slight changes this foreign draft was enacted and oil capital began to flow into the country as desired. Satisfactory arrangements were made regarding old concessions of foreigners, which had been adversely affected by a regulation of 1920. The 1922 law, rewritten without basic changes in 1925, is praised by the companies as a model for all other Latin American countries.

But foreign companies fear that Venezuela, either under Gomez or his successor, may follow the Mexican lead and take a heavier toll by taxes and restrictive legislation. The abortive student-military rebellions of February and April 1928 increased this foreign fear of a future "radical" regime. Labour problems grow increasingly serious, though the predominantly Indian population has achieved no strong labour organization.

Transport difficulties are the chief immediate obstacle. The present producing area is the Lake Maracaibo basin, covering about 30,000 square miles in the north-western part of the country. Moving sand-bars at the lake outlet to the sea block passage of ocean tankers. Specially constructed lake tankers are required for import of material to the fields and export of crude. Pipe-lines to the coast and extensive lake-channel dredging operations are planned, but for several years the companies expect to depend upon the present method of transport. Lake tankers now building are expected to permit an increase in export, and therefore of production, to about 90,000,000 barrels in 1928. Limited transport necessitates restricting output in all fields of the basin, and caused complete closing of the La Paz-Concepcion wells during most of 1927. Potential production in 1927 was 250 per cent greater than transport capacity. This situation forced American and British companies in that year to enter a short-lived production curtailment agreement in the La Rosa and Lagunillas districts. The competitors are pushing exploration and initial drilling in the race which is extending over practically the entire northern half of the country.

Standard of New Jersey in 1928 obtained control of the Creole Syndicate and has option on or ownership of immense areas in the undeveloped provinces. Into this concern Standard put \$8,000,000 of working capital.

Dutch-Shell acquired ownership in the Mene Grande field of the Maracaibo basin and began small scale production in 1917, through its subsidiary, Venezuelan Oil Concessions. Mene Grande produced 9,000,000 barrels in 1927.

In the period of 1918-20 British Controlled Oilfields, under tutelage of the London Government, bought up as much Venezuelan land as it could. This included a large tract, still undeveloped, in the eastern Orinoco Delta region. Of more importance it acquired the Buchivacoa concession in the Maracaibo district, covering 15,000 square miles. Being essentially a political company without producing experience, British Controlled spent much money without being able to develop this extensive tract. It chose the safer method of permitting Standard to prove and develop the eastern part of the concession for it on a 12½ per cent royalty basis, under careful time and other



restrictions. A better portion of the concession was leased or sold under restrictions to Dutch-Shell. The remaining western part of Buchivacoa was developed slowly and inefficiently by British Controlled. At this same time Anglo-Persian, Dutch-Shell, and Standard were taking up open lands, and Gulf was coming in on a large scale.

While Dutch-Shell dominated production in 1922, its share fell to 53 per cent in 1927. The two American companies took 46 per cent, with Standard leading Gulf. American development in that year was especially rapid. Dutch-Shell subsidiaries, Venezuelan Oil Concessions and Caribbean Petroleum, produced 2,000,000 barrels in November 1926, compared with Standard's 550,000 barrels. A year later when Dutch-Shell ran 3,000,000 barrels, Standard had risen to 2,000,000 and Gulf to 1,500,000 barrels a month.

These three largest producers are restricting expenditures in their Mexican fields and borrowing additional capital for Venezuelan expansion. The Standard subsidiary, Pan-American Petroleum and Transport Company, one of the largest Mexican producers and parent company of Lago Oil and Transport through which Standard operates in Venezuela, borrowed \$7,000,000 late in 1927 for use in Maracaibo. Gulf is building tankers, wharves, and concentrating capital for new drilling. Atlantic Refining in the same year acquired half interest in the Andes Petroleum tract of 4,000,000 acres. California Petroleum and Union Oil of California contracted late in 1927 to spend \$7,000,000 within six years in developing 1,500,000 acres on the Pantepec Oil tract. Anglo-Persian plans extensive developments on its large tract in the State of Falcon, near the Caribbean, where light oil is flowing.

Profits mount despite transport obstacles. Dutch-Shell's subsidiary, Venezuelan Oil Concessions, in 1927 paid a 55% per cent dividend, besides a 15 per cent dividend to its holding company. It earned \$3,400,000 on \$10,000,000 working capital. General Asphalt, a British Trinidad concern selling its Venezuelan output to Dutch-Shell, in the year 1926-27 earned \$2,000,000 on a working capital of \$6,500,000. Trinidad Leaseholds paid a 27½ per cent dividend, besides providing capital for British expansion both in Trinidad and Venezuela. Apex [Trinidad] Oilfields paid an 80 per cent dividend in 1926-27. Standard's subsidiary, Lago,<sup>122</sup> earned in the year 1927 nearly \$8,000,000 on a working capital of \$3,500,000. Shares in some of these British and American operating companies increased in value about 600 per cent from 1924 to 1927.

American success in the production and profits race does not mean, however, that British companies have been driven from their dominant position. Most of the acreage of proven lands is still owned by Dutch-Shell and British Controlled Oilfields. British policy requires that much of this land remain undeveloped until present operating fields are exhausted. Even in some producing fields, the British restrict production more than the transport limitations require. They expect American companies to be as prodigal and short-sighted in Venezuela as in the United States. Under provisions of the petroleum law by which half of land originally explored by a concessionaire must revert to the State, Americans may get some of the present British land if they are on better terms than their competitors with the Government.

Fearing a radical Government may come into power when the dictator Gomez dies, British and

American companies hesitate to invest capital in refineries there. Dutch-Shell, British Controlled, and Standard have only very small “topping” plants in that country. Sir Henri chose the neighbouring Dutch West Indies. His refinery at Willemstadt, Curacao, handles most of his company’s Venezuelan production. Dutch-Shell in 1928 completed another refinery at Oranjestadt, Aruba, which will also treat products of its Mexican Eagle subsidiary. Standard has a terminal at St. Nicolas Bay, Aruba, where its Venezuelan oil is transferred from Maracaibo barges to sea tankers. Standard is manoeuvring for a privileged position with the Caracas Government in connexion with the refinery issue. The Government resents the Deterding policy of refining crude products outside the country, thus enriching the Dutch West Indies at the expense of Venezuela. A 30 per cent surtax is levied on re-imports for domestic consumption from the Indies. Standard must build a refinery somewhere soon. The Government is anxious that this \$10,000,000 to \$20,000,000 investment be retained in Venezuela. Unless Standard can make a satisfactory deal with President Gomez, which will aid it in future conflict with Dutch-Shell over concessions and titles, the Rockefeller company intends to erect its large refinery on the Dutch island of Aruba, near its present terminal. Minister of Interior Arcaya in a memorial to Congress in 1927 indicated the Government will discriminate in favour of companies maintaining terminals and refineries within the country. On this basis Standard hopes to dominate Venezuela in the future as Dutch-Shell has in the past.

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119. Cf., *Tulsa Oil and Gas Journal*, Dec. 29, 1927, pp. 49, 113, 274. Commerce Department, *Commerce Reports*, Dec. 5, 19, 1927, April 9, 1928. *Petroleum Facts and Figures; supra*, pp. 33-35. Unless otherwise credited, statistics in this chapter are from Commerce Department publications, including *Commerce Reports* and *Foreign Trade Notes*, April 1927-April 1928.

120. Cf., *New York Wall Street Journal*, Jan. 6, 1928, for Gulf Oil Company organization.

121. Cf., *London Contemporary Review*, December 1927. *New York Foreign Affairs*, October 1927. *New York Nation*, April 25, 1923, article by Mauritz A. Hallgren.

122. *New York Wall Street Journal*, Nov. 15, 1927, April 18, 1928.

## CHAPTER SEVEN

*Britain Menaces the Panama Canal*

COLOMBIA probably will be the scene of the next international oil explosion. Grave international consequences are threatened by efforts of Anglo-Persian, a British Government company, to get a concession with canal rights flanking the Panaman defences of the United States.

All the elements of danger are there: alleged British Government defiance of the "Monroe Doctrine Corollary," conflict between Standard and British companies, Nature blocking petroleum exploitation, primitive tribes suspicious of alien invasion, labour trouble, "Mexicanized" laws and regulations, disputed land and subsoil titles, foreign financial penetration and diplomatic intervention. On top of this explosive well sits Standard, intending by the grace of the State Department to remain there.

The United States looks to Colombia to take Mexico's place as the source of American petroleum reserves. Following the report of the Coolidge Conservation Commission on the coming shortage in the United States, the interest of Washington and New York in the Republic joining the Panama Canal has rapidly increased. British initial success in getting neighbouring Venezuelan fields intensifies the American drive on Colombia.

No one knows the extent of Colombia's petroleum resources. Apparently they stretch hundreds of miles back through tropical jungle to the Andes. But there is no natural outlet. The Magdalena River, running through the oil country, is too shallow even at its mouth for sea-going tankers. This obstacle for several years retarded subsoil development. Then Standard (N.J.) rushed in where only giant capital can follow.

Roberto De Mares, a French engineer, later naturalized, obtained in 1905 a 50-year concession in the heart of the Carare country. The tract lacked definite boundaries. Standard in 1916 purchased his rights. "The concession was supposed to embrace 3,000,000 acres," according to Standard's publication, *The Lamp*, August 1926: "The fact that the area when actually surveyed, some years later, only contained approximately 1,333,000 acres indicates the state of knowledge as to its size and content. It is safe to say that no accurate surveys of this area ... had previously been possible. ... Roads into the interior and camps were made by literally chopping them out of the tangled forest."

Standard operated through its subsidiaries, Tropical Oil and Andian National Corporation. Tropical started explorations at once. But annual production in the period of 1922-25 was held to about 500,000 barrels. In the latter year a young engineer, Mr. M.M. Stuckey, began for Andian the task of laying 360 miles of pipe-line through the jungle to Mamonal on the coast. In 11 months this feat was accomplished. With eight pumping stations in operation, the line carried 30,000 barrels of crude every 24 hours. In August 1927 a "loop" was completed and daily capacity increased to 50,000 barrels. The company built refineries, factories, harbours, boats, roads, railways, and cities. Within five years Standard had invested \$60,000,000. When the pipe-line was

completed in 1926 production multiplied 15-fold to 6,500,000 barrels. Production for 1927 was 15,000,000 barrels.<sup>123</sup> Tropical early in 1928 had a larger daily output than any other one operating company in South America.

To construct the necessary pipe-line, Standard had acquired in 1923 a special concession from the Government. The company spent the large sum involved in construction only after assuring itself that the Bogota Government would pursue in the future a favourable legislative and administrative policy.

“There could have been no utilization of one of Colombia’s greatest resources upon such a scale, if its potentialities had not been initially recognized by the Colombian Government and its development encouraged,” said *The Lamp* in August 1926: “Faith in the integrity of Colombian legislative and judicial enactment was the basis of the huge investments involved, and the observances of the agreements affecting alike the rights of the corporations and the Government and people of Colombia was necessary to the culmination of both plans [wells and pipe-lines]. ... Contributory to this development with its accompanying constructions of new railroads and highways will be the opening up to usefulness of an area as large as many European principalities and much more bounteous in response to human effort.”

Other companies, American and British, have gone into the country. But lack of transport facilities prevents commercial production outside of Standard’s De Mares field.<sup>124</sup> Among interested American corporations are Gulf (Mellon), Transcontinental, Texas, Magdalena Syndicate, Colombia Syndicate, Leonard, Bogota Syndicate, and Standard of California. The latter’s holdings are in addition to the Standard of New Jersey Tropical concession.

The chief conflict between American and British companies centres in and around the Barco concession area, far back in the interior against the Venezuelan frontier. General Virgilio Barco at the turn of this century happened to command Conservative troops which defeated the rebel army in Colombia’s civil war. He sought reward. In 1905 he received it in the form of 1,250,000 acres of jungle land. The General lacked capital to develop his domain. In 1916 he sold it to an American-British syndicate. The Americans held majority interest. Dutch-Shell was indirectly represented. But this syndicate could not solve the transport problem. There were two possible outlets, both expensive. One lay over the Andes; the other across the Venezuelan frontier to Lake Maracaibo and the sea. The first was rejected by engineers as too difficult and costly. The alternative route was blocked by a Colombian-Venezuelan boundary dispute. When this controversy was settled the syndicate was unable to make satisfactory pipe-line arrangements with the Caracas Government. Then the issue of titles arose to plague the syndicate. Colombian titles are described by petroleum lawyers as “the most involved titles of any oil country in the world.” The Supreme Court decided the syndicate’s titles were invalid. Too many other persons, native and foreign, were interested in the Barco region.

As a result of these complications in 1926 Mr. Henry L. Doherty, chief American holder in the syndicate, arranged for the Gulf interests to obtain control through the Colombian Petroleum



Corporation. Gulf has 75 per cent interest in this new company. The Caribbean Syndicate, with British and American-Doherty capital, retains 25 per cent.

Under Mellon-Gulf management the old barriers raised by the Colombian and Venezuelan Governments suddenly seemed to disappear. Mr. Doherty had tried for years to make headway with the Caracas Government without success. Within less than two months after the family of the United States Secretary of the Treasury acquired control of the Barco fields, Venezuela agreed to permit a pipe-line across its territory. Now there are intimations that the Colombian Supreme Court may reverse itself, making the concession titles valid when expediency permits.

Out of this involved situation Dutch-Shell emerges. The Deterding trust is connected with Caribbean Syndicate, holding minority interest in the Barco tract. Through Equatorial Oil, Dutch-Shell is getting another foothold in that region. Other British companies there include Lobitos and Coastal Oilfields.

But the most active is the British Government company, Anglo-Persian. An Anglo-Persian exploration party recently marched with a miniature army of mercenaries into the district of an hostile Indian tribe. After a battle the British retreated. Whether they got the geological data they sought is not known. But, it is reported, in their retreat they spread the news that they were American oil men. Since then it is not safe for a Yankee to venture within that tribe's territory. Such amenities of competition, however, are not a British monopoly. Dutch-Shell and Anglo-Persian men have worse things to say about the Americans and the Washington Government. Lord Cowdray of Mexican fame was prevented by the State Department from getting a Colombia concession, according to the British.

"The British have also claimed that not long ago after a corporation of British capitalists had spent several millions on property in Colombia, the United States Government intervened and compelled the abrogation of the concessions on the ground that it was contrary to the Monroe Doctrine," Dr. John Ise recorded in 1926.<sup>125</sup>

But that incident is now overshadowed by a similar controversy, which is apt to influence Anglo-American relations in that country for many years.

Henry Irving Frederick Yates landed in Colombia early in 1927. He began at once to make history. This gentleman is a Briton by nationality, a colonel by title, an agent of the British Government's Anglo-Persian Oil Company by vocation. He arrived with a diplomatic passport, and the prestige and immunity which that gives. His way had been prepared by the British Legation at Bogota. He negotiated with Colombian officials. The daring Colonel proposed that the Colombian Government grant to the British Government company a 50-year monopoly concession for the vast area of national lands adjoining Panama and dominating the Canal approaches.<sup>126</sup> Minister of Industry Montalvo, the President, and Cabinet agreed. But certain Americans, whose business it is to know what foreign agents do in the Panama Canal region, promptly learned of the secret agreement.

What was the United States Government to do? Ordinarily its formal protest under the Monroe Doctrine would be quick and sharp. But this situation was not so simple. In the process of

protecting that same Monroe Doctrine and its “Coolidge Corollary,” the United States at that time was threatening Mexico, allegedly violating Panama’s sovereignty with a military treaty rejected by the National Assembly, and “pacifying” Nicaragua with battleships and marines.<sup>127</sup> Washington’s exercise of these “duties” had been “misunderstood” throughout Latin America. Anti-Yankee sentiment was running high, especially in the South American Republic next to the Panama Canal. President Coolidge had justified his Nicaraguan intervention by a declaration of “special interests.” Colombians were asking: “Will our country be next?” Colombian leaders were sending protests to President Mendez, warning against American financial and economic penetration as the first step in the invasion of their country’s sovereignty.<sup>128</sup> Clearly it was no time for the State Department to protest to Colombia, even under the Monroe Doctrine.

Open opposition to the British Government’s scheme to acquire territory flanking the Panama Canal was left, therefore, to certain Colombians whose own interests were also jeopardized. They protested on the ground that the Colombian Constitution and laws prohibited a foreign government from acquiring, directly or indirectly, such rights.

Popular sentiment soon forced the Bogota Government, led by the British Colonel, to a strategic retreat. The Colonel belatedly chose a line of action which such a strategist might have been expected to hit upon at the beginning of his campaign. He decided he was not an agent of the British Government company after all. He became plain Henry Irving Frederick Yates. He agreed that this was no sort of concession to be given to a foreign government. But that it should be given to Mr. Yates as an individual obviously was an entirely different matter. The Bogota Government was quick to discern the reason of this logic. It thought, however, that others might be less logical. In order to meet any possible objections it reduced the concession area to 6,000,000 acres—along the Panaman border.

But the objections continued. The strategist decided to leave the country. He departed as plain Mr. Yates, but allegedly with a diplomatic passport and with his records and luggage under immunity and seal of the British Government. The British Minister continues negotiations for the concession. Colombian opposition to the proposed Yates-Montalvo concession is led by Dr. Laureno Gomez, former Minister of Public Works. “*The reserve of Uraba, which Law 72 established for the Republic of Colombia and incorporated in its patrimony, becomes [under the contract] a reserve of the British Government or of its oil operators,*” according to an “*exposé*” by Dr. Gomez in the *Bogota El Tiempo*, October 18, 1927: “*There is something offensive to Colombian good sense in the manner in which Yates wanted to get the concession for the new canal.*”

The text of the amended contract is long and involved, many of the major points being obscured in technicalities. Extracts given below are from the English text appearing in *O’Shaughnessy’s South American Oil Reports*, December 1927, which officials consider reliable. The Opposition argument is inserted in parentheses after clauses of the contract:

“Clause 1. The Government, exercising the authority vested in it by Article 4, paragraph B, of Law 72 of 1925, undertakes the official exploitation of the national petroleum reserves, and for such

purpose it charges exclusively the Administrator [i.e., Henry Irving Frederick Yates] with the complete geological examination, exploration and exploitation of the reserved zone comprised within the following boundaries: ..." [Author's summary: On the north the entire Colombian-Panama frontier, and the shore of the Gulf of Uraba and Caribbean to Punta Arboletes; thence south to the headwaters of the Rio Sinu; west to the Rio Atrato; south along the Rio Atrato to the Rio Bojaya, and south-west to the Pacific; thence northward up the Pacific coast to Panama.]

(Gomez's criticism: "It was proposed to sustain in Law 72 of 1925, which prohibits the Government from 'celebrating any contract for the exploitation of hydrocarbons' in the Uraba region, that the Government should not contract within these same limits of prohibition, an Immeasurable concession.")

"Clause 2. The Administrator obligates himself to represent the Government in all the transactions which it may be necessary to make for the development of the present contract. ..."

(Gomez's criticism: "In this, which is essentially a concession contract, the absurdity is solemnized in that the one representing the side opposite or opposed to the Government may be at the same time the representative of the Government.")

"Clause 6. The capital invested in the expenses necessary for the installations and operations comprised in this contract shall be furnished by the Administrator, and shall be amortized in the manner stipulated in the seventh clause. ..."

"Clause 7. The Government shall retain for itself 20 per cent of the gross products which the Administrator may extract from the deposits or pools. It shall give the Administrator another 20 per cent of such products in payment for his services of management and administration, and it sets aside the remaining 60 per cent for the expenses which may be incurred by the operation of the enterprise and the amortization of the capital invested therein. The Administrator may freely invest the last mentioned 60 units in the expenses caused by the operation of the enterprise and by the amortization of the capital. In case the Administrator succeeds in securing the normal operation of the enterprise and the corresponding amortization of the capital with less than the 60 units to which this clause refers, he may, for himself and as a greater remuneration, retain the balance of such 60 units which may remain. ..." [Author's summary: If gross production exceeds 1,000,000 barrels monthly, the Government's share rises gradually to 25 per cent.]

(Gomez's criticism: "This clause does nothing except to annul and to make ridiculous the existing law in order to favor Colonel Yates. The 20 per cent of participation to the Government is established as a minimum in Law 120. This contract only seeks to reduce that participation of the Government. According to the law cited, in addition to the 20 per cent, any contractor in that region must pay the ordinary imposts. These are forgiven Yates. He will not pay duty in the custom house. It is known that the Tropical [Standard Oil] has paid into the public treasury a sum in excess of \$2,500,000 on this account. Yates will not pay either the territorial tax of 10 cents per hectare, which, on the 2,500,000 hectares for 50 years, amounts to \$12,500,000. He will be relieved from paying in the same way the territorial impost of two pesos per hectare in the zones that surround the wells and along the pipe-lines. That amount cannot be calculated in advance, but it can be very large. And the petroleum utilized in the exploration and exploitation, which also represents a considerable sum since it is known that the Tropical has occasionally utilized in these necessities up to 50 per cent, is for him also excluded. The 20 per cent of the Government, then, stands considerably reduced.")

"Clause 8. ... Whenever the monthly production of petroleum reaches 1,000,000 barrels, the

Administrator shall establish a refinery in Colombia, in order to refine therein, at least, the crude petroleum sufficient to satisfy the gasoline requirements of the country. The Administrator may not sell, for internal consumption, in the places of exploitation or in his refinery, the crude petroleum and the refined products thereof, at prices exceeding those at which this product may be had in London or New York, at the option of the Government. ...

“Clause 13. ... Whenever, for the purposes of the official exploitation to which this contract refers, it is necessary to establish telephonic, telegraphic or radio-telegraphic communications, or to construct railways or other means of communication of analogous or of greater importance, they may be constructed by virtue of a separate contract, the cost thereof to be charged by the Administrator to the 60 per cent treated in the seventh clause hereof. The Administrator shall also have the right to use a zone 60 metres in width on the lands belonging to the Nation, as a right of way for the petroleum pipe-lines, casing and means of transportation, and to occupy the surface thereof which may be necessary for the construction; and he may without cost, and exclusively, in that which may be necessary for the explorations and exploitations, employ the hydraulic and electric power and the construction and the combustible materials to be found on the nationally-owned lands situated within the bounds specified in the first clause of this contract. ...”

(Gomez’s criticism: “This clause is of exceptional gravity. The difference attracts attention as between that established when they treat of constructing pipe-lines, ports and docks which require authorization on the part of the Government and ‘the construction of telephones, telegraphs, railroads, or other similar ways of transportation of major importance’ in which it is not established that authorization is necessary. The fact of enumerating them separately implies that this authorization is not previously necessary because it is considered to be conceded by the contract itself. With regard to these works it says ‘that they will be able to be done by separate contract.’ Here Clause 2 commences to function. The contractor [Yates] ‘representative of the Government for all the operations which should be carried out in the development of this contract,’ will be able to make the separate contract in the name of the Government with the entity that may suit him, for the construction of railroads or the opening of the inter-oceanic canal. And he will be able to do it behind the back and without consent of the Government, for such a deduction is reached from the literal tenor of Clauses 13 and 2. There is something offensive to Colombian good sense in the manner in which Yates wanted to get the concession for the new canal. The contractor [Yates] ‘is enabled to contract separately for the construction of the canal,’ without the necessity of a permit and without advice to the Government.”)

“Clause 15. ... The Administrator ... submits to the laws and jurisdiction of the tribunals of Colombia, as provided in Article 42 of the fiscal code, which reads: ‘Contracts made in Colombia with foreign persons are subject to Colombian law and to the jurisdiction of the national tribunals. In all contracts of this nature, it must be set forth that the foreigner renounces the right of making diplomatic claims in that which pertains to the duties and rights arising from the contract, saving the case of a denial of justice.’ ...

“Clause 16. If, for the execution of this contract, it should be necessary for the Administrator to organize any corporation or corporations, company or companies, he may do so, always provided that they be of Colombian nationality and domicile, and that no interest whatsoever be held therein by any government other than the Government of the Republic of Colombia. The Administrator shall present to the Government, for its approval, the articles of incorporation and the instruments



of amendment of such companies, and the Government give them or deny them approval, or necessary corrections, within a term of 60 days. The Administrator may not transfer the rights deriving from this contract to foreign governments or entities depending therefrom, nor may he admit them as partners, stockholders or co-tenants, under penalty of the forfeiture of this contract *ipso facto*. ...”

(Gomez’s criticism: “What is meant by this prohibition when it is known that Colonel Yates is the agent of the Anglo-Persian Oil Company, an official concern controlled by the British Government which names directly its functionaries and administrators? As to the prohibition against the transfer of shares without the consent of the Government, with regard to which the Honourable Minister [Montalvo] attaches so much glory, it is nothing more than supreme simplicity and an utter failure to recognize the rules and universal methods under which great companies are managed. Perhaps the Honourable Minister is ignorant of the current and daily use of the institution known as a ‘Voting Trust,’ by means of which the control of any company is changed without the necessity of transferring shares and which is done in a manner admitted and accepted in the commercial world.”)

“Clause 17. The present contract shall endure for a term of 50 years to be computed from the date of its signature.” (Gomez’s criticism: “No one, whether he be a national or a foreigner, can, according to our laws, obtain a petroleum contract for more than 20 years.”)

“Clause 18. The obligations of the Administrator shall remain in suspense should any fortuitous event or case of *force majeure* arise. Such suspension shall endure all such time as the impediment lasts and three months thereafter. ...” [Author’s note: This would cover a revolution, or occupation of the territory by the United States in some possible Panama Canal defence contingency. Former Secretary of State Robert Lansing used this *force majeure* argument in defending the Sinclair Oil Company case when the Russian Government cancelled the Saghalin concession on grounds of non-exploitation. Mr. Lansing argued that Japanese military occupation of the territory prevented Sinclair from complying with the contract terms.]

“Clause 22. During the life of this contract the Government shall not enter into any other contract with any person other than the Administrator, for the exploration and exploitation of deposits or pools of hydrocarbons in the zone to which Clause 1 refers. ...

“Clause 24. The Government may at any time, with the approval of Congress, directly undertake the exploitation placed in charge of the Administrator by this contract, paying the latter or whomsoever may represent his interests: a. The capital,—with legal interest,—which can be proved to have been invested for the account of the Government by reason of this contract, and which have not been covered by the surplus treated in Clause 7, after deducting the expenses of administration and operation of the enterprise in accordance with the terms of this contract. ...”

(Gomez’s criticism: “We now arrive at Clause 24, vertex, crown and climax of the conflicts between laws and the absurdities of this contract. The Government, says the clause, will be enabled to take over the concession at any time whatever, but it will have to pay first the capital invested and not amortized—with that illusory and arbitrary amortization which was previously spoken of—and then the indemnity for unearned possible profits fixed by arbiters. By indicating impossible conditions they have managed to annul the faculty of the Government for recovering the concession or of declaring its cancellation.”)

The Bogota Government’s act in negotiating the Yates-Montalvo concession and attempt to put

the contract into effect over the protest of Congress is tremendously significant. Perhaps no more daring gesture against the United States' assumed authority over the Caribbean has ever been made by a South American government. What is behind this, and where will it lead? That is what Washington is wondering.

Is this Colombia's revenge for the alleged theft of her Panaman province by the United States in 1903? Washington knows that wound has not healed, despite American payment of the monetary claim. But Washington has not supposed that the Bogota Government seeks retaliation, if such is the case. Senator William E. Borah, now chairman of the Foreign Relations Committee, in his unsuccessful opposition to the \$25,000,000 payment treaty,<sup>129</sup> characterized that settlement as an effort at "purchasing the friendship of Colombia." In his Senate speech of April 14, 1921, Mr. Borah pointed out:

"Colombia, as we all know, has always assumed to treat any such suggestion as an insult. ... For 17 years this controversy has been going on. It was initiated in the claim upon the part of Colombia that the United States Government had violated international law, that its President usurping power had oppressed a helpless people or a weaker people, and that we had aided and abetted in the tearing asunder of the Colombian Republic." The Senator did not quote the famous explanations made in 1911 by Mr. Roosevelt, which are so frequently repeated in Bogota—"I took the Canal Zone and let the Congress debate, and, while the debate goes on, the Canal does also. ... I was prepared, if necessary, to submit to Congress a recommendation that we should proceed with the work in spite of Colombia's opposition."<sup>130</sup> It was freely charged that oil interests were partly responsible for the Harding Administration putting through the payment treaty.<sup>131</sup>

Perhaps the Colombian Government's share in formulating the Yates contract can be understood, but what about the British Government? This is not a question which Washington officials discuss before the public. Assuming that some responsible officials in London see the international menace of their Government's ownership of Anglo-Persian, perhaps they were not originally aware of that company's clumsy and provocative acts in Colombia. If that is the explanation, why does the British Legation in Bogota continue its efforts to get the concession in Mr. Yates's name? Admitting—what no one believes—that the British Government and Anglo-Persian have no further stake in the concession, what gain to Mr. Yates or any British citizen can compensate for the cost the London Government must pay in international distrust? These are some of Washington's unanswered questions.

These questions are barbed by reports of some American oil men to Washington that their survey showed no petroleum in the concession area—which may or may not prove true. They believe the concession unimportant to any British company—if oil is the only motive.

The American judgment that there is little or no oil in the proposed British concession area south of the Panaman border coincides with the American judgment that there is no gold in the British "gold" concession between the Colombian border and the Panama Canal. The Panama Corporation, a British syndicate promoted by the Earl of Cavan and Sir Alfred Mond, in 1925 obtained from the Panaman Government a 10-year monopoly gold concession.<sup>132</sup> Mr. Richard O.

Marsh, explorer and discoverer of the “white Indians,” filed charges with the State Department against Great Britain. Mr. Marsh alleged that the British Government through this concession obtained important naval bases in Panama, the right to police territory near the Canal and exclusive rights to the potential Panaman rubber desired by Americans to block British world rubber monopoly.<sup>133</sup> Anti-British sentiment was revived in the United States as a result of these charges and sensational press stories.

The Senate passed a Borah resolution “directing the Secretary of War to advise the Senate of all facts and circumstances relative to concessions secured by the British Government in the Republic of Panama.”<sup>134</sup> Investigation failed to substantiate the extreme charges. The concession covers 1,150 square miles in Veraguas province, the El Remance mines in that province and the Darien tract of 3,400 square miles in south Panama. The corporation has exclusive rights for 10 years to prospect for gold, and thereafter to work its mines as perpetual owner. All mines within the area to which it establishes claim and actually operates are tax-exempt. The corporation has use of national communications and waterways. The Panaman Government receives a two per cent royalty of gross receipts from mines after one year of operation. The area covers harbours but no major ports. Concession lands are in no case closer to the Canal than 100 miles. Though the military guard is paid by the corporation it is “appointed” by the Government. There are other Panaman lands as well adapted to rubber cultivation. The British Government has no apparent holding in the company.

There remain, however, several questions concerning this concession which trouble some Washington officials. First, there is believed to be not sufficient gold in that region to explain under ordinary circumstances the organization of a \$10,000,000 corporation. Secondly, the concession promoters are men who are, or have been, British Government officials. Sir Alfred Mond, former Cabinet Minister, is head of the English Chemical Trust. Mr. Andrew Percy Bennett is former British Minister to Costa Rica, Venezuela and Panama. But the most important person, from the American point of view, is the chairman, Mr. Duncan Elliot Alves. Mr. Alves will be remembered as head of British Controlled Oilfields, organized under British Government control for the avowed purpose of obtaining Latin America’s resources to be held for exclusive British Government service in time of need. Mr. Marsh’s idea that the London Government could establish naval bases in this concession area near the Panama Canal, without being observed and stopped by the United States, is naive. Military and naval men think about all the British Government can obtain from this concession, if it so desires, is a very thorough knowledge of this rather inaccessible region, which would be of value in event of war between the two countries.

Mr. Alves’s record with the British Controlled Oilfields and his association with this extensive and apparently valueless tract near the Panama Canal, however, increases the mystery in Washington’s mind. That mystery deepens when a British Government company attempts to get possession of another large neighbouring territory across the border in Colombia.

The United States Government is especially sensitive to any act in Panama or the Canal region, which suggests that a foreign Power is interested. Washington has refused repeatedly to permit

foreign commercial aircraft corporations to operate in the Canal Zone.<sup>135</sup> Establishment of air bases by Colonel Yates, as permitted by the proposed Colombian concession, would disturb greatly the American military and naval strategists. Washington's suspicion regarding holdings of foreign Powers extends a long distance from the Panama Canal itself. When a Japanese syndicate was reported seeking to acquire the Magdalena concession in Mexico, the State Department announced it would view with grave concern the "actual or potential possession of a harbour or any other place" by any non-American government in an area which might threaten the defences and communications of the United States. This was the attitude of the Senate in the Lodge resolution.<sup>136</sup> Transfer of the Magdalena concession to the Japanese company, according to the Department, "would be quite certain to be interpreted in some quarters in a manner to cause a great outcry and such a result would be so obvious a cause of regret to the Government of the United States that it would appear unnecessary further to comment on the disposition of the Federal Government."

Yates's proposed concession in Colombia would give to the British hundreds of miles nearer the Panama Canal than Magdalena Bay, "the actual and potential possession of a harbour or any other place," which Washington declares a matter of grave concern.

The merest hint of such a British interoceanic canal as permitted by the Yates concession is considered a threat to basic United States commercial and naval policies. Under no conceivable circumstances will Washington permit construction of any canal connecting the Caribbean and Pacific which is not under absolute United States control. This fixed policy resulted in United States acquisition by the Wilson Administration of exclusive perpetual rights to build such a Nicaraguan canal. The amount paid was \$3,000,000. That action was taken because other foreign Powers desired canal rights. Not until several years later was it apparent that the United States could well use for commercial and naval purposes two canals. Protection of these Nicaraguan canal rights, and supplemental naval base rights at Corn Islands and Fonseca Bay, was given by President Coolidge in his special message to Congress as a major reason for military intervention in that country in 1927.<sup>137</sup> Congress in 1928 considered bills for survey and immediate construction of such a canal.<sup>138</sup>

Political conditions in Panama also partly explain Washington's sensitiveness to the Yates contract. While the Colonel and the British Minister in Bogota were trying to obtain territory flanking the Panama Canal, the Panamans themselves were protesting the United States' claim to complete sovereignty over the Canal Zone. The Panamans were not only disputing this delicate issue in secret with Washington, they were challenging the United States' claims before the League of Nations. Senor Morales, Panaman Minister of Finance and Geneva delegate, said in an address to the League Assembly:

"It is, however, a serious question in reply to which no compromise is possible between the two Governments, because it cannot be settled unless one of the participants changes its view wholly and completely and adopts the other's views. The United States maintains that Panama has transferred its right of sovereignty over the Canal Zone, while Panama maintains that it has only granted such



rights and authority as they would possess if they were, in fact, the sovereign Power, for the specific purpose of constructing, maintaining, operating, sanitating, and protecting the Canal.” 139

Refusal of the Panaman Assembly to ratify the United States treaty, and the prospect of continuance indefinitely of that dispute, heightens Washington’s concern over complications or possible foreign intervention in the Canal region as implied in the Yates contract.

This United States policy is well known to the London Foreign Office. Therefore the British expected Washington to protest to the Colombian Government against the concession. In Bogota it was predicted that the United States would protest, and that this would induce the Colombian Congress to ratify the British contract to spite the United States. But Washington for once postponed an opportunity to flaunt its hated interpretation of the Monroe Doctrine in the face of a Caribbean country. Rumours that such a protest had been made were sufficient to start an indignant anti-Yankee press campaign in Bogota. This was deflated by official denials.

Yates-Montalvo strategy was thus forced back to the local issue. Native opposition from the beginning had been aroused chiefly by the Government’s usurpation of power.

The President and Cabinet had tried to give away a right of which Congress alone could legally dispose. There was no way out then for the British and the Government except to put through Congress legislation empowering the Executive to grant such concessions. A measure known as the Sanchez bill was written by Minister Montalvo, and introduced in Congress in the summer of 1927. Its passage was blocked.

The British then fell into the trap set for, but avoided by, Washington. Downing Street intervened. This incident was described by the Bogota press, according to an American agency dispatch of October 23, as follows:

“*El Tiempo* announces that the British Minister sent a note to the Government demanding extension of the session of Congress while discussion of indemnification of \$12,000,000 for expropriation of a British company’s mines of Supia and Marmato is pending, assuring that the Foreign Office would compromise for \$6,000,000 provided the Yates contract is approved. *El Tiempo* adds the Foreign Minister read the British note in secret session of the Senate, where it caused great indignation, the Senate deciding to protest it and to reject the settlement, which will be arranged by the Government administratively.”

From the American point of view Great Britain’s resort to strong-arm methods and the consequent anti-British reaction in Colombia has probably prevented for many months any Congressional action on the contract. The British and the Bogota Government, unwilling to admit defeat, introduced in place of the Sanchez measure an Emergency Petroleum bill with a similar rider empowering the Executive to dispose of national lands to concessionaires. This rider was defeated by Congress.

Under the amended Emergency Petroleum law (Law No. 84), the Yates contract must be suspended pending its acceptance by Congress or passage of a new law empowering the Executive

to grant the concession. But the new law apparently permits Yates to begin exploration whenever the Executive desires. The law, as passed on November 17, 1927, and promulgated five days later, provides:

“Article 3. Until a new law, amending present legislation on hydrocarbons, shall be in effect, the proposals and contracts referring to the hydrocarbons treated by Article 1 hereof, that are pending in the office of the Minister of Industries, or of the Council of Ministers, the Council of State, the Finance Board, or the Congress (in the case of the last mentioned, if not specifically approved by it), shall be held in suspense; however, exploration may be carried out under the conditions that the Government may stipulate.”

While Washington was worrying over international implications of the British concession and provisions of the Sanchez bill making the contract effective, American oil interests were concerned with restrictive provisions of the bill affecting them and their industry. They were convinced that no oil was to be found in the Yates region and were mildly interested in alleged political and naval intrigues of the British Government. But they were ready to fight against the Colombian Government's new policy of “Mexicanization.”

This nationalization policy was embodied in the Sanchez bill as prepared by Minister Montalvo. Though debate on the bill was not completed when the 1927 Congress adjourned, necessitating passage of a less drastic Emergency Petroleum law, the Government is expected to try to enact the Sanchez bill in 1928. The bill and the policy behind it are criticized by American oil interests and some Colombians as unconstitutional and confiscatory.

Under the proposed law the Government Executive could challenge titles effectively, withhold drilling permits, supervise exploitation, exact a 20 per cent production royalty, and restrict to 15,000 hectares a company's holdings in any one province—excepting only so-called national companies such as the projected British monopoly concession organization, which might exploit 100,000 hectares in each zone. The Executive, instead of Congress, would dispose of national lands. A translation of the proposed Sanchez law may be found in the October 1927 issue of *O'Shaughnessy's South American Oil Reports*, from which the following excerpts are taken:

“Article 1. The petroleum industry in Colombia is national, and therefore is declared to be a public utility. Its national character manifests itself not only by the administration, direct or delegated, of the exploration and exploitation of oil lands, but also through the intervention and the paramount inspection that inheres to the Government in every act which has relation to such industry.

“Article 2. Explorations and exploitations of oil lands with regard to which the previous article treats may not be made without the previous permission of the national Government, whether the lands in question be the property of the national or not.

“Article 3. For explorations on national lands the permit shall be evidenced by contract entered into for that purpose.

“Article 4. For explorations in privately-owned lands, the basic title to which antedates October 18, 1873, the permit shall be given in writing and shall be issued against the undertaking on the part of

the land-owner to furnish to the Government all data concerning the land to be explored, properly documented, and of the progress and results of the explorations. ...

“Article 5. The permit for exploitations in national lands shall be evidenced by the contract to be entered into for that purpose in accordance with the laws governing the matter, provided that it has been approved by the Council of Ministers, the Council of State, and the Treasury Board.

“Article 6. The Government is prohibited from making contracts for petroleum exploitation with foreign individuals or foreign companies except in the cases provided for in Article 11 of the National Constitution.

“Article 7. For exploitations in privately-owned lands, whose basic title antedates October 18, 1873, the Government may (i.e., in its discretion) grant a permit, provided that there be delivered to the Government a copy of the respective title of ownership ... and either the contract which has been entered into ... or the program of exploitation. ...

“Article 8. In the contracts which the owners of lands with titles anterior to October 18, 1873, make with private parties for petroleum exploitations, the contracting parties shall recognize in favour of the State 20 per cent of the gross products of such exploitations, which the State shall collect in such form as the State may deem most convenient for the public interests. ...

“Article 10. The Government shall proceed as soon as possible to build, for account of the nation, a refinery to treat the petroleum which belongs to it in the exploitations of the Tropical Oil Company derived from its royalty therein, to which it is entitled in accordance with the contract now in force with said company. ...

“Article 13. Application for explorations and exploitations pending in the Ministry of Industries are declared in suspense while the Government is acquiring an exact knowledge of the petroleum wealth of the country.

“Article 14. Applications for lease contracts now pending even though they have been accepted by the Ministry do not constitute any vested rights in the applicants. ...

“Article 16. The Government is empowered to form companies for the development of national lands and to engage in explorations for petroleum, but only with native or naturalized citizens or with domestic corporations or foreign corporations nationalized in accordance with the laws of the Republic. ...

“Article 18. Lands wherein Government exploitations are to be established, whether by administration or by delegation to one or more companies wherein the State is a stockholder, may have a continuous extension up to 100,000 hectares in each exploitation zone. ...

“Article 20. Contracts of joint venture (*los contractos de compania*), which the Government enters into pursuant to the present law, require for their validity the approval of the Council of Ministers, of His Excellency the President of the Republic, and of the Treasury Board, in addition to the revision which the Council of State shall make with reference to the legality of the contract. ...

“Article 22. Only in those cases of exploitation delegated to companies wherein the State is a stockholder, may an individual or corporation acquire exploitation rights in lots larger than 15,000 hectares in a single department or *intendencia*. In all other cases, no lease contracts covering extensions greater than 15,000 hectares in a single department or *intendencia* shall be recognized nor shall transfers tending to accumulate in one single person or corporation greater extensions be permitted. ...”

When the Sanchez measure was postponed by Congress for future debate in 1928, the emergency bill was introduced and became a law. The latter incorporated the Government's nationalization policy but did not carry details so far as the original bill. This law (No. 84), as translated by the State Department, February 15, 1928, provides:

“Article 1. The Nation reserves ownership of and the right privately to exploit the accumulations of hydrocarbons which may exist in public lands, or those owned by it under any title. This provision shall also be applied to such hydrocarbons as may exist in lands upon which have been granted concessions, leases or permits for exploration or exploitation, and which, for any reason, shall have reentered or shall re-enter the possession of the Nation. Note: In event that the Government should avail of the legal authorizations now in effect, for private exploitation of the petroliferous accumulations referred to by this Article, it shall submit the respective contracts to the approval of Congress.”

Oil companies are required by Article 2 to submit to the Minister of Industries within six months “the documents evidencing ownership of the lands in which such exploitation is being carried out, and the lease contracts, or contracts of any other sort, entered into with the owners of such lands, should the owners themselves not be carrying on the exploration.” The penalty for non-compliance is not forfeiture but a fine of 200 to 1,000 pesos for each month of delay.

Executive Regulation No. 150 of January 28, 1928, putting Law No. 84 in operation, is even more severe. It provides that foreign owners must file proof of title before March 5, 1928. As a penalty for non-compliance the Government is empowered to seize property and equipment and cancel drilling permits. Though the American companies refuse to comply, the Minister of Interior in May 1928 had not yet seized properties. Before the time limit for filing expired, the companies entered suit in the Supreme Court challenging the law and regulation. Their argument is stated by *O'Shaughnessy's South American Oil Reports*, March 1928, as follows:

“This regulation requires that lawful owners of oil rights on lands, titles to which antedate October 1873, submit before March 5, 1928, proof of title (with surveyor's maps, geological reports, etc., etc.), in form and substance satisfactory to the Minister of Industries in order to secure necessary drilling permit. If American oil companies fail to comply with this illegal and arbitrary regulation, the Minister of Industries is authorized to declare their oil rights to be the property of the Nation, to stop work and seize their maps, geological data, drilling equipment, buildings, etc., and to fine or even imprison their agents.

“Any such action by the Minister, of course, would be confiscation of the property of foreigners without due process of law, and without compensation. The theoretical remedy open to American oil companies to contest the Minister's right to such procedure is in fact no remedy at all, as it would require from three to six years to secure an adjudication of the issue, and in the meantime, American oil companies would have been deprived of their property and would have suffered irreparable loss. “Perhaps the most objectionable provision in the Regulation No. 150, from a practical operating standpoint, is the right conferred on the Minister of Industries to permit or deny in his legally



uncontrolled discretion, American oil companies to drill lands on which they own the oil rights. It is by this device, borrowed from Mexico, that the Minister hopes to 'supremely control' the oil development of Colombia. The parallel of Colombia's attitude with that of Mexico is inescapable. The attempt is to declare all privately-owned oil rights the property of the Nation, and to force lawful owners to agree to conditions of development different and less advantageous to them than the laws, under which such property was acquired, accorded to them."

Another provision of Law No. 84 puts the Government into the refining business. This is aimed directly at Standard, which operates at Barranca-Bermeja the only refinery in the country. That installation handles 6,000 barrels a day. It is a small plant, designed to meet local needs.

Under the De Mares concession contract the Government receives from Standard a 10 per cent royalty, to be paid either in crude oil or in cash. Hitherto the Government has been satisfied with money payments, receiving about \$1,500,000 in 1927. Under the new law the Bogota Cabinet proposes to take the Standard royalty in oil, to be refined in its own plant. This refinery and its product will compete with the Rockefeller monopoly. Because of tax and other handicaps the company cannot compete successfully with a State product, at least for a while.

It is argued, however, that the Government through graft and lack of experience will fail in business. This conviction did not prevent Standard from trying to eliminate the refinery provision from the bill. Standard pointed out that even a small refinery would cost not less than \$2,500,000, which the impoverished Bogota Government could not afford to lose. The Government is willing to take the chance, apparently determined to obtain the profit now made by Standard on Government royalty oil and to force the American plant out of business.

In embarking on this manufacturing venture, the Government was also empowered in 1927 to take over the Cartagena harbour concession. That concession was purchased from British interests by Standard in 1921 and would not ordinarily expire until 1944. The company is constructing at La Machina, the Cartagena wharf, a storage tank of 80,000 gallons capacity. This tank will not be seized under the new law.

Taxes levied on the two Standard companies were also in 1927 increased from three to eight per cent.

In retaliation against "Mexicanization" of Colombian oil, American companies have decided upon a quasi-boycott of Colombia. Standard of New Jersey, with its large investments sunk in the Tropical wells, Andian pipe-lines and tanks, of course, will carry on. But other subsidiaries, with undeveloped lands, will resort to a watchful waiting policy. Gulf interests will delay exploitation of the disputed Barco concession and the trans-Venezuelan pipe-line. The Texas Company options on tracts aggregating 2,000,000 acres will not be taken up at once. These tactics are based on the premise that Colombia is entirely dependent upon large-scale capital for development of its subsoil riches. With Russian production mounting rapidly, new gushers flowing in the Mosul fields and a "friendly" Government in the neighbouring competing fields of Venezuela, Colombia is not in a position to drive a hard bargain with the American companies, according to the latter. Whether the British will join with the Americans in a temporary united front to enforce such a boycott is

another question. Attempted Anglo-American co-operation in boycotting or sabotaging Russian and Mexican oil has not been such as to alarm the Colombians.

The Washington Government in handling political aspects of the Colombian problem is following a similar policy. Having succeeded through action of the Colombian Congress in blocking the Yates contract temporarily, Washington feels it can afford to act less abruptly in dealing with Colombia's restrictive oil legislation than it did in protesting Mexican laws—unless, of course, it is faced with an “overt act” of property seizure. A more propitious moment for protest may come after the present cycle of anti-Yankee sentiment in Latin America occasioned by the Nicaraguan and Panaman disputes, it is hoped.

Washington, in the main, counts on the American economic and financial hold upon Colombia to check that country's tendency to “go Mexican.”<sup>140</sup> The official *Colombian Review* of the Bogota Government stated in September 1927: “The ambitious [railway and general construction] program on which Colombia is now embarking has been made possible by reorganization of her finances under the plan of the [United States] Kemmerer Commission.” In 1926-27 Colombia borrowed \$81,500,000 from the United States. At the close of that period Mr. Albert E. Ellis, Assistant Trade Commissioner, cabled the Washington Government from Bogota that the Treasury deficit was over \$8,000,000. There followed in April 1928 an additional New York loan of \$35,000,000. Colombia probably is in too deep as a debtor to ignore or to defy United States policy successfully.

In reacting against this alleged bondage to the United States, the Colombian Government apparently has decided the only escape is to play Great Britain against the United States, encouraging the two Powers to weaken each other. During congressional debate on the emergency petroleum bill, Representative Uribe Afanador and other opponents of the measure were charged by Minister Montalvo with acting for American companies. The Minister in turn was charged with representing the interests of Colonel Yates and the British.

Little Colombian encouragement is required to stimulate Anglo-American conflict, already growing elsewhere in the world. But Colombians should realize that the battle ground of giants is no healthy place to be.

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<sup>123</sup>. Ibid.. Feb. 21, 1928. Cf., Appendix A.

<sup>124</sup>. *Tulsa Oil and Gas Journal*, Dec. 29, 1927, p. 47.

<sup>125</sup>. Ise, *supra*, p. 466.

<sup>126</sup>. *Tulsa Oil and Gas Journal*, Dec. 29, 1927, p. 247.

<sup>127</sup>. Cf., Chap. IV.

<sup>128</sup>. New York, *O'Shaughnessy's South American Oil Reports*, June 1927.

<sup>129</sup>. State Department, *Foreign Relations*, 1924, p. 163.

<sup>130</sup>. Nearing and Freeman, *supra*, p. 83, *Washington Post*, March 24, 1911.

<sup>131</sup>. *New York Times*, March 14, 1921.

<sup>132</sup>. Text in Panaman *Gaceta Oficial*, March 26, 1925.

133. Cf., New York *World*, April 5, June 4, 1926.

134. New York *Times*, June 6, 1926.

135. Cf., New York *Times*, No., 18, 19, 1927, and New York *Herald Tribune*, Nov. 27, 1927, for dispute over Colombian-German Scadta Air Line application for Panama bases.

136. Cf. Moon, *supra*, pp. 413-414.

137. 69th Congress, 2nd Session, House Document No. 633.

138. New York *Times*, March 29, 1928.

139. League of Nations, *Minutes of Eighth Ordinary Session of the Assembly*, 11th Plenary Meeting, Sept. 10, 1927.

140. Cf., Robert W. Dunn, *American Foreign Investments*, p. 74. 1926.

## CHAPTER EIGHT

*Roumania Goes Red a Little*

MOST of the familiar oil problems of other producing countries exist in Roumania. There are nationalization and restriction laws, Government ownership of part of the pipe-line systems and regulation of export, high taxes, alleged bribery of officials, Anglo-American conflict inherited from the San Remo pact, and diplomatic controversy.<sup>141</sup> But Roumania is not so vital to the United States as are the areas of the Caribbean, Russia and the Near East, where larger petroleum resources and international issues intensify the struggle.

The State Department has protested repeatedly against provisions of the Roumanian mining law of 1924.

“The protection of important American interests against any prejudicial provision of the Roumanian mining law regulating the exploitation of subsoil resources of Roumania and putting into effect the clause of the new Constitution nationalizing such resources has occupied the Department of State during the last four years,” Secretary Kellogg said in 1928.<sup>142</sup>

The law provides in Article 1 that “all strata of mineral substances from which metals, metalloids or combinations of these substances may be extracted, as well as strata of mineral fuels, bitumens, mineral waters in general and natural gases of all kinds and all the riches of the subsoil of whatever nature are and remain the State’s property in all their development from the surface to no matter what depth.”<sup>143</sup>

Articles 32-33 state that “concession [for private exploitation] is granted only to enterprises constituted as Roumanian mining joint-stock companies according to the provisions of the commercial code and which at the same time fulfil the provisions of the present law. ... The capital held by Roumanian citizens in the company must represent at least 60 per cent of the capital; for existing undertakings, which in the course of 10 years from the promulgation of the law obligate themselves to nationalize, the percentage of Roumanian capital is reduced to 55 per cent. Two-thirds of the members of the board of directors of the committee of management and of the auditors, as well as the president, must be Roumanian citizens. Existing joint-stock companies which do not fulfil these conditions may benefit from the advantages of Roumanian joint-stock companies if, during the first 10 years from the promulgation of the present law, they transform themselves in accordance with the rules shown above and on condition that, from the beginning, the majority of the members of the board of directors, of the committee of management, as well as the president, are Roumanians. In case the company does not conform in this term the concession will be withdrawn, when the company is to blame for the noncompliance.”

The State Department argues that these provisions in effect confiscate Standard’s (N.J.) rights and investments of \$70,000,000. Though the law does not apply until 1934 to foreign properties acquired before 1924, the Rockefeller company maintains that its present holdings will be



exhausted by 1931 and that its large capital investment will become valueless unless it can obtain new lands without the nationalizing discriminations of the law.

But foreign companies have suffered little from the law so far. By alleged financial donations to certain high Roumanian officials, some foreign corporations have continued to operate old properties with a minimum of governmental interference. Though there has been no formal change in the law, Dutch-Shell and Anglo-Persian are said to be obtaining new lands through formation of "straw" companies with dummy native officers. These British companies have also acquired Crown land concessions. Standard has been less ready to play a game in which native Government officials are alleged to share profits as a reward for stretching the law.

Competition of cheap Russian oil in the European and Near East market in 1927-28 brought down the high Roumanian export tax.

But even Mr. Deterding, whose Dutch-Shell has a favoured position there, is displeased with the situation. "The considerably increased production of that country does not give a correct idea of the present position of the petroleum industry there," his 1926-27 annual report said, as summarized by the London Times, June 9, 1927. "The increase is mainly the result of the granting of concessions on a number of State lands to a few privileged companies-lands in which the presence of oil was in many cases proved by non-nationalized companies. Further, in consequence of the fluctuations in the rate of exchange, the burden of taxes and the disorganization of transport, the general economic position in Roumania is considered to be such that not a single Roumanian petroleum company, not even those with the largest production, can make a profit in proportion to the labour expended and the risks taken."

The "objectionable" law is nominally an attempt to regain the petroleum resources which have fallen into foreign hands almost exclusively.<sup>144</sup> Foreign companies hold five-sixths of present reserves. Of 160 operating companies, 10 predominantly foreign firms have 92 per cent of total output. Measured by standards in the United States, Russia, Mexico, Venezuela, or Persia, the production of Roumania is a minor factor in the world market.<sup>145</sup> But engineers expect the output to double if the Government lifts restrictions on foreign exploitation. In 1927 output was 26,100,000 barrels, compared with 23,300,000 in 1926 and 10,867,000 in 1923.

Dutch-Shell and Anglo-Persian tried through the San Remo Agreement to keep Standard from becoming a large producer in that country. They failed to keep out the American trust, but these two British companies continue to dominate production. Dutch-Shell and Anglo-Persian own Astra-Romana, the largest company in the country; they have part interest in Steaua Romana, the third largest producer, and in other important corporations such as Orion and Phoenix. Dutch-Shell production almost doubled in 1926-27 over the preceding year. The Service Petroleum Company of London was organized in 1927 with a capital of \$5,000,000 and acquired the old Industrie Roumaine Miniere, with 9,000 acres of the best Roumanian oil land and two refineries. Standard has controlling interest in Romano Americana, which ranks second in single production, but that is the only American property of significance. French capital, through Steaua Romana, Concorda, Colombia and Aguila Franco-Romana, ranks next to the British in total production and

control of reserves.

Standard and the United States Government are waiting impatiently for Roumania to swing back from her "nationalization extremes." Perhaps Yankee opportunity will come through financial pressure and control of credits. After failing to get money elsewhere, Roumania in 1928 was seeking New York participation in a \$60,000,000 international loan. Standard banking interests have blocked Roumanian loans before and may be able to continue, until assured of satisfactory amendment of the mining law and of non-discrimination in administration of that law. The State Department in the past has vetoed loans to foreign governments pending settlement of disputes over American private property rights. In this oil and credit conflict American interests think Roumania must accept their terms in the end.

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141. *Tulsa Oil and Gas Journal*, Dec. 29, 1927, p. 136.

142. Frank B. Kellogg, *Foreign Relations*. Republican National Committee, 1928.

143. State Department translation.

144. Cf., *New York Nation*, vol. 119, pp. 295-296.

145. Cf., *Petroleum Facts and Figures*, *supra*, pp. 15-16, 51-53.

## CHAPTER NINE

*The State Department Forces the Open Door in Mosul ?*

THE Mosul issue is important because it shows how far the United States and European Powers will go in competition for oil lands, and because of the State Department's tardy and questioned victory in forcing limited American participation in a British monopoly field. The present settlement represents an enforced, and perhaps temporary, experiment in co-operation between British companies and Standard.

"After long negotiations rendered difficult by varying national viewpoints, a way has been discovered for friendly international co-operation in a concession covering a possible new oil field of first rank," was the comment of Standard's *Lamp* in April 1926. "For the first time there has been negotiated what promises to be a practical Open Door policy in which four great nations take equal participation in one field."

This territory was sufficiently vital to be **one of the causes of the British-German conflict leading to the Great War**. We have seen how the British Government on the eve of the war snatched the Mosul concession from the American, Admiral Chester, by organizing the Turkish Petroleum Company in which Germans were given one-fourth interest in return for their own 1904 concession claim.<sup>146</sup>

"Recently published diplomatic documents show that the danger that Chester might obtain these concessions was not without influence as a factor in predisposing the European rivals, before the war, to agree among themselves and exclude the Americans," says Dr. Parker Thomas Moon.<sup>147</sup>

After the British defeat by the Turks in 1916, London in the Sykes-Picot Agreement offered to support French claims to Syria and Mosul in exchange for French help in the Near East. The British drive against Bagdad was successful in the spring of 1917. But the collapse of their Tsarist Russian allies prevented the British from reaching Mosul. The Armistice eliminated the Turkish-German army defending Mosul. Then the British and French victors began to argue over the eastern frontier line in Syria, the French maintaining it should include part of Mosul as secretly promised by Sir Edward Grey. In January 1920 the British withdrew from Syria, and the following April signed the San Remo Agreement with France. That agreement, it will be recalled, excluded Americans from participating in Mosul oil exploitation, but granted the French a 25 per cent interest in the (British) Turkish Petroleum Company monopoly in exchange for outlet pipe-lines to be built by France across Syria. While the State Department at Washington was writing sharp notes to London, challenging the San Remo Agreement as a violation of the Open Door principle and of rights of equality won by America in the war, the British and French fell to bickering again.

France charged the British with encouraging a Turkish invasion of Syria, with inspiring the Arab, Emir Feisal, to declare himself King of Syria, and with stirring up revolt among the Lebanon tribes. France put down the Lebanon revolt and forced Feisal to flee to London. But the conflict

stretched out until March 1921. Then pressure of the war-weary and financially impoverished French people drove General Gourand to sue for peace. In retaliation against Great Britain, France in October 1921 signed a treaty with Angora giving the Turks the coveted Mosul fields claimed by the British. France thereby tore up the San Remo Agreement, disputed by the United States. Great Britain struck back at France. She named Feisal King of Iraq, and claimed Mosul as part of Iraq territory.

France and Great Britain then hit upon the expedient of making war against each other through third parties. Greece, with dreams of empire in Asia Minor, had been waging miniature war against the torn remnants of Turkey since 1920. France in 1922 completed an alliance with Turkey, against Greece. Premier Lloyd George in London began to supply money and munitions to King Constantine in Athens, late ally of the German Kaiser. Within a few months Turkey decisively defeated Greece. Constantine toppled from his throne. Great Britain had lost. After a frenzied appeal for the British Empire to rise against the Turks, in which he attempted to arouse religious fears and passions for a "holy" Christian war against Islam, Mr. Lloyd George fell like Constantine. Apparently the long British struggle for Mosul oil had failed.

But British diplomacy has a way of waiting its time until the old trading trick can be played. That time soon came. France under Premier Poincaré wanted to occupy the German coal and industrial district of the Ruhr, and needed Great Britain's tacit support. Great Britain's price was French help in the coming Lausanne Conference with Turkey. France agreed. It seemed a good bargain for both.

In preparation for the Lausanne Conference, which opened in November 1922, British officers in October led Feisal's troops into the disputed Mosul territory. An attempt had been made in the so-called Cadman oil truce to silence the United States' Open Door opposition to British monopoly by promising Standard Oil one-quarter interest in the Turkish Petroleum Company monopoly concession. This was the concession regarding which Secretary of State Hughes declared: "We objected to the alleged concession to the Turkish Petroleum Company owned by foreign interests because it had never been validly granted, and in so doing we stood for American rights generally and not for any particular interest." <sup>148</sup>

Though Standard was satisfied with the prospect, two other American groups were fighting the British. One was led by Admiral Chester, whom the British Government had manoeuvred out of his concession of 1913. The other group consisted of American financial and legal representatives of the heirs of Abdul Hamid. They claimed the Mosul field on the basis of a 1918 agreement. Standard had tried unsuccessfully to buy this Abdul Hamid claim. Admiral Chester's supporters charged in effect that the State Department conveniently forgot the Open Door principle after the provisional British deal giving Standard a minority share. In fact, the United States continued its Open Door protests but with less force.

The British, with French support, prepared at Lausanne a draft treaty containing a clause which would return to the Turkish Petroleum Company the old German Bagdad Railway Mosul concession.<sup>149</sup> The Turks were given five days to sign. But with victory in sight for the British,



another dispute between France and Great Britain allowed the Turks to slip out of the net. Paris blamed London for sabotaging French occupation of the German Ruhr district. After a few secret conversations between the French and the Turks, the latter rejected the draft treaty, defied the British ultimatum, and broke up the Conference. As a parting shot the Turkish delegate, Ismet Pasha, charged Britain “with great military effort with a view to suppressing by force of arms the Arabs’s aspirations to independence and their constant desire to see the end of a regime which, by whatever name it may be called, is none the less a mere colonization.”

Admiral Chester, who had been used so many times in the past by the Turks as a shield in their conflict with the British, was again given by Turkey a 99-year exclusive railway, mineral and oil concession, covering 20 kilometres on either side of a 2400-mile right-of-way.<sup>150</sup> This in effect was the old German Bagdad Railway concession. Besides Mosul oil, it covered the untapped fields of the vilayets of Van, Bitlis, and Erzerum. Having obtained a monopoly concession, Admiral Chester suddenly ceased to demand Open Door protests from the State Department. Completely misunderstanding the purposes of the Republican Administration in Washington, which favoured Standard, the Democratic Party’s platform in the next national election in the United States condemned the Lausanne Turco-American treaty on the ground that “it barter legitimate American rights and betrays Armenia for the Chester oil concessions.”

The Ottoman-American Development Company, organized by Admiral Chester, also obtained rights under the concession to construct public works and ports on the Black Sea and Mediterranean, in addition to the railway, mines and oil wells, at an estimated cost of \$1,500,000,000.

But there were several difficulties ahead. Not Turkey, but Great Britain was in possession of the Mosul territory. The State Department would not give effective support to the Ottoman-American Development Company. Standard, with its hope of sharing the Mosul riches through the Turkish Petroleum Company, later was charged with helping to choke off the Chester credit supply in Wall Street. And so ended the Admiral’s dream.

But before that, the Chester concession was useful as a Turkish threat against Great Britain when the second Lausanne Conference convened in April 1923. Turkey at that meeting forced through her demands for abolition of foreign extraterritoriality and for retention of the Dardanelles and Bosphorus. She could not, however, force Great Britain to give up Mosul. The Mosul dispute was submitted by the Lausanne Conference to direct negotiations, with the provision that the League Council should draw the Turkish-Iraq frontier line if the disputants failed to agree within nine months.

Following the Lausanne Conference, London succeeded through secret negotiations in silencing the State Department’s Open Door protests. In these negotiations the British pointed to the monopolistic character of the Chester concession, renewed their pledge to give Standard and other American companies a share in the Turkish Petroleum Company monopoly, and intimated that the London Government would not make payments on its war debt to the United States if Washington persisted in blocking British control of Mosul oil.

After long delay the League Council in December 1925 made its anticipated award in favour of Great Britain. The ilayet of Mosul was included in Iraq territory under a 25-year British mandate. Turkey signed the frontier treaty in June 1926, later receiving \$2,500,000 in lieu of certain oil royalties. The Iraq 75-year concession grant to the Turkish Petroleum Company modified nominally some of the original monopolistic features.

A French group (penetrated by British capital) and an American group were each given first 25 per cent, then 23.75 per cent, which was later reduced to 21.25 per cent, interest in the company. In the American participating group are Standard of New York, Standard of New Jersey, Pan-American Petroleum and Transport (Standard), Atlantic Refining (Standard), and Gulf Refining. Sinclair declined to go in. Mr. C.S. Gulbenkian, an Armenian with British connexions, has five per cent.

“Recent negotiations have altered the percentages to be issued on the contemplated Iraq petroleum production to give 10 per cent to the Anglo-Persian, 5 per cent to Mr. Gulbenkian, and the remainder equally divided among the French, American, Shell and Anglo-Persian interests, which will therefore receive 21.25 per cent apiece,” Trade Commissioner MacLean, Paris, on March 5, 1928, reported to the Commerce Department. At that time there was no agreement as to whether shares were to be distributed in profits, in refined, or in crude as desired by France.<sup>151</sup>

Great Britain retains controlling interest, through Dutch-Shell and Anglo-Persian together holding 52.50 per cent.

What kind of an Open Door is that? This question is put by American oil men who say the State Department’s “Open Door victory” gives certain Americans less than a quarter interest, whereas before Sinclair, Standard of New York, and Chester had practically all.

Why did Turkey accept without war the League’s award of Mosul, which had been Turkish territory for four centuries? Here is the answer of M. Henri de Jouvenal, former French High Commissioner in Syria:

“Early in 1926, when the League’s decision on the Mosul question nearly precipitated an Anglo-Turkish war, England offered Cilicia [Turkish territory] as a bait to Italy. I was present in Angora at the time, attempting as High Commissioner in Syria to negotiate a treaty of neighbourliness with the Turks. Personally I have not the slightest doubt that the fear of an Italian landing in Cilicia hastened an arrangement between the British and Ottoman Governments whereby Italy was cheated of a military adventure.”<sup>152</sup>

However the trick was actually turned by the British, it is now an accomplished fact. But how effective are the modifications purporting to remove the monopolistic or Closed Door stigma from the Turkish Petroleum Company concession?

Standard’s defence of the concession was made in *The Lamp*, April 1926: “Even these varied interests [British-Dutch-French-American] are not to have in combination anything approaching exclusive rights in this vast area. On the contrary, provisions incorporated in the Government grant specifically forestall this. It is provided that the Turkish Petroleum Company may select any

24 plots, each of eight square miles, for development. Four years from the date of the Convention all of the geological and other information covering the areas to be offered competitively is to be made public for the benefit of any individuals or companies that may wish to enter the territory, and the Turkish Petroleum Company must sell to the highest bidder, under Government supervision, in tracts of eight square miles which have been indicated by the Government or outside parties. This procedure will take place each year by the successive offer of a further 24 plots annually. When the relative size of the 24 pieces (192 square miles) to be reserved by the Turkish Petroleum Company and the area of the concession (89,000 square miles) granted by the Iraq Government are considered, it will be seen that the international group has made a doubtful bargain unless good fortune attends its exploration work." The Standard statement goes on to emphasize the huge capital expenditure necessary for drilling far from railheads and for constructing 700 miles of pipe-line at a cost of \$50,000,000.

Through the Mosul settlement, the British obtained two large potential fields close to and supplementing the great south Persian concession of Anglo-Persian. In addition to retaining majority British control of Turkish Petroleum's concession, which covers most of the vilayets of Mosul and Bagdad, Anglo-Persian obtained the Ahwaz fields of the so-called Transferred Territories covering the rest of the Mosul-Bagdad oil strata. In reporting the gushers of Turkish Petroleum near Kirkuk in Mosul and the Anglo-Persian success in the new Ahwaz pool, the Bagdad correspondent of the London *Financial Times*, October 28, 1927, pointed out:

"We [British] shall have the satisfaction of knowing that three enormous fields situated within close proximity of each other, and capable of supplying the oil requirements of the Empire for many years to come, are being almost entirely developed by British enterprise."

Turkish Petroleum geologists and engineers have confirmed the existence of three large pools within the Mosul concession area. The north-east pool runs from Hammam Ali through Kirkuk and Tuz Kharmati to Kind-i-Shrin. A second extends south of Mosul from Khaiyara through Kifri to the Jebej Oniki Imam. Another pool starts at El Hadr, south-west of Mosul, and runs toward Bagdad along the Tigris to Fet Hah Pass and Mandali.

Drilling, which began in April 1927, extended to nine of the company's 24 fields in the winter of 1927-28. First oil was struck at Palkhana at 1,329 feet. A well at Quiyara gave 5,000 barrels a day from a seepage pool alone. Then the well at Baba Gurgur came in, running 95,000 barrels daily. Enthusiastic prophecies, especially in France, have been stimulated by these initial gushers. "The successful result secured from the Kirkuk area would appear to indicate a very promising future for this company," Sir John Cadman said in his November 2, 1927, Anglo-Persian report.

The Mosul Agreement is a truce rather than a permanent peace pact. Already there is difference of opinion among the different groups incorporated in Turkish Petroleum. First there is a dispute between the British and French over location of the \$50,000,000 pipe-line to the Mediterranean. This weakens the British position, despite their majority control and their hold upon the Iraq Government. Control of the pipe-line is becoming a major political factor in Near East diplomacy.

Britain desires to lay the line over a round-about course, southward through Iraq and thence across Palestine to the sea. This route is entirely within British territory-an important consideration in event of war. France insists on the original route, planned since the San Remo Agreement, running directly west from the Mosul fields, across Iraq and Syria. France, as the Mandate power, would thus control the outlet for Mosul oil. A railway is also to be constructed from Mosul to the Mediterranean, probably over the route chosen for the pipe-line. Written provisions of the San Remo Agreement, regarding pipe-lines and railroads, follow:

“The British Government agrees to lend their support to any arrangements by which the French Government may obtain from the Anglo-Persian oil supplies which may be transported by canalization from Persia to the Mediterranean by means of any pipe-line which may have been constructed in the interior of those territories placed under French mandate, and regarding which France has accorded special facilities, up to 25 per cent, of the oil so transported on such terms and conditions which may be fixed by common accord between the French Government and the Anglo-Persian Company.

“In consideration of the foregoing agreement, the French Government will acquiesce, if such desire is expressed, and as soon as the request is made, to the construction of two pipe-lines and separate railways, these latter necessitated for the construction and upkeep of the pipe-line and for the transportation of the oil emanating from Mesopotamia, and Persia, and traversing French spheres of influence up to a port or ports on the eastern Mediterranean. The said port or the said ports are to be chosen by mutual agreement by the two Governments.

“In the event of pipe-lines or railways of this nature traversing a territory in the interior of a zone under French influence, France agrees to accord all facilities for the right-of-way without taxes or transportation claims being imposed for the passage of such oil. An indemnity, however, will be due the land-owners for the area so occupied.

“France will also accord facilities in the terminal ports for the acquisition of property necessary for the erection of depots, railway tracks (switches), refineries, loading quays, etc. Oil exported through these installations is to be exempt from export and transit taxes. The necessary material for the construction of the pipe-lines, railways, refineries, and other installations is also to be free from all import and transportation taxes and claims.

“Should the said petroleum company wish to establish a pipe-line and a railway in the direction of the Persian Gulf, the British Government will use its good offices in order to facilitate similar facilities.” 153

One or more railways should be built for general development of the Near East, but must be constructed to carry supplies to Mosul oil fields if they are to be exploited on a large scale. France contends that the railroad, as the pipeline, should cross the French territory of Syria. Britain insists on the Palestine route, where the road will be a part of the grandiose scheme of the British chemical trust for exploitation of Dead Sea potash deposits and other Palestine natural resources.

The Americans are not yet taking decisive part in the pipe-line-railway controversy, but their distrust of British majority control of the joint concession is increasing. This distrust was partly



responsible for the refusal of the Sinclair interests to join with Standard and others in entering Turkish Petroleum. Standard and Gulf, as a result of their experience in the company with the British, are now restive.

Open Anglo-American conflict is expected to begin when the “free” areas are opened for acquisition. Under the quasi-Open Door principle which the State Department forced into the Mosul settlement, Turkish Petroleum was allowed 24 blocks of land with a total area of about 192 square miles. The company was granted an exploration period for picking its 24 areas, after which remaining areas were to be thrown open to free leasing competition. In that competition the Mosul Convention provides that Turkish Petroleum shall have an equal but not a favoured position.

American suspicions were inflamed in 1928 by reports that the British Government, through Sir Adam Ritchie, was pressing its puppet Iraq Government to postpone opening the “free” Mosul zones.

The earlier Anglo-American struggle for the entire field probably will be repeated in the conflict for these remaining areas. The British are believed to be tied by a secret agreement with the French to bid for the “free” blocks only through Turkish Petroleum. Standard and Gulf are not tied. They hope to capture and to control completely most of the remaining fields, in addition to their interest in Turkish Petroleum holdings. They believe American geologists and engineers are more clever than the British in finding and developing wells. If Rockefeller and Mellon companies do acquire much of the open Mosul area, the United States will be drawn deeper into the pipe-line and railway dispute.

Meanwhile the Standard-British competition elsewhere in the world is not lubricating their single experiment in cooperation. In Washington an opposition group headed by Mr. James W. Gerard, war-time Ambassador to Germany, uses the Mosul deal to block Senate ratification of the Lausanne Turco-American Treaty. Mr. Gerard charges the treaty was signed to permit American interests to “grab vast oil deposits.”<sup>154</sup>

These charges against the State Department and two unnamed Cabinet officers were detailed at length but without complete documentation by Mr. Vahan Cardashian, attorney for the Delegation of the Armenian Republic, in an application for a Senate hearing and investigation. In his letter of March 24, 1928, to Senator Borah, he said if the Foreign Relations Committee failed to act favourably on his application he would request President Coolidge to present the American-Armenian dispute to the The Hague Tribunal for adjudication. Cardashian’s appeal follows in part:

“My dear Senator Borah: I have the honour to apply for a hearing before the Senate Committee on Foreign Relations, upon the Lausanne Treaty, and to submit herewith a partial brief in support of this petition:

“I charge that two members of the President’s Cabinet bartered the Armenian case at the Lausanne Conference and **conspired to effect the expulsion of nearly 1,000,000 Armenians from their ancestral homes, for a share in Mosul oil**, and that they are now scheming to seize possession of the oil deposits in the deserted homes of their victims.

“I charge that these men and their confederates in this outrage have used and are now using the

Department of State as their willing tool to carry out their infamous design; and that the Department of State, in an effort to cover up the tracks of those who have dictated its policy in this respect, has resorted to misrepresentation, intrigue and even terrorism, and has flooded the land with shameless and irresponsible propaganda. ...

“Under these clear circumstances, what, then, is the motive, the purpose behind the Turkish policy of the Department of State ?

“I charge that it is oil.

“An Administration which has surrendered legitimate American rights and then has had the impudence to fill the air with irrelevancies, wild insinuations and falsehoods to divert attention from its disgraceful policy; an Administration which has deliberately trampled upon the Constitution of the United States in its conduct of foreign relations--such an Administration, I charge, would not hesitate, and has not hesitated, to sell out the Armenian people and their homes for oil, in the interest of a privileged group. ...

“If for any reason the Senate Committee on Foreign Relations should be unable and unwilling to consider these wrongs inflicted upon a gallant people, I shall then request the President of the United States to submit the points at issue between the present Administration and Armenia, to the Permanent Tribunal of Arbitration at The Hague, for adjudication.” 155

In promising to present the matter to the Committee, Senator Borah replied: “Before I shall feel interested in this matter, I want something more than general statements. I want the names of the individuals, the nature of the corrupt bargain, or barter, the facts which you claim will sustain, and the names of the witnesses who will support your contention.”

Senators say such an Armenian attack is so partisan and its simplification of involved foreign policy so extreme, it is not apt to get very far. The Senate has favoured the Lausanne Treaty by majority vote, and the two-thirds vote requisite for ratification seems only a matter of time.

More serious difficulties, however, are in prospect. The record of Britain in the Near East and the Middle East, and of the United States in Mexico, proves that diplomatic intervention, sometimes backed by military force, is the price of alien oil exploitation in foreign countries. Such an issue may become acute in Mosul because of the mixed population, the latent revolt against British Mandate power, and the exposed 700-mile pipe-line route across civil war territory.

In event of fighting, who is going to protect the American capital sunk in Mosul wells and Syrian or Palestine pipe-line? The chief British argument in the bitter dispute in which the State Department challenged the San Remo Agreement excluding Americans, was that Great Britain had fought for that land and the United States had not, and that Great Britain was prepared to protect it and the United States was not. But now, in blessing the compromise settlement by which some American companies got a minority share in the Turkish Petroleum concession, the United States Government tacitly has undertaken to share responsibility of defending that valued though explosive property. This, at least, is the British understanding of the agreement. The State Department does defend with diplomacy and, if necessary, with threat of war, American oil interests in Mexico and the Caribbean. Will the American public, or the Senate, permit similar

action by the United States in Mosul and Syria ? Probably not.

What then ? There would seem to be two possibilities. The State Department may trade American support for some British imperialist program in Europe or Asia. Or, in default of this, the British may defend Mosul alone, and then reassert their old claim to exploit Mosul alone. If Sir Henri has his way the Americans will be kicked out of Mosul soon rather than late.

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146. Cf., Chaps. II, III. Also Earle, *supra*.

147. Moon, *supra*, p. 263.

148. Hughes, *supra*, p. 75.

149. Cf., Mohr, *supra*, pp. 185-196.

150. Date of concession, April 30, 1923. Cf., *New York Current History*, vol. 18, pp. 485-495.

151. Commerce Department, *Foreign Trade Notes*, March 24, 1928.

152. *New York Foreign Affairs*, July 1927.

153. Federal Trade Commission, *supra*, pp. 103-104.

154. *New York Times*, Dec. 18, 1927.

155. *Washington United States Daily*, April 11, 1928.

## CHAPTER TEN

*Wherein Sir Henri Fails to "Steal" the Stolen Oil*

OVERSHADOWING all other oil conflicts at the moment is the British-American struggle for control of Russian resources. Those reserves are estimated the largest in the Eastern Hemisphere. For years Russian production surpassed all other countries except the United States, sometimes even exceeding American output.<sup>156</sup> Much international diplomacy since the war has turned on Russian oil.

Oil is the Soviet Government's bait for foreign recognition and credits. Oil explains much of Washington's anti-Russian policy, of Britain's recognition and later break with Moscow. In oil is written the British and German-Turk military campaigns in the Caucasus, the Allied interventions against the Soviets and support of puppet counter-revolutionary governments, and the international conferences at Genoa and The Hague. Russian oil is the cause of the latest and bitterest war between "Napoleon" Deterding and "King" John D.

From the beginning this Russian conflict has been more confused and disordered than in other countries. It has involved Soviet nationalization of the industry and consequent attempts at a capitalist united front against the Bolshevik "menace." Lines of combat have shifted rapidly. The Deterding and Rockefeller forces have joined in drives against the common "enemy" one day, and the next day turned to fight each other—while negotiating separately and secretly with Moscow. Adding to the confusion, have been forays of the American Sinclair interests against both Dutch-Shell and Standard.

Dutch-Shell had the advantage, or disadvantage, of owning Russian fields before the Communist Revolution. Standard sold large quantities in the north Russian market in Tsarist days, but had no producing units there. Sir Henri bought wells in the Caucasus, using Russian oil to challenge Standard's partial sales monopoly in Europe and Asia. Originally the fields had been Tsarist State-owned. Later, as they were sold or leased to private companies, the State retained large restrictive powers and exacted production royalties sometimes running to 40 per cent. Russian Nobel interests were permitted to obtain larger holdings than foreigners, though the latter were allowed to come in to prevent Nobel monopoly control. By 1898 Russian production forged ahead of the United States into first place. Three years later Russia supplied 55 per cent of world output. Then she maintained second place until displaced by Mexico in the last decade. Now Russia is expected by many authorities to assume again the premier position in world production.

At the outbreak of the 1917 Revolution the British with \$85,000,000 invested were the largest foreign producers there.<sup>157</sup> Dutch-Shell had \$20,000,000 in the Baku field, besides large holdings in Grosni and Maikop. French capital, chiefly of the Rothschild interests, amounted to \$25,000,000, and Belgian capital to \$21,000,000. Standard (Vacuum and Standard of New York) has refining and marketing investments in that country.<sup>158</sup>



With collapse of the Tsarist regime and enforced peace between Germany and Soviet Russia, the Allies and Central Powers raced for the rich fields of the Caucasus. First, German-Turk forces occupied Baku, then a small British force came in, to be displaced by the Turks on the eve of the Armistice. When the Turks withdrew after the Armistice, the British re-occupied Baku—acting nominally for the Allies. British troops remained to guard the oil of the Caucasus for Dutch-Shell until July 1920. Earlier in that year, **the Allied Supreme Council had recognized the anti-Soviet Republics of Georgia and Azerbaijan**, with the understanding that these Governments would favour British and French interests.

Washington refused to recognize the counter-revolutionary regimes. Not, of course, because of any American sympathy with the Soviets. **For diplomatic and military reasons the United States was and is opposed to dismemberment of Russian territory.** Also Standard, which by this time was seeking Russian oil, opposed recognition of counter-revolutionary Caucasian governments allegedly under the thumb of Downing Street and Deterding. Since then the Caucasian émigré group, headed by M. Jordania, representing the defunct “White” Governments, has made repeated unsuccessful attempts to draw diplomatic recognition from Washington and money from Standard and other American interests.

While British troops were marching out of Baku in the spring of 1920 and the “Red” army marching in, Dutch-Shell and Standard were preparing for the bigger petroleum war to come. Two years had passed since Moscow nationalized the fields. The former Tsarist Russian owners of oil stock were peddling their shares of doubtful value. Sir Henri bought up the stock of the old “Independent” Russian companies. Before that, in 1912, he had purchased a large interest in the French Rothschild holdings in Baku. With his 1920 purchases of stock of nationalized companies, he became the largest “owner” of petroleum resources in the Caucasian-south Russian area. Hence the London Government’s urge to negotiate with France the San Remo Agreement of April 1920, which aroused Washington to such vigorous protests. At San Remo the London and Paris Governments agreed:

“In the territories which belonged to the late Russian Empire, the two Governments will give their joint support to their respective nationals in their joint effort to obtain petroleum concessions and facilities to export, and to arrange the delivery of petroleum supplies.”<sup>159</sup>

Standard was equally busy buying old shares in nationalized companies. In the early summer of 1920 Mr. Rockefeller’s agents bought equal or controlling interest in the Nobel Baku properties.<sup>160</sup> Anglo-Persian later bought other Nobel shares. These Nobel properties before the war had 40 per cent of Baku production.

It will be observed that Mr. Deterding was placing his money on a better horse than was Mr. Rockefeller. Both bought questionable stock in nationalized companies. But Dutch-Shell bought from foreign property-owners who had defined rights under international law and usage. Standard bought from the Russian Nobel interests, knowing presumably that any sovereign government has a right under international custom to dispose of property of its own nationals as it sees fit, and that

no foreign government has a recognized right to interfere.

Downing Street and Mr. Deterding after San Remo began negotiating directly with the Soviet Government. The Anglo-Russian trade agreement resulted. During the months preceding the Genoa Conference, Dutch-Shell was trying to get a monopoly concession from Moscow. Sir Austen Chamberlain later admitted these Deterding negotiations were conducted with the knowledge of the British Government. This was the situation when Premier Lloyd George brought about the Genoa Conference in April 1922.<sup>161</sup>

At Genoa Russia refused demands of the capitalist Governments that she de-nationalize petroleum lands and equipment. She offered instead to share part of her fields with British, Americans, French, Italians, Belgians, and Germans on the basis of conditional foreign concessions. Sir Henri and Mr. Lloyd George were willing to waive the nationalization issue in favour of 99-year leases or concessions. This compromise was blocked by Standard, working indirectly through the State Department "observer" at the Conference and through the French and Belgians. The latter also held Nobel and other Tsarist oil shares. Sir Henri then formulated a proposal, provisionally accepted by M. Chicherin, under which Russian concessions would be apportioned on the basis of foreign holdings prior to the nationalization decree. This plan in effect would have given Dutch-Shell the major share and virtually excluded Standard.

That brought Washington into the negotiations directly. The American "observer," Ambassador Childs, issued a statement on rights of American property-holders, reasserting that the United States Government would recognize no settlement conflicting with the Open Door principle.<sup>162</sup>

The French and Belgian delegations, under pressure from the Franco-Belgian Syndicate of purchasers of Tsarist oil shares after Soviet nationalization, supported American opposition to the Deterding-Lloyd-George-Chicherin deal. By this time the Germans had signed a separate treaty with Moscow. But the Lloyd George plan for general diplomatic recognition of the Soviet Government was effectively blocked by Washington's action. This accomplished, the United States acting through the French delegation forced postponement of the property-rights discussion until a conference at The Hague the following month.

Handicapped by the Genoa failure and increasing diplomatic activity of the United States, the British Government and Dutch-Shell put forward at The Hague another settlement proposal. Under the new plan, as tentatively accepted by the Russians, Dutch-Shell was to receive a block concession of certain Russian fields with the obligation of settling claims of other foreign owners by sharing production or by purchase of such claims. The plan was sufficiently indefinite on moot points to permit the charge of Dutch-Shell monopoly control. Again, as at Genoa, the United States by unofficial representations wrecked the capitalist-Communist compromise.

Soon after the unsuccessful conference at The Hague, Standard drew Dutch-Shell and 16 other companies and organizations of owners of old Russian shares into an International Defence Committee at Paris in September 1922. Participants agreed to boycott Soviet oil until Moscow "rehabilitated on equal conditions to all interested parties their [oil] rights and properties." They also pledged themselves not to deal with the Russian Government except as a united group. They

were to extend this boycott to include financial credits sought by Moscow. But the capitalist united front was soon broken.

Despite his boycott pledge, Sir Henri began dickering with the Bolsheviks secretly. By March 1923 he had contracted for 70,000 tons of Russian oil and taken an option on another 100,000 tons.<sup>163</sup>

At the same time he was negotiating for a monopoly concession in Baku. Standard was also dealing secretly with Soviet representatives in Berlin and Moscow. Thereafter Russia was able easily to dispose of the surplus of her rapidly growing production. Moscow sold this surplus not only to Dutch-Shell, Standard, and private companies but even to the Governments and navies of Greece, Italy, France and Britain. So ended that capitalist united front against Russia.

While Dutch-Shell and Standard were jockeying for position in the Russian race, a dark horse appeared. This was Standard's chief American competitor, Mr. Harry F. Sinclair. Mr. Sinclair went in person to Moscow and the Caucasus. With him on part of the trip were ex-Secretary Fall, Mr. Archibald Roosevelt and other influential persons. The Sinclair official, Mr. Mason Day, remained in Moscow until he was rewarded with a contract. A provisional concession agreement was signed by him and Soviet representatives in November 1923, providing for a joint company to exploit the Grosni and Baku fields. Mr. Sinclair and the Government were to share equally in stock, management, and profits. The former promised to invest \$115,000,000 in the joint company and to float in New York a \$250,000,000 loan for Russia.

There was also an unwritten understanding that Mr. Sinclair, through his friends President Harding, Mr. Fall, and Cabinet officers, would obtain United States diplomatic recognition for Moscow. To be sure the Sinclair concession covered the fields claimed by Standard. But the Bolshevik statesmen decided that Mr. Fall for the moment had more power in Washington than Mr. Rockefeller. Even the clever M. Chicherin could not be expected to foresee that the Fall-Sinclair combine would soon hang itself.

Indeed Russia was staking more than the Caucasian fields on the power of the Fall-Sinclair partnership. Moscow had granted Mr. Sinclair also the Saghalin oil concession off Siberia, and was aiding him in north Persia.

The north Persia field covers five provinces. Mr. D'Arcy neglected to appropriate them back in 1901 when he got the later Anglo-Persian monopoly concession for the remaining five-sixths of Persia.<sup>164</sup> Geographically the northern provinces are almost a separate country, their natural outlet being through the Caucasus. Russia in this sense has "the power to veto any concession to the north Persian resources, for Moscow will assuredly not permit a concessionaire who is *persona non grata* to it to use Russian territory for transit purposes," Mr. Louis Fischer says in his *Oil Imperialism*.<sup>165</sup>

Since the St. Petersburg Agreement of 1907, in which the Tsarist and British Governments divided Persia into spheres of influence, Russia had held a favoured position in the northern provinces. The Russian citizen Akaky Khostaria in 1916 obtained through Tsarist influence a drilling concession in that area, which Persia cancelled after the Bolshevik Revolution. The United States Bureau of Mines rates the 500,000 square miles covered by this concession as richer in oil than

south Persia. According to former Premier Dowleh of Persia, cancellation of the Khostaria concession as having been obtained under duress was suggested by the Moscow Government, carried out by the Persian Government and approved in writing by the British Government.<sup>166</sup>

Two years after this cancellation, Anglo-Persian bought from M. Khostaria his alleged “rights” to three and one-half of the five provinces.

British diplomacy changed thereafter in line with this transaction. The Soviet Government countered in February 1921 by signing a treaty with Persia not only renouncing all Russian extraterritorial rights and concessions, but also prohibiting Persian sale of such returned concessions to other foreign owners without Russian consent.

While Moscow and London were manoeuvring around this oil concession as part of their larger game of political prestige in the Middle East, Standard slipped in and grasped the prize—for a moment. In the midst of Anglo-Persian and British Foreign Office protests against Persia’s refusal to recognize the Tsarist-Khostaria claim, the Teheran Government was persuaded to give the Rockefeller interests a new 50-year concession for the northern fields. To prevent extension of British power from southern to northern Persia, the Teheran Ministry wrote into the final contract that Standard could not share or transfer its right to other foreign interests. Meanwhile Mr. Sinclair was setting out on the north Persian trail. Both Russia and Great Britain protested the Standard concession. Moscow pointed to the provision of the Russo-Persian treaty obligating Persia to get Russia’s consent before granting such a concession. Anglo-Persian accused Standard of accepting “stolen property.”

Sometime later, when Sir John Cadman went to America to make the short-lived truce between the British and Rockefeller interests, it was agreed that Anglo-Persian and Standard should share the north Persian concession equally. With Moscow encouragement Persia objected to Standard sharing its acquired rights with Anglo-Persian and, instead, gave the concession to Mr. Sinclair.

Among the most remarkable of the many vivid exchanges between governments in the oil controversy in the last decade are those of Persia to the United States in the period 1921-24 in opposition to the concession claims of the temporary British-Standard alliance. In a diplomatic memorandum filled with hatred for Britain, the Persian Minister, Hussein Alai, wrote to the State Department on February 21, 1924:

“The Standard Oil Company of New Jersey did not show any inclination to meet the requirements of the law and made no proposals, but the Sinclair Consolidated Oil Corporation submitted terms following closely the conditions laid down in the oil law. The Standard manifesting no further interest in the concession, an agreement was consequently signed last December by the Government and the Sinclair representative in Teheran subject to the ratification of the Madjless, as the Sinclair Company was the only applicant in the field.

“Now that there is at last a prospect of the northern oil fields of Persia being developed under purely American auspices, the Standard Oil Company of New Jersey advances certain claims on the basis of association with the Anglo-Persian Oil Company, Ltd., in the so-called Khostaria concessions.

“I need not repeat the arguments laid in detail before Your Excellency in my note of January 3, 1922,



which to your judicial mind will, I am sure, carry conviction that these so-called concessions are null and void. If the Standard Oil Company believed it had acquired any valid rights under these alleged concessions by virtue of association with the Anglo-Persian Company, why did it continue for two years to negotiate for a new concession with the Persian Government? The negotiation indicates the doubtful sincerity of the claims now advanced by the Standard Oil Company.

“I cannot, therefore, but express surprise that a large American corporation should in these circumstances ally itself with a policy known by it to be repugnant to the Persian Nation and openly declare that it maintains its so-called rights under the Khoataria concessions and that it proposes to enforce them in defiance of the Persian Government.

“The Standard Oil made the mistake of yielding to the unwarranted contentions of the Anglo-Persian Oil Company. They were repeatedly warned by Mr. Shuster and myself of the strong feeling of suspicion inevitably entertained in Teheran, in view of past experiences, as to British motives and aims and of the decision of the Persian Government to stand on the firm ground of the invalidity of the alleged Khostaria concessions. In spite of this warning, the Standard Oil Company made their proposal of February, 1922, to exploit the five northern provinces in association with the Anglo-Persian Oil Company on a 50-50 basis.

“In view of the facts of the case and the known policies of my Government, Your Excellency will appreciate that the announced determination of the Standard Oil Company in association with the Anglo-Persian Company to enforce its rights under concessions which my Government regard as invalid cannot be carried out within Persian territory with my Government’s approval. Should, however, the Standard Oil Company of New Jersey, as an American concern, seek the assistance of the United States Government with a view to asserting its alleged rights in the north Persia oil fields, I, acting under instructions from my Government, beg you to take into consideration the history of this whole transaction as I have outlined it above; the association of the Standard Oil Company with a British concern, in which the British Government has a predominant influence, an association peculiarly distasteful to my Government, my Government’s well-founded view that the concessions on which these companies base their rights are null and void, and also the earnest desire of Persia for American aid, free from foreign influences, in the development of her natural resources.”<sup>167</sup>

Persia’s grant to the Sinclair interests, dated December 1923, was a preliminary non-transferable concession, carrying a rider that the American company must obtain for the Teheran Government a \$10,000,000 credit.

A Teheran mob six months later murdered Major Robert Imbrie, American Vice-Consul. The official explanation was that he enraged the natives by taking photographs of a holy place. Major Imbrie “was assassinated by a mob organized by financiers in the United States and England, who thought his influence might swing control of the Persian oil fields from the Shell group to an American syndicate in which the Sinclair group has the major interest,” according to a New York *Herald-Tribune* Paris dispatch of September 27, 1924, quoting “Harold Spencer, for years British secret service agent in the Near East and graduate from Annapolis in 1911.”

Mr. Sinclair, in addition to his concessions in the Caucasus and north Persia, also gathered to himself the much-disputed Soviet concession on the Island of Saghalin off Siberia. The latter grant had been held by a \$5,250,000 British organization, the Saghalin Oilfields Company, which was

drilling when the Great War began.

Tokio tried repeatedly during the war to get a foothold on the Siberian mainland and incidently to extend her control of South Saghalin northward over the entire island. With the western world at war and Russia outlawed, Japan attempted in 1918 to occupy the Siberian coast as a third link in her Asiatic chain of Korea and South Manchuria.

When American diplomacy failed to prevent this Nipponese military expansion, President Wilson sent an American army to wage war in Siberia without the consent of the American Congress. The President was faced with the alternative of joining an Allied invasion of a friendly country to prevent territorial division of Russia, or of continuing America's non-intervention policy and losing control of a vital Far Eastern issue. Mr. Wilson chose the former. In sending troops the President denounced military intervention as "more likely to turn out to be a method of making use of Russia rather than to be a method of serving her."<sup>168</sup> Despite State Department protest, Japan sent 74,000 troops compared with 8,500 Americans. But later Washington was able to force Japanese evacuation of Siberia.

When Japan occupied North (Russian) Saghalin, a rich coal and oil area almost joining the Siberian mainland, the State Department announced the United States would not recognize claims growing out of that occupation. Nippon kept her army there, but at the Washington Arms Conference promised to evacuate North Saghalin whenever an "orderly" Russian Government settled with Japan for the Nikolaiev "massacre." Secretary of State Hughes expressed regret that Tokio chose such methods, and insisted on restoration to Russia of North Saghalin and its natural riches.

Moscow meantime had given Mr. Sinclair the North Saghalin oil concession. The preliminary Sinclair agreement was signed in May 1921, while Japan was holding and attempting to work those fields. Final approval of the contract was given in October 1923. The concession was monopolistic in character. Moscow hoped to obtain United States diplomatic recognition before 1927. The Sinclair contract was made conditional upon such recognition. Russia, moreover, expected as a result of this concession to an American company to obtain profits and financial credits, besides inducing the Washington Government to farce Japanese evacuation of the territory. Moscow disregarded Sir Henri's claim based on the Tsarist concession to the Saghalin Oilfields Company. The State Department remained discreetly silent about the Open Door, which had been shut by Russia in favour of Mr. Sinclair.

Then the crash in Washington. The Senate investigation exposed activities of the Fall-Sinclair-Doheny "gang" in grabbing the Teapot Dome and Elk Hills naval oil reserves in the United States. Ex-Secretary Fall was swept into the courts. Mr. Sinclair was trying to keep out of prison. He could no longer deliver credits and recognition for Moscow.

Cancellation of the Sinclair concessions in the Caucasus, in Saghalin, and in north Persia followed almost automatically. Teheran trailed the American Senate, charging Mr. Sinclair with attempting to bribe Persian officials, Moscow warned him it would revoke the Saghalin contract. Mr. Sinclair was ready to accept compromise proposals for joint Russian-Sinclair-Japanese exploitation of Saghalin, but Japan declined.

Russia promptly executed one of her many changes in foreign policy, switching back suddenly from a pro-American to a pro-Far Eastern policy. Following the Russo-Chinese treaty of May 1924, Moscow signed a treaty with Tokio in January 1925. This pact granted Japan extensive Saghalin coal and oil concessions for 40 to 50 years, in addition to equal rights with other foreigners for acquiring the remaining half of oil lands in the Russian part of the Island.

Russia formally cancelled the Sinclair Saghalin concession in May 1925, charging the company violated contract provisions by failure to exploit the fields. Former Secretary of State Lansing, as Sinclair attorney, argued that the Japanese occupation (*force majeure*), prevented development of wells. But the Moscow court upheld the Soviet Government. Thus Mr. Sinclair was finally kicked out of Saghalin, as he had been ousted from Teapot Dome in the United States, by the courts. In one case the American navy was regaining oil reserves for its Pacific fleet. In the other, the Japanese navy was obtaining oil resources which would make its Pacific fleet for the first time a modern fighting unit for possible use against the American fleet. The Japanese army has evacuated North Saghalin, but the Japanese navy is represented in the Japanese company operating there. Japanese production in that field was estimated at 48,000 tons during the first nine months of 1927, or about twice as much as in the corresponding period of 1926.<sup>169</sup> According to Japanese consular reports a production of about 80,000 tons was anticipated in 1928.<sup>170</sup> A pipe-line to the coast was built in 1927.

At the same time the Moscow Government is organizing a Saghalin oil trust to develop some of the Okha deposits not included in the Japanese grant. According to United States Department of Commerce reports: "Conditions for oil exploitation are favourable in Saghalin, and sales will be profitable because the fields are near the ocean and far from existing oil fields. The oil may be sold to Japan, China, and to Asiatic Russia, but the bulk will probably be sold abroad in order to get a supply of foreign money."<sup>171</sup> Nutovo, a second Saghalin field, with a lighter petroleum than the Okha district, is to be opened by the State Soviet organization. Russian production on Saghalin in 1927-28 was expected to be about 6,000 tons, with the Soviet program calling for 237,000 tons annually by 1931-32.

South Saghalin is Japanese territory. Tokio is exploiting the fields of this half of the Island, in addition to the wells of the Islands of Honshu and Hakkaido. There are also commercial deposits in Akita prefecture and Formosa, which ran up total Japanese production in 1927 to 1,700,000 barrels. But Japan is now depending chiefly upon its Russian concessions in North Saghalin, and upon Manchurian shale deposits, to achieve future domestic independence from Standard and foreign wholesalers.

The Tokio Government has prevented American companies from obtaining mineral and oil rights in Japanese territory. Standard has spent several million dollars prospecting in China and the Philippines without attaining commercial production. Hence the importance of North Saghalin as the only potentially large producing field on the mainland and islands of north-eastern Asia.

While the naval and industrial significance of the Moscow-Tokio Saghalin agreement is far-reaching, the political consequences are—what the future makes them. Mr. Louis Fischer says:<sup>172</sup>

“The Saghalin contract is thus not merely an indication of a spirit of trust and friendship between the two great Far Eastern Powers, but also in a way a guarantee against future trouble. ... It [Saghalin oil] is without a doubt an important component part of the mortar of the still imperfect Sino-Soviet-Japanese bloc.” In support of this view Mr. Fischer quotes Admiral Nakasato and Mr. Kshahava, officials of the Japanese Saghalin corporation. The latter is represented as saying:

“This is the best stimulus for the formation by our countries, together with China, of a triple union which would play a decisive role in Far Eastern affairs. The establishment of such a trinity could not, of course, interfere with the various interests within the several nations. The realization of such an idea is already quite possible at the present moment.”

Perhaps ! But the general opinion in diplomatic and military circles outside of Moscow and Tokio seems to be that Japanese economic penetration will probably parallel the Manchurian precedent, which has ended in Japanese economic and military hegemony of nominally independent Chinese territory. If North Saghalin coal and oil are exhausted within the 40-year lease period, Japan may conceivably withdraw—otherwise not. Certainly Moscow will never be able to cancel the Tokio lease as easily as she did the Sinclair contract.

Saghalin may thus become a flame between Russia and Japan instead of a lubricant for the desired Asiatic alliance. Meanwhile Saghalin, as the chief fuel source of the Japanese navy, is down on the war-plan maps of the Powers as a major point for defence or attack in any Pacific naval war of the future.

While Moscow was favouring the then powerful Sinclair interests, Great Britain with the help of France was making another effort to wrest the Caucasus from the Soviet Government. The method employed was the familiar one of supporting disaffected Georgian groups in a counter-revolution. If the rebellion were successful it would eliminate the Bolsheviks’s indirect control over north Persian oil, besides putting a puppet capitalist regime in power in the Baku-Grosni fields. Moscow suppressed this 1924 revolt. The Soviet commander, General Ordzhonikidze, captured documents purporting to show that the rebels received British-French funds.<sup>173</sup> Rebel proclamations had informed the populace French and British ships would land troops at Batum. Two years later the same counter-revolutionists of the Caucasus sought help from the Washington Government. A resolution was introduced in Congress “for defraying the expenses incident to the appointment of a diplomatic representative to the National Republic of Georgia.” At the congressional hearings,<sup>174</sup> it was testified that the “White” Georgian Government had continued its existence in Paris since being driven from the Caucasus by the Bolsheviks in 1921. This Georgian “Government” was represented at the hearings by Dr. Vasili D. Dumbadze and by Mr. John A. Stuart of New York, chairman of the board of governors of the Washington-Sulgrave Institution, a British-American organization. Mr. Stuart was identified as connected with the Ajax Iron Company, producers of oil-drilling machinery. Mr. John Hays Hammond, Mr. Barron Collier, and other American promoters were listed as committee members of the Caucasian Society, supporting this recognition drive. But the State Department was convinced by this time of the relative



permanence of Soviet rule in the Baku-Grosni oil fields, and its official frown withered the Georgian resolution in committee.

In the midst of abortive concession negotiations with British and American companies, and of these counter-revolutionary outbreaks supported by foreign interests, the Soviet Government rehabilitated the Caucasian fields and increased production. From 1924 the Soviet State oil trust became an important factor in the world market. In that year the Anglo-American Oil Company bought 250,000 tons of Russian petroleum.

Anglo-American was acting in this deal as agent for a group including Dutch-Shell, Standard of New Jersey, Vacuum, and Standard of New York. Dutch-Shell took half of the consignment. This co-operative buying by foreign companies was broken up when Sir Henri and Standard caught each other trying to deal separately with Moscow. Both were trying in 1925 to purchase on advance contract most or all of Russia's export production for several years in the future. Standard was acting on direct advice of its counsel, Mr. Charles Evans Hughes,<sup>175</sup> who as Secretary of State had insisted that Moscow could not be trusted to keep faith in any sort of capitalist transaction.

Standard set out early in 1926 to break the sales dominance of Dutch-Shell in the Mediterranean-Suez Canal region. This could be accomplished only with supplies from the nearby Caucasian fields. Dutch-Shell, foreseeing the danger, tried unsuccessfully to buy up the Russian surplus. The Standard company, Vacuum, obtained from the Russian Naphtha Syndicate in March 1926 an Egyptian consignment of 800,000 tons of crude oil and 100,000 tons of kerosene. This order was followed by another from Standard of New York for 500,000 tons of kerosene. Moscow agreed in these sales contracts not to compete with the Standard distributing organizations in the eastern Mediterranean area. Mr. Louis Fischer believes Standard of New Jersey at this time was trying secretly to get a concession for the Emba fields, which rank second only to those of Baku and Grosni.

At any rate Standard's publicity agencies suddenly stopped their long anti-Russian campaign and became actually pro-Russian. Mr. Ivy Lee, Rockefeller "public relations adviser," now wrote a friendly book on Russia.<sup>176</sup>

Co-operation between Russia and Standard enraged Sir Henri. In the zigzag course of oil diplomacy since the war he had been accustomed to defeating Standard, and especially with Moscow. But latterly he had a Caucasian concession within his grasp several times, only to lose it, as he lost the Russian sales contracts to his American competitor. Worse, the Bolsheviks were setting up a sales organization under Sir Henri's very nose, taking away his business in England of all places.

"Napoleon" decided to stop this. He chose the method he had learned from Mr. Rockefeller. He began a price-cutting war, figuring that poverty-stricken Russia could not possibly stand the strain. But Russian Oil Products Company matched him cut for cut. Soon Dutch-Shell with its larger turnover was losing millions of dollars. As a State company, the Russian organization could exist for a while without profits. But Deterding share-holders wanted to know why their dividends were falling.

Such was Sir Henri's extremity on the night of May 11, 1927. The next day his friends in control of the British Home Office made a sudden Government raid on the London headquarters of the Russian commercial agency, Arcos, Ltd. The alleged purpose of the raid was to find "stolen" British military documents. This would force a break in diplomatic relations. The military papers were not found, though certain alleged espionage records were "discovered" by the raiders—whether by design is not clear. Anyway, the purpose of breaking diplomatic relations was achieved.

By Sir Henri? Many informed persons think so. A strong case against him has been drawn up by Francis Delaisi in *Foreign Affairs* (London), October and November 1927. Two facts stand out from the mystery. One, the British Foreign Office and Cabinet were not consulted in advance of the raid. Two, the night before the raid the Soviet Government had obtained a \$50,000,000 credit from the great Midland Bank of London, with the knowledge of the British Foreign Office. That credit had been sought for years by Moscow in every large money market of the world. It was to be about the biggest thing that could happen to Russia. Incidentally it would enable Russia to go on protecting herself against Sir Henri. Whoever caused the mystery raid knew such tactics supported by an inspired press campaign would force the British Premier and Foreign Minister to break with Moscow and force the Midland Bank to cancel the all-important loan.

"What is worrying a good many members of Parliament is the suspicion that we have been forced to take this very grave action at this juncture in order to justify an ill-timed raid on the Arcos offices, undertaken without due consideration, and without Cabinet authority," the London *Spectator* declared.<sup>177</sup> This attitude was voiced also by the Opposition leaders, Mr. Lloyd George and Mr. Clynes, in their questions to the Government in Parliament. Mr. Lloyd George proposed a Commission of Inquiry, which of course was blocked by the Tory Government. So the opportunity for a Deterding investigation passed.

The Russians charge that Sir Henri, a few months before the Arcos raid, destroyed an agreement between Russia and the British-American oil interests settling the old nationalization-compensation dispute. He insisted on a Dutch-Shell monopoly.

"Towards the end of the year [1926] negotiations were in progress concerning the marketing of Soviet oil in foreign countries, between representatives of the Soviet Oil Syndicate and representatives of the foreign oil interests," according to the official *Soviet Union Review* (Washington), November-December 1927. "Formulas were being worked out for the distribution of the Soviet product. In this connexion an agreement was reached, accepted by the foreign companies, covering 'compensation' for foreign claimants of Russian oil lands. The conferences broke up early in January 1927, when Sir Henri Deterding, representing Royal Dutch-Shell, insisted upon a monopoly of Soviet oil export and a limitation on Soviet exports of crude oil. Thereafter began a campaign against the use of Soviet oil in England and a series of sharp attacks on the Soviet Union in a section of the British press. The situation was aggravated by irritation in certain circles in Britain over Nationalist successes in China. The attacks increased in intensity. In May came the Arcos raid and the breaking of relations by the Baldwin Government. In the summer the newspapers reported that Sir Henri Deterding and certain foreign associates were seeking a

monopoly for oil distribution in France, where Soviet oil sales had made heavy gains in the past few years. Sir Henri Deterding's effort failed. Thereafter, in certain French newspapers, was started a heavy barrage of attacks against the Soviet Union, curiously similar to the attacks in the British press following Sir Henri's failure to secure a monopoly of Soviet oil export. The attacks spread. An announcement from Moscow that an agreement had virtually been reached for the funding of the Tsarist debts contracted in France seemed to stir the Die-Hards to more frantic efforts to break relations. In October [1927] the French Foreign Office requested the recall, as *persona non grata*, of Mr. Rakovsky, the Soviet Ambassador who had conducted the difficult debt negotiations for a long period. A new Soviet Ambassador has since been appointed.

“Thus after 10 years the economic and diplomatic blockades sporadically continue. There has been a revival throughout the world of slanderous and absurd stories about the Soviet Union. Sir Henri Deterding has recently launched in the United States a publicity campaign against the Soviet oil industry.”

The Rockefeller interests took advantage of the break between Dutch-Shell and Moscow by filling larger orders for Russian products. In June 1927 Standard of New York bought 500,000 tons of fuel oil for its Near East market, to be delivered over a five-year period, and six months later ordered 360,000 tons more. Vacuum extended for three additional years its May 1926 contract with the Soviet Government. By January 1928 the contracts of the two companies called for 432,000 tons annually, on a progressive scale. This was about one-fourth of the total Soviet export. Several more contracts in April 1928 increased the total Russian sales to Vacuum-Standard of New York to \$10,000,000 a year.<sup>178</sup>

But long before that Sir Henri had been driven to new paroxysms of fury. “The time has come when the purchase of stolen goods from Russia should be treated in fact and in law precisely as the purchase of any other stolen goods,” he declared. To which *The Outlook* (London) replied: “Both the British Government and the American authorities regard business in Russian oil as legitimate. ... The point is simply that the various companies have been trying to do each other in the eye. ... The sordid intrigue and competition is a grim enough business; the attempts to explain it in terms of morality and ethics is sheer hypocrisy. It is indecent and disgusting.”<sup>179</sup>

Mr. Deterding succeeded in producing an apparent split in the Rockefeller forces. Standard of New Jersey issued public statements disclaiming that its hands were soiled by the so-called stolen goods. It neglected to mention that it had joined with Sir Henri and others in buying Soviet oil two years earlier. “The impression that the Standard Oil Company of New Jersey has any trade relationship with the Soviet Government is incorrect,” the company announced on behalf of its president, Mr. W.C. Teagle. Referring to its negotiations with Moscow representatives, the company explained that “as the Soviet Government was unwilling to agree that private property rights should be thus recognized, negotiations terminated and have not since been resumed with the Standard Oil of New Jersey or any of its foreign subsidiaries.”<sup>180</sup> Mr. G.P. Whaley, president of Vacuum, another Standard organization, plunged into the press controversy with a justification for dealing with

## Moscow.

“The Vacuum Oil Company believes that trade contracts with Russia will make for wholesome reconstruction, and, further, that it is only common sense to recognize that Russia is the economic source of supply for certain markets,” according to Mr. Whaley. “An opportunity given to Russia to dispose of some of its surplus in its natural markets will avoid such surplus being forced into competition with American products in markets where transportation costs are in favour of the United States. ... We expect in due course of time to negotiate for compensation covering the large values that were taken over at that time [of revolution] and to make satisfactory recovery, but this can be in time best adjusted without involving the question of either buying from or selling to Russia.” 181

To what extent the apparent division between the Standard companies is real, or how much is camouflage for the benefit of Dutch-Shell, is not clear. Certain price-fixing agreements between Standard of New Jersey and Dutch-Shell in central and western Europe may explain the former's desire to placate Sir Henri. Furthermore Standard of New Jersey does not need Russian oil as much as Standard of New York and Vacuum need it to compete with Dutch-Shell in the Near East market. In view of past dealings of Standard of New Jersey with Russia, and the fact that it and Standard of New York and Vacuum are all Rockefeller companies, the public does not take too seriously the much advertised “split” within the Standard organization over Russian policy.

It is considered significant that Mr. Charles F. Meyer, the official responsible for making the Soviet contracts and carrying the offensive against Dutch-Shell into India, in April 1928 was promoted to the presidency of Standard of New York.

Dr. Wilhelm Mautner of Amsterdam, who is generally recognized as one of the best informed Europeans on Dutch-Shell and Standard relations abroad, doubts very much that Standard of New Jersey is forming an actual alliance with Dutch-Shell against Vacuum-Standard of New York.

Writing in the *Wirtschaftsdienst* August 26, 1927, he said:

“Still keener competition in harder times, because of the new agreements, is the threat that Sir Henri means to hurl at the Standard Oil Company of New York and the Vacuum Oil Company from beside the ruins of his boycott plans against the Russians. A scrutiny of the markets and their distribution among the Standard Oil concerns, as well as the agreements of the New Jersey Company with Dutch Shell makes the matter clear, but at the same time shows the difficult task to be faced by Mr. Teagle for other reasons.

“For these markets, arranged somewhat schematically, are so distributed that the Vacuum Oil Company must reckon with strong competition in Europe, but need not fear a price war with Dutch-Shell in many other fields. The Standard Oil Company of New York, whose sales territory is the eastern Mediterranean and the Near, Middle, and Far East, must keenly compete there both with Dutch-Shell and the Russians, especially as these regions are about the only markets in which the Standard is active, outside of America. The Standard Oil Company of New York has to consider a future competition with Dutch-Shell and the Russians. It must also prepare for competition with the Dutch-Shell in many other fields. Besides, the Standard [N.J.] has certain, though perhaps not



written, agreements with the Dutch-Shell concerning a satisfactory price policy in Europe, and a conflict would jeopardize an understanding reached after much labour.

“So there are many ties that bind Mr. Teagle to Dutch-Shell and he would not care to break them except when extremely necessary. But it is doubtful whether these ties are as strong as those which still bind his company to the concerns which he formerly directed, but which are now outwardly entirely independent. These same circles which own controlling capital interests in his Standard Oil Company of New Jersey are also predominant in the other large Standard Oil companies. A common Standard Oil policy, a distribution of the aims and tasks among the various companies has no doubt been the program up to the present day.

“What has been pointed out makes it clear that a struggle between the New Jersey Company on one side, and the New York and Vacuum Companies on the other, is not probable.”

Dutch-Shell is hard hit. “I had no knowledge or even suspicion that Standard Oil Company after expulsion of Russians from England would profit by the absence of buyers to make large contracts for five years to invade the British Indian market or to supplant American oil there,” Sir Henri said in a press statement August 5, 1927. “My intention is to fight the matter to the bitter end, if necessary over the whole world, as we wish the public to know who caused this dishonest upset of the petroleum industry.”<sup>182</sup>

In the Indian sales war to which Sir Henri refers, the British Government is directly involved through the interlocking connexion of its own company, Anglo-Persian, with the Burmah Oil Company. Burmah Oil and Dutch-Shell have merged their interests in India to fight Standard. Standard of New York and Vacuum are inexpensively winning a market in this battle while Dutch-Shell and Burmah are losing heavily. The Rockefeller companies are buying cheap oil from Russia and other producers. Meanwhile the British allies take losses in both production and distribution. Despite general depression in oil stocks, Vacuum shares increased in value about 50 per cent in the six months following the Arcos raid. Its net profit in 1927 was \$25,500,000. Largely as a result of its Soviet contracts, Vacuum in April 1928 paid a 100 per cent stock dividend and negotiated for control of the Medway Oil and Storage Company (London) to enter the English market with Russian oil against Dutch-Shell. In contrast, within a half-year of Arcos, Dutch-Shell had to borrow \$80,000,000 in the New York market alone, besides reducing dividends. Burmah Oil was unable to pay its regular dividend in January 1928. The market value of its shares fell from 96 to 58 rupees in the last half of 1927.

Standard of New York on January 15, 1928, broke the traditional Rockefeller policy of silence. At last the public was given an inside view of the international oil war—of which diplomats and oil men are accustomed to deny the existence. The Standard statement follows:

“Standard Oil Company of New York has until now refrained from making any public comment upon the attacks directed against it by Sir Henri Deterding, chairman of the Royal Dutch-Shell Company, on account of the purchases of Russian oil. These attacks have now assumed such a character, however, that it is considered by Standard Oil Company of New York that the public should have the facts.

“Standard Oil Company of New York had made purchases of Russian oil in conjunction with several other companies, including the Royal Dutch-Shell interests, for several years prior to 1926. In that year Sir Henri Deterding came to the conclusion that his companies would buy no more Russian oil. Standard Oil Company of New York was asked to refrain from further purchases, but saw no sound reason to comply with this suggestion.

“The long distance between the United States and India makes the cost of transport of oil from this country to the Indian markets a substantial item. If, therefore, Russian oil could be supplied to the Indian markets at a fair price, there was an obvious economy in shipping such oil from Black Sea ports by saving at least 5,000 miles of distance. As the Royal-Dutch had large production in Roumania, it was in position to be fairly independent of supplies of Russian oil, whereas, unless Standard Oil Company of New York was assured of products on a favourable basis in its south-eastern European markets and Asia Minor it would be involved in heavy losses.

“But before proceeding with additional purchases of Russian oil, Standard Oil Company of New York again reviewed the situation in the light of American policy. In July 7, 1920, Secretary of State Hughes had announced that it would be proper for American business men, at their own risk, to trade with Russia. The formal announcement of the State Department read: ‘The restrictions which have heretofore stood in the way of trade and communication with Soviet Russia were today removed by action of the Department of State. Such of these restrictions, however, as pertained to the shipment of materials susceptible of immediate use for war purpose will, for the present at least, be maintained.’

“There were no other reservations in the statement, other than the statement that trading with Russia would be at the trader’s risk. There was no suggestion by the State Department that trading with Russia was in any respect improper, and no subsequent modification has been made in State Department policy.

“Contracts were made in 1926 for purchase of a substantial amount of Russian petroleum over a period of years; Standard Oil Company of New York considers these contracts to be upon a favourable basis.

“It would appear that the views of Standard Oil Company of New York—i.e., that the problem of buying and selling Russian oil is a purely business proposition—are not only in accord with American policy but are also supported by the policy of the British Government, whose political relations with the Soviet are the same as those of the United States.

“The marketing of Russia petroleum in England is done by the Russian Oil Products Co., Ltd., known to be a Soviet-owned institution. On August 26, 1927, after the break between England and Russia, the British Government (through the Home Office) issued a statement, the main part of which was as follows: ‘In view of certain inaccurate and misleading statements which have appeared in the press with reference to his decision requiring two of the directors of Messrs. The Russian Oil Products to leave the country, the Home Secretary wishes to make it plain that his decision involves no new departure in the policy of H.M. Government. As has been stated frequently, the Government desires to place no obstacle in the way of trade between this country and Russia so long as those conducting the trade do not indulge in propaganda or conduct contrary to the interests of this country. It is not the policy of the Government to terminate the activities of any Soviet trading organization which is engaged in trade to the benefit of this country and is not otherwise harmful.’

“Official figures indicate that while the importation of Russian gasoline into the United Kingdom for 1927 has fallen off as compared with 1926, importations of kerosene into the United Kingdom were actually greater in 1927 than for the preceding year. Indeed, in 1927, England imported twice as much Russian kerosene as in 1925. The actual figures as reported by the British Custom House were as follows:

(Expressed in imperial gallons)

	Year 1925	Year 1926	Jan. 1, '27 to Dec. 7, '27
Motor spirits	33,485,014	55,110,882	39,951,539
Lubricat. Oil	4,588,733	4,963,336	6,754,377
Kerosene	15,771,605	35,444,044	34,137,540

“Prior to the arrangement being made between Standard Oil Company of New York and the Russians, the Royal Dutch-Shell Company had been seeking to obtain from the Soviet Government a monopoly for the sale of Russian petroleum products for a term of years, these negotiations having been carried on continuously from May to December, 1926, inclusive. The Royal Dutch-Shell Company had, indeed, actually purchased some 200,000 tons of Soviet Russia oil as far back as 1922.

“Standard Oil Company of New York had subsequently participated with the Royal Dutch-Shell Company in making additional purchases. When Sir Henri Deterding decided to make no more such purchases, and found that it was the purpose of Standard Oil Company of New York to go forward with the contracts it had made with the Russians, he issued a statement announcing his purpose to fight to the last ditch every effort of Standard Oil Company of New York to market Russian oil in India.

“That the considerations dictating the policy of the Royal Dutch-Shell Company were of a purely business character rather than having to do with any other phase of the subject, and that the Royal Dutch-Shell interests were quite prepared to handle and sell Russian oil when, as, and if they could obtain that oil on terms satisfactory to themselves, is indicated by the fact that the Asiatic Petroleum Company, Ltd., a subsidiary of the Royal Dutch-Shell Company, imported the following quantities of Russian kerosene oil into India and Ceylon: During 1923 over 8,460,000 imperial gallons; during 1924 over 10,690,000 imperial gallons; during 1925 over 4,730,000 imperial gallons.

“Up to the end of 1927 Standard Oil Company of New York had imported into India a total of between 400,000 and 500,000 barrels, or 21,000,000 imperial gallons.

“In September 19, 1927, the New York representative of the Asiatic Petroleum Company, Ltd., which is the Royal Dutch-Shell’s subsidiary in India, handling also the products of the Burmah Oil Company, the Royal Dutch-Shell pool supplying about 70 per cent of the oil used in India, notified Standard Oil Company of New York that the Royal Dutch-Shell interests would reduce prices on superior oil as soon as any more Russian oil arrived at Indian ports.

“No one familiar with conditions in India would seriously suggest that the importation of Russian oil or other foreign oil into India constituted a menace to the Indian or Burmah oil industry.

“That there was no surplus of Indian-produced oil to justify price cuts such as these is indicated in a pamphlet the Burmah Oil Company, Ltd., recently sent out, ‘with the compliments of the directors’ of the company—in which it is said: ‘Indigenous production of kerosene never was and is not now

either potentially or actually sufficient to meet the Indian demand for the product.’

“True to their promise, the Royal Dutch-Shell interests, on September 23, initiated the threatened reductions in India. An additional cut was made the following day. And a few days later the prices of all inferior grades of refined oil were reduced correspondingly.

“On November 4 last Royal Dutch-Shell agents were authorized to allow a ‘secret rebate’ on sales and on November 25 the company notified its agents that it would give an additional bonus for all increased deliveries of high grade oil over the corresponding periods in 1926.

“This kind of competition still continues. The cut prices in all cases were initiated by the Royal Dutch-Shell interests. They were not justified by economic considerations. Standard Oil Company of New York has met certain earlier reductions in order to hold its market position, but its prices are today higher than those being charged by its competitors. The significance of this price warfare will be realized when it is stated that this form of competition, if continued, will cost the Royal Dutch-Shell and Burmah Oil Companies approximately \$12,750,000 a year and Standard Oil Company of New York approximately \$4,000,000 a year.

“This price-cutting was conceived and organized and initiated by the Royal Dutch-Shell interests. Standard Oil Company of New York has followed it only insofar as seemed absolutely necessary to protect its market position. At no time has this company deliberately undercut the prices of its competitors or offered secret or other rebates to undermine the position of its competitors.

“Standard Oil Company of New York will continue to supply its markets effectively; it will carry out all contracts into which it has entered; and it will not be swerved in any manner from its clearly conceived policy by such desperate and destructive measures as are being followed in India, and threatened in other parts of the world.”<sup>183</sup>

Sir Henri returned Standard’s press attack. On January 18, 1928, the New York *Times* published the following formal statement and supplemental interview with Mr. Richard Airey, Dutch-Shell representative in New York:

“While Mr. Airey issued the statement over his own name, he announced that he was speaking for the Royal Dutch group, and it was understood that he was doing so under authority cabled to him by Sir Henri. The statement follows:

“The Standard Oil Company of New York’s statement that they are taking a loss in India of \$4,000,000 per annum, owing to substituting Russian oil for American oil, is a big penalty to pay for lack of foresight. The negotiations which they mention as having been carried on continuously from May to December, 1926, inclusive, had two objects: Firstly, to obtain compensation for the former owners of the Russian oil lands, which had been confiscated without compensation by the Soviet Government. Secondly, to prevent a demoralized market. If these negotiations had been successful the oil would have been shared with other companies and so insured a steady market. The question of compensation for the former owners was being seriously entertained, but the action of the Standard Oil Company of New York prevented its success as by their purchases relief was given to the Russian Soviets and they no longer had any reason to consider provision for the former owners. So long as the Standard Oil Company of New York was marketing American oil in India things went along as usual, but with the importation of Russian oil, which is described by Sir Henri Deterding as



stolen goods, to substitute the American oil, the Royal Dutch-Shell group decided to try and prevent it being marketed and will continue to do so. I do not anticipate a price war in any other country, but this is entirely in the hands of the Standard Oil Company of New York. If they ship Russian stolen goods to any other country, the Royal Dutch-Shell group will fight it.'

"Mr. Airey said that up to this time the Standard of New York has been marketing only American oil in China and he saw no reason, under present circumstances, for a fight between the two organizations there. Should the Standard of New York begin using Russian oil there, however, the Royal Dutch will offer resistance, he indicated. The same course will be pursued in any other country in which the Standard of New York tries to market Russian oil.

"Mr. Airey denied reports that the Royal Dutch was preparing to retaliate against the Standard of New York in its American markets. There has been no recent extension of the markets of the Royal Dutch subsidiaries in this country, he said.

"The efforts to have the Russian Government compensate former owners of the oil properties seized were frustrated by the Standard of New York, in the opinion of the Royal Dutch interests. Mr. Airey said he understood the Soviet Government at one time was willing to arrange some plan of compensation.

"He said he did not know whether it was true that the Soviets, in their contracts with the Standard of New York and the Vacuum Oil Company, had agreed to set aside a portion of the proceeds of the sale of oil as a fund to be used eventually in the settlement of the claims of the former owners of oil properties in Russia. It has been reported from time to time that such an agreement was made."

In this bitter dispute between Dutch-Shell and Vacuum-Standard the American press in the main supported the latter. Here are some of the reasons:[184](#)

"The policy of the Vacuum is defended by its president, G.P. Whaley, on the ground that it is not 'more unrighteous to buy from Russia than to sell to it.' He seems to have the better of the argument. No one objected when the Russian Government exchanged some of the confiscated jewelry of the nobility for cash and then bought American farm implements. No one objects when Russia places a big order here for American cotton, or even thinks of inquiring where the money came from. If we are to be consistent, no middle ground is possible. We must either place an absolute embargo on Russian trade or else we must recognize de facto ownership and let the reparation for confiscated property await Russia's return to economic sanity." *New York World*, July 27, 1927.

"There seems to be no cogent reason why American public opinion should force American oil companies to forgo their only chance of business in the Near East (and leave this business to Sir Henri's Royal Dutch-Shell companies) for the sake of compelling the Russian Government to return Sir Henri's property to him in just the way Sir Henri wants it returned." *New York American*, August 6, 1927.

"One reason why some of the students of the oil situation cannot believe that the Dutch-Shell group and the New Jersey company are guided only by the alleged unethical procedure in dealing with a nation which does not respect private property rights is the fact that both companies have been very anxious to get Russian oil." *Washington Star*, July 31, 1927.

“The head of the European oil combine has not been successful in his attempt to affix a stigma of immorality to all those who deal in Russian oil. He has only succeeded in exposing his own inconsistency in this matter. It now looks as if his statistical offensive would also collapse, if it has not already done so.” *New York Journal of Commerce*, October 8, 1927.

“American buyers and friends here maintain their original position that, since the Soviets have oil to sell and are willing to dispose of it cheaply, somebody is bound to buy it. They consider it better to buy the product and regulate marketing than to leave it for the Russians to dump promiscuously in eastern markets.” *New York Wall Street Journal*, July 20, 1927.

“Stupidly we boast of producing 70 to 80 per cent of all the oil consumed in the world, apparently utterly oblivious of the fact that the faster we sell our limited and fast-dwindling stores the quicker we ‘will be at the mercy of every aggressor.’ Standard Oil of New Jersey may be indignant because of the rumored oil deal with the Soviets, but Standard Oil of New York—a member of the same family—should be warmly congratulated if it is true, as stated, that it plans large purchases from Russia, however ‘Red’ or otherwise unorthodox the Russians may be.” *New York Telegram*, July 29, 1927.

One of the amusing aspects of this situation was that the United States Shipping Board, at the height of Standard-Deterding competition and invective in the winter of 1927-28, ordered 24,000 tons from Standard for delivery to American Government vessels at Near East ports. The United States Government, which once carried its horror of dealing with Russia to the point of near-mania, now buys Russian oil. Incidentally the United States Government is thereby liable to suit in British courts by Sir Henri for receiving “stolen goods” allegedly owned by him through his possession of Tsarist stocks and bonds. The Shipping Board’s excuse is that it got Standard-Russian oil for \$10.95 a ton, while Sir Henri tried to charge the Board \$13.66 a ton. That price gap shows what Russian oil means to Standard and Dutch-Shell in dollars and cents competition.

While fighting Standard, Sir Henri is not neglecting his direct war on Moscow. In addition to heavy holdings in Tsarist oil stocks at the time of the Genoa Conference, he was reported to have spent \$30,000,000 from 1923 to 1927 in acquiring titles to other Russian oil properties nationalized. He therefore had an increasing financial stake in the overthrow of the Soviet Government. This was the situation when local and foreign press correspondents in Berlin connected Dutch-Shell with the so-called chervonetz forgery scandal.

“In order to clear up the chervonetz forgery scandal the Berlin police have asked permission of the German Government to search the local offices of the Royal Dutch-Shell Company,” the Berlin correspondent of the *New York Times* reported November 22, 1927. “According to persistent rumors, the confidential agent of Sir Henri Deterding, president of the British petroleum concern, spent some time in Germany and was under suspicion as active in financing the counterfeiting scheme. Although the Foreign Office and the British Embassy declare that nothing will be kept from the public, it is an open secret that the police have orders to hush up the whole matter.” **185**

Russia so far has not suffered from its quarrel with Dutch-Shell, except through loss of the Midland Bank loan and Great Britain’s break in diplomatic relations.

While Great Britain estimates the decrease in England's oil imports from Russia at 60 per cent in 1927, Russia's world oil business rather has improved. In addition to sales contracts with Standard, Moscow has sales agreements with the Spanish oil consortium. Soviet statistics indicate Russia is supplying 49 per cent of Italy's oil consumption, 21 per cent of the French, 60 per cent of the Turkish, 16 per cent of the German, 15 per cent of the Belgian, and 4.4 per cent of the English import.<sup>186</sup> Russian oil exports in the fiscal year 1927 increased 115 per cent to France, 85 per cent to Egypt and India, 44 per cent to Germany and central Europe, and 25 per cent to Italy. According to the Soviet Union Information Bureau, Washington: "Soviet oil exports for the fiscal year ending September 30, 1927, amounted to 2,038,000 metric tons, breaking all Russian records. The previous high mark was 1,837,000 metric tons, back in 1904, before the decline in production under the old regime. Exports for the year were 123.4 per cent higher than those in 1913 and 38.4 higher than in 1925-26."<sup>187</sup>

There was a record production of 72,400,000 barrels in 1927, the output having doubled in four years. Russia now ranks second to the United States in world production, after displacing Mexico in second rank for the first time in 25 years. New drillings increased 30 per cent during 1927. Estimates of M. Lomov, president of the Russian Naptha Syndicate, quoted by Mr. Louis Fischer, rate Russia's oil reserves as the largest in the world, or 8,000,000,000 barrels "alone in its richest oil regions, exclusive of Emba, exclusive of recently discovered oil lands, and exclusive of Turkestan."<sup>188</sup> The United States Geological Survey estimates Soviet oil reserves at approximately 6,755,000,000 barrels. This places Russia's resources above the estimate of the United States' reserve of 5,500,000,000 barrels by the Coolidge Federal Oil Conservation Board.

With the rapid depletion of American reserves, and increasing demand for oil in peace and war pursuits, the future importance of Russian petroleum seems assured. Soviet equipment in the Caucasus has been modernized. In Baku 95 per cent of the wells are electrified, compared with 30 per cent pre-war. Under its sales contract, Standard is building a new refinery there. New pipelines are being constructed. In 1927 Russia put \$95,000,000 of new capital into exploitation and plant. With larger capital investment the Baku and Grosni production can be increased, and many new fields developed. The latter include, besides Emba, the districts of Maikop, Chelekea, Gora, Derbent-Berekee, Kertch, Kakheta, Uchta, and Izbekstan. Present Moscow policy aims at State retention of Baku and Grosni, with probable disposition of lesser fields to foreign concessionaires. "Soviet oil men are playing a waiting game in the hope of holding large oil reserves for decades after America and other countries will have exhausted their own supplies," Mr. Frederick Kuh, United Press correspondent, wrote from Grosni November 25, 1927. "If successful, this policy would assure the Russians of one of the most valuable trump cards in the diplomatic gamble and economic struggle of the future. They are deliberately curtailing production in the Grosni fields. Were these oil wells and gushers allowed to work at full capacity, their output could be doubled immediately."

Russia frankly is trying to use her oil riches to obtain foreign capital. Despite increased Soviet production and export, the low oil market due to excessive world production has held Russia's

profits to a minimum. Therefore petroleum has not freed Moscow from the necessity of seeking loans from abroad. This search has been unsuccessful so far. After collapse of the British Midland Bank credit, Moscow tried without results to get loans in Paris, Berlin, and New York. President Mitchell of the National City Bank of New York had secret conferences in Paris in August 1927 with M. Rakovsky, before the latter was declared *persona non grata* as Soviet Ambassador to France. Though these negotiations were unfruitful, M. Rakovsky tried to use them to bolster his French loan negotiations. The French replied by ordering his expulsion. It was charged later that the French Secret Service had concealed a dictaphone in the Rakovsky-Mitchell conference room. Since the Arcos raid and rupture in British relations Moscow has renewed its efforts to obtain loans in the United States. Such loan efforts are of course closely connected with general trade and concessions as well as with oil. Russia in the fiscal year 1927 placed orders in this country to the amount of \$72,631,378, surpassing all previous records.<sup>189</sup> She is willing to increase such purchases if loans can be obtained. So far American bankers and manufactures have granted only short-term credits, raising the price of their goods in ratio to the time-length of the credits. As a part of its American drive, Moscow awarded to a Chicago firm a favorable Dnieper improvement contract, originally given the Germans. It also revised the Harriman manganese concession in Chiaturi to the advantage of the Americans. Losses of the Harriman enterprise, the only large American concession, made poor bait for other American concession capital. Harriman's losses were due in part to over-production and competition from the Soviet State Nikopol fields, whose output was marketed by a German agent. Under the 18-year amended contract of June 4, 1927, Harriman obtained a measure of control over total Russian production, involving reduced Nikopol output, and a lower production tax, though he is still dissatisfied.

Besides this more liberal concession policy, Moscow desires to place in America most of the orders which Arcos at the time of the raid was handling in England. Russian trade with Great Britain had risen in value from \$30,000,000 in 1921 to \$220,000,000 in 1925. Soviet imports from Great Britain during the fiscal year ending September 1927—including three months of the post-Arcos slump—amounted to \$76,000,000.<sup>190</sup> Russian-American total trade turnover in the fiscal year 1926-27 was given by Moscow as approximately \$90,000,000. The United States Department of Commerce stated on January 9, 1928:

“Soviet purchases in the United States, since the Anglo-Russian break and the refusal of German firms to extend further long credits to Russia, have greatly increased; orders placed by the Amtorg in the 1926-27 fiscal year [October 1-September 30] were double those for the previous 12 months. Over 60 per cent of orders were for raw materials, semi-fabricates, and industrial equipment; another 25 per cent was for tractors and agricultural supplies. For 1928 this policy will be continued, with a still greater increase in orders to America promised, particularly for equipment for gold mining, hydro-electric development, and for other industrial machinery.”

Russian-American trade fluctuates according to political and credit conditions elsewhere. “Despite handicaps inherent in the lack of a formal trade agreement between the two countries, the annual



turnover, beginning with the Soviet fiscal year 1924-25, has been about double the prewar figure,” the Soviet Union Information Bureau, Washington, points out: “In 1924-25 the turnover reached a high point of \$118,000,000 of which American exports to the Soviet Union were \$103,618,000. Thereafter, by establishing large trade credits under government auspices, Germany has succeeded in diverting a considerable amount of the Soviet purchases. The United States held second place on the Soviet trading list in 1924-25, but has since slipped to third position.”<sup>191</sup>

The State Department in November 1927 liberalized to a very limited extent its Russian loan policy. Before that the Department had opposed everything but short-term secured credits. Then the Department said it had no objection to loans and long-term credits provided such money was used exclusively in payment for American goods ordered prior to the loan, and provided public sale of bonds was not necessary to float the loan. This policy was laid down in connexion with the Department’s expression of disapproval of the proposed \$40,000,000 Farquhar loan for steel plant construction at Makeyeva in the Don coal and iron basin. Washington objected on the basis of reports that New York banks were to furnish the money but German companies were to get the material orders. Russia, in conformity with the new Washington policy, sent buyers to this country to obtain the Makeyeva materials. Later the Soviet Government rejected the Farquhar contract because of his inability to obtain funds on satisfactory terms.

In the autumn of 1927 Moscow attempted to float a \$30,000,000 railroad bond issue, and about \$100,000 of this paper was sold by mail in the United States. The Chase National Bank of New York, which had been extending short-term credits to Russia for several years for the purchase of cotton and machinery in this country, advertised that it would act as agent of the Moscow Government, paying interest to these American railroad bond holders. The New York Life Insurance Company and others protested to the State Department on the ground that they held Tsarist railroad bonds which they valued at about \$20,000,000. The Department informed the “guilty” banks of its disapproval of their action, and on February 1, 1928, issued the following formal statement:

“The Department objects to financial arrangements involving the flotation of a loan in the United States or the employment of credit for the purpose of making an advance to the Soviet regime. In accordance with this policy, the Department does not view with favour financial arrangements designed to facilitate in any way the sale of Soviet bonds in the United States. The Department is confident that the banks and financial institutions will co-operate with the Government in carrying out this policy.”<sup>192</sup>

The Department in all foreign loan matters exercises an extra-legal and much criticized function in advising banks. Though such advice is not binding it has never been disregarded by the bankers. The Chase National Bank was reported to have bowed to the Department’s Russian ban. This, however, does not prevent Americans from continuing to buy such bonds and collecting interest directly through Moscow. Nor does the Department’s statement prevent banks from extending credits to Russia for purchase of American goods provided no cash goes to Russia and no public

loan flotation is involved.

Discussing Russian relations in 1928, Secretary of State Kellogg argued that political non-recognition did not retard trade. He said:

“No result beneficial to the people of the United States or, indeed, to the people of Russia, would be attained by entering into relations with the present regime in Russia so long as the present rulers of Russia have not abandoned those avowed aims and known practices which are inconsistent with international friendship. ...

“As concerns commercial relations between the United States and Russia, it is the policy of the Government of the United States to place no obstacles in the way of the development of trade and commerce between the two countries, it being understood that individuals and corporations availing themselves of the opportunity to engage in such trade do so upon their own responsibility and at their own risk. The American Government has interposed no objection to the financing incidental to ordinary current commercial intercourse between the two countries, and does not object to banking arrangements necessary to finance contracts for the sale of American goods on long-term credits, provided the financing does not involve the sale of securities to the public. The American Government, however, views with disfavour the flotation of a loan in the United States or the employment of American credit for the purpose of making an advance to a regime which has repudiated the obligations of Russia to the United States and its citizens and confiscated the property of American citizens in Russia.”<sup>193</sup>

Russia hopes ultimately to get a straight loan or cash advance in this country through Standard. Standard has its own banking facilities which would permit such a transaction on a private basis, without going into the open market and running foul of the State Department. But so far Standard has been unwilling to advance a large loan to Moscow until Russian-American relations are regularized by diplomatic recognition.

In the event of an oil shortage in this country Russia's resources will become a more important, though probably not a determining, diplomatic factor. That point has not been reached. But there has been some change. Washington policy is less emotional and more cynical. Formerly the United States would not discuss recognition with Russia largely because of fear.<sup>194</sup> Now recognition negotiations are postponed because of the belief that time weakens the position of Russia and strengthens the United States, leading to a crisis in which Moscow will seek recognition practically on Washington's terms. Washington thinks Russia must have large loans which cannot be obtained outside of this country. Some day the Communist dictators will have to compromise with the strongest capitalist government in the world, in the judgment of American officials.

There is little public pressure in this country for Russian recognition, not enough to outweigh opposition of the American Federation of Labour. Recognition is dependent upon Russia making a satisfactory deal with a few men in New York and Washington. Washington will insist that Moscow agree to prevent Communist International propaganda in this country, to recognize and fund the Kerensky debt to the United States Government, and to return or compensate for expropriated American private property.

The State Department is not now afraid of Communist propaganda and, unless Russian negotiations were held at a time of economic stress and labour unrest in this country, would probably be willing to accept in good faith the pledge of non-propaganda which Moscow is ready to give. Russian officials have expressed their willingness to negotiate funding of the Kerensky debt, which amounts to somewhat over \$250,000,000 including interest. On the basis of the American-Italian debt funding settlement of 25 cents on the dollar with payments spread over 62 years, the Kerensky obligation is considered relatively unimportant. The "principle" involved in such a settlement is more important to Moscow because of the larger Russian debts to France and other countries. The "principle" rather than the cash is equally important from the opposite angle of the United States as the world banker whose future depends on the sanctity of financial obligations. There remain expropriated property claims of Americans, which amount to more than \$400,000,000. A mixed claims commission would require several years to consider and dispose of these cases. Russia now would insist upon presenting counter-claims growing out of United States military intervention in Siberia. But Washington hopes that Russia may be in such financial need before recognition negotiations begin, that the Bolsheviks will not be able to force American settlement of counterclaims.

Recognition terms, therefore, apparently will depend on this race between Russia's need for outside capital, forcing Moscow to compromise, and on America's need for Russian oil.<sup>195</sup>

American dependence upon Russian oil in the future is perhaps overestimated by Moscow. It is true that Standard, as indicated by its Russian contracts, must have Caucasian petroleum if it is to compete successfully against Dutch-Shell in the Mediterranean-Suez area and in India. Moreover there are indications that **Standard will use to the full its influence in Washington for Russian recognition**, if this is necessary to turn the scales in the coming competition between Dutch-Shell and Standard for Russian concessions. But Russian oil contracts and concessions are not imperative from the standpoint of the Washington Government because of any anticipated depletion of American oil supplies. American officials look rather to Mexico, Colombia, and Venezuela in event of probable American shortage.

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<sup>156.</sup> Cf., **Appendix B**.

<sup>157.</sup> Commerce Department, *Foreign Capital Investments in Russian Industries and Commerce*, M.S. No. 124. 1923.

<sup>158.</sup> Cf., Vacuum Oil Company statement, *New York Times*, July 22, 1927.

<sup>159.</sup> Federal Trade Commission, *supra*, pp. 103-104.

<sup>160.</sup> Cf., Standard Oil Company of New Jersey, Genoa Conference press statement quoted in *New York American*, July 29, 1927.

<sup>161.</sup> For fuller treatment of the Genoa and The Hague conferences, cf., Louis Fischer, *Oil Imperialism*, pp. 38 ff. 1926. Davenport and Cooke, *supra*, pp. 127 ff. Mohr, *supra*, pp. 93 ff.

<sup>162.</sup> *New York Times*, May 12, 1922.

<sup>163.</sup> *London Petroleum Times*, May 26, 1923.

164. Cf., Chap. II.
165. Fischer, *supra*, p. 209.
166. Letter to London *Times*, Dec. 26, 1921.
167. 68th Congress, 1st Session, Senate Document No. 97, pp. 113-116.
168. August 3, 1918.
169. Commerce Department, *Foreign Trade Notes*, Dec. 31, 1927.
170. New York *Times*, Nov. 21, 1927.
171. Commerce Department, *Foreign Trade Notes*, Oct. 8, 1927.
172. Fischer, *supra*, pp. 205-206.
173. United Press, Tiflis dispatch by Frederick Kuh, Oct. 4, 1924.
174. Cf., Washington *United States Daily*, April 6, 1926, for Georgian recognition resolution and hearings.
175. Cf., New York *American*, July 29, 1927: "It is said here in New York that Charles Evans Hughes advised the Standard of New York and Vacuum in their latest contracts for Russian oil. That ought to make them feel comfortable."—by Edwin J. Clapp. For this, and collection of other statements by the press, Standard companies, Sir Henri Deterding, and Soviet representatives, on purchases of Russian oils, cf., Amtorg Trading Corporation, New York, Soviet Oil Industry. 1927.
176. Ivy Lee, *U.S.S.R., A World Enigma*, 1927.
177. Boston *Living Age*, July 1, 1927.
178. New York *Times*, April 3, 1928.
179. Boston *Living Age*, Sept. 15, 1927.
180. New York *Current History*, September 1927.
181. *Ibid.*, September 1927.
182. New York *Times*, Aug. 5, 1927.
183. *Ibid.*, Jan. 16, 1928.
184. *Soviet Oil Industry, supra*.
185. New York *Times*, Nov. 23, 1927.
186. United Press, Baku dispatch by Frederick Kuh, Nov. 30, 1927.
187. Press release, Nov. 3, 1927.
188. Fischer, *supra*, p. 10.
189. *Soviet Oil Industry, supra*, p. 30.
190. Washington *Soviet Union Review*, January 1928.
191. *Ibid.*, November-December 1928.
192. New York *Times*, Feb. 2, 1928.
193. Kellogg, *supra*, pp. 49-50.
194. Cf., Hughes, *supra*, pp. 35-45, for "Reasons Why United States Refused Recognition to Russia." Also, New York *Current History*, February 1926, for articles on Russian recognition by Leon Trotsky, E.M. House, Irving Bush et al. Also, American Trade Union Delegation Report, *Russia After Ten Years*. 1927.
195. Cf., Soviet Union Information Bureau, Washington, *Commercial Handbook of the U.S.S.R., 1927*, for Russian economic conditions.



## CHAPTER ELEVEN

*Getting Rid of the Spoils*

ANGLO-AMERICAN sales conflict is not limited to the war for Eastern markets and Russian supplies, described so luridly by press statements of Standard and Sir Henri Deterding.

Sales competition exists in all world markets as the inevitable result of competition between the same companies for the world's producing fields.<sup>196</sup> Often it is easier to get the oil than to get rid of it. Within the last two or three years marketing problems have been more difficult than exploration or exploitation. This is due partly to overproduction, creating a glutted market and intensified sales competition. Of more lasting importance is the swing in non-producing countries toward restrictive marketing regulations and State distributing monopolies. Such restrictions or monopolies exist in some form in Spain, Italy, Russia, Poland, Turkey, Greece, Argentina, Australia, and are contemplated in France, Japan, China, Colombia, Chile, and Peru. This movement started in countries where American and British trusts gouged the local public, either through single private monopoly or by combining temporarily in price-fixing agreements. It spread to other countries, even to countries where British and American competition has benefitted native consumers.

Apparently State monopoly control of gasoline and other petroleum products is part of the general tendency toward governmental regulation of industry, stimulated in this instance because the corporations affected are foreign-owned.

This new development cuts across the older and continuing Anglo-American competition either for retail trade or for wholesale contracts with State trusts. Such increased competition has forced greater distributional efficiency, narrower range of profits, and in many cases complete reorganization, involving establishment of refineries and treating plants in consuming countries.<sup>197</sup>

Solution of these increased marketing problems is especially important to American companies. United States domestic exports of crude oil and refined products amounted in 1926 to almost 124,000,000 barrels, 86 per cent more than in 1921. The value of these exports in 1926 was more than \$554,000,000. The increase continues. For the first nine months of 1927 the total was almost 98,000,000 barrels compared with 92,000,000 barrels for the same period of 1926. Refined oils constitute the largest single group of United States manufactured exports. This country's production of refined products in 1926 exceeded any preceding year, gains ranging from one per cent in fuel oil to more than 15 per cent in gasoline. This increase was possible because of steadily rising domestic and foreign consumption. The United Kingdom took in 1926 almost 15,000,000 barrels of gasoline, an increase of 78 per cent. Cuba tripled her order. France, Holland, Scandinavian countries, Australia, and New Zealand imported more American "petrol."

What portion of these United States production and export totals represents output and shipments by American-owned companies, and how much by British companies operating in this country? Rough estimates give Dutch-Shell about one-tenth of the crude production here, compared with

3½ per cent in 1923.<sup>198</sup> No exact data are available, thanks to the secrecy under which the British trust operates in acquiring nominally American companies.

What is the relationship between United States export of manufactured petroleum products and of total sales by American companies, including their crude and treated products which do not go through this country? Accurate answers are unobtainable.

A monetary measure exists, however, which gives some idea of the extent of American capital interests involved in the international sales competition. Officials “conservatively” estimate marketing investments of American oil companies abroad, exclusive of producing capital, at \$1,500,000,000. This \$1,500,000,000 is a gauge of the interest of Standard and the State Department in alleged unfair conditions in the marketing conflict, embracing both the competition with British companies and the foreign political movement toward State sales monopolies and expropriation of American plants.

After stressing the large amount of American capital investment involved, Mr. John H. Nelson, Department of Commerce, says: “It is perhaps needless to point out that the extended development abroad of nationalization, sales monopolies and refining capacity will seriously restrict, if not jeopardize, the continued profitable employment of a large portion of capital.”<sup>199</sup>

These problems and attendant diplomatic disputes are expected to multiply with growth of foreign consumption. British petroleum imports, including those for re-export, amounted to almost 2,000,000,000 barrels during the first nine months of 1927, compared with less than 1,500,000,000 in the same period of 1925. In the first half of 1927 such German imports increased 25 per cent, and in Spain almost 35 per cent. Italian imports are increasing about 25 per cent a year.

There will be accelerated rise in foreign consumption with wider use of automobiles and oil-fuel ships. The ratio of oil-fired ships to total world merchant shipping tonnage increased from 2.65 per cent in 1914 to 28.37 per cent in 1927, while oil motor-ships increased from 0.47 per cent to 6.14 per cent, the Berlin Dresdner Bank estimates.<sup>200</sup>

In many countries “educational” campaigns are being carried on to demonstrate that the automobile—usually of American manufacture—is not a toy or luxury but an economy machine. American industrial prosperity and supremacy are shown in these campaigns to follow the upward curve of automobile sales here, the moral being that other countries can duplicate this process. With only six per cent of world population, the United States in 1927 had 80 per cent of the automobiles. The ratio of persons per automobile here was five, compared with 11 in Canada, 43 in the United Kingdom, 45 in Argentina, 46 in France, 196 in Germany, and 294 in Italy. But with world production increasing from 18,000,000 cars in 1924 to 28,000,000 in 1927, an increase of about 50 per cent, foreign consumption in the same period rose almost 200 per cent to a total of 6,000,000.

Larger gasoline consumption abroad precipitates disputes over refineries.<sup>201</sup> Standard and other producers are torn between three-fold conflicting demands to treat their crude product in established American plants, in the country of origin, like Venezuela, and in the consuming countries. Standard and Dutch-Shell hesitate to make heavy investments required to construct and

operate manufacturing plants in countries where they fear revolutions or “Socialistic” legislation. Hence much Mexican oil has been refined outside that country, usually in the United States. In the case of Venezuelan production, Dutch-Shell has built its refineries in the neighbouring Dutch West Indies. American companies in Venezuela are shipping their raw product to this country, though Standard contemplates erecting plants either in the Dutch West Indies or in Venezuela, depending upon the kind of bargain the Caracas Government is willing to make. Often American and British trusts are “encouraged” to build treating plants in the consuming countries to escape a tariff differential fixed for that purpose. In other countries, as in Argentina and probably soon in Colombia and Peru, the State operates its own refineries, either under discriminating competition with American and British distributors or under a complete governmental monopoly. Sometimes the State prefers a joint arrangement for control of refineries with a foreign producing trust, as in the case of the Australian Government and Anglo-Persian.

Spain has gone the whole way.<sup>202</sup> In 1927 it established a marketing monopoly under Government auspices and seized American properties valued at \$30,000,000. Washington and London made diplomatic representations. Over half of the expropriated property belongs to American companies, chiefly Standard. Dutch-Shell is the second largest owner. Standard and Dutch-Shell struggled for years for supremacy there. The Rockefeller trust was on top when the State intervened with its monopoly. Of the annual requirements of more than 2,000,000 barrels, Standard of New Jersey supplied about 50 per cent, in addition to the business of Vacuum, a Standard subsidiary, and other American firms. Dutch-Shell had about 35 per cent. Well over half of the products sold there came from American and British supplies in the United States. These exports mounted in 1926 to almost \$8,000,000. It was a trade worth fighting for. But in that year Moscow entered the Spanish market, selling wholesale to American, British, and Spanish distributing companies about 12 per cent of the total market demand.

Then the Madrid Government decided to take over the industry. Royal decrees in June and October 1927 gave exclusive monopoly for importation, storage, distribution, and sale of all oil products, to a consortium of 37 Spanish banks under Government auspices. Throughout the autumn the monopoly organization seized American and other foreign plants and installations, preparatory to taking over complete operation of the companies the first of the year 1928.

The State Department announced December 29 it was “watching the situation closely and has from time to time issued appropriate instructions to the American Embassy at Madrid to make representations in order to protect American oil properties in Spain. A telegram from the American Charge d’Affaires at Madrid, dated December 27, stated: ‘Interviewed the Premier yesterday and, at his suggestion, Minister of Finance. Seizures and compensations were fully discussed and appropriate representations made. Both Ministers gave assurances that valuation of property seized or products seized would begin immediately; that the entire industrial property of the companies involved will be directed by the monopoly; that interest payments will be made from the date of seizure and that compensations will follow as rapidly as possible. Both stated that it was the Government’s intention to deal generously with expropriated interests.’”<sup>203</sup>

Standard and Dutch-Shell are using all their influence in an unsuccessful attempt to break the State monopoly. As soon as the "calamity" occurred, they summoned diplomatic reserves from London and Washington. But the British and United States Governments are handicapped. Under international law, foreign governments cannot, or at least should not, interfere in the domestic affairs of another sovereign state. When this rule is broken the victim is a government which cannot defend itself or whose friendship is not desired by the larger Powers. Dictator de Rivera obviously was a person to be dealt with gently and with observance of due diplomatic form. The issue of discrimination could not be raised. Diplomatic representations by London and Washington, therefore, were limited to requests for Spanish assurances of equitable compensation for expropriated properties. The dispute now centres on this question. Properties are appraised by the companies at a much higher figure than the Government will pay. There is also disagreement regarding method of payment. Madrid intimates it might pay five per cent interest, pending amortization of the total debt. The companies insist on more. The companies also want to be reimbursed for their trade loss or intangible assets in addition to physical properties.

Fines up to 25,000 pesetas are provided by the Royal decree for obstruction of seizures. The Cabinet is empowered to impose heavier penalties in some cases. Ordinary legal redress for the companies is precluded by special processes provided for disposing of complaints and fixing compensations.

With establishment of the State trust, competition began for its wholesale contracts. Standard has not participated, as the Government anticipated, in this competition to get back indirectly the business lost to the State organization. Like governments, Standard's specific interests in one country often conflict with its larger interests in other countries. In such cases the company's international policy determines its tactics. If Standard were to compromise with the State monopoly and expropriation in Spain, other countries in which the American trust does business would be encouraged to follow the Spanish example. To keep its hands free to block such governmental measures elsewhere, Standard is now outlawing the Madrid trust. Standard's only remaining weapon is sabotage through its partial control of international credit, which in this instance probably will be insufficient. Dutch-Shell apparently is following Standard's boycott tactics, though some of the unsuccessful British bids for a State contract indirectly may have represented the Deterding combine.

American independent companies and Russia got the State wholesale contracts in 1928. Reports conflict regarding the share of each. The Soviet Naphtha Syndicate announced it would supply 520,000 tons, or about 60 per cent of Spain's estimated consumption. The rest is furnished by the Petroleum Export Association of New York, subsidiary of American Republics Corporation, which claims 50 per cent.<sup>204</sup> According to the latter it has contracts for all of Madrid's crude oil and 25 per cent of refined products, running five years from January 1, 1928. The Petroleum Export Association represents small independent companies, who took advantage of relaxation of American anti-trust laws under the Webb-Pomerene Export Act to enter foreign trade in competition with the American and British trusts.

France for several years has been flirting with the idea of a State marketing monopoly. Standard as



the chief sales organization there is affected. The situation is more complicated than in Spain. It is not limited to a sales problem. All of the international oil issues are involved: competition of French with British and American capital in foreign producing fields; French imperialist policy and requirements for continuance of French military hegemony over Europe; conflict between local and foreign marketing organizations in the domestic market; efforts of a strong Left party to establish a complete State monopoly for importing, treating, and selling all oil products; compromise measures by the Government involving discriminatory tariffs and taxes against foreign companies, State regulation of imports, and quasi-governmental participation in refining and distribution.

France has virtually excluded foreign exploiters from her own small producing fields and from her colonies. The Federal Trade Commission in 1923 stated: "It is not clear what the laws of France might provide regarding the matter of petroleum development in continental France or the French colonies, but the evidence indicates that the grant of concessions is subject to the discretion of the Government, which would probably grant concessions only to companies at least 67 per cent French controlled. The commission was informed by the Sinclair Consolidated Oil Corporation that `in practice it has been found that France and the French colonies are more completely closed to development than in any other part of the world.'"<sup>205</sup> This exclusion is part of French military policy.

Before the Great War the Paris Government tried unsuccessfully to follow Great Britain's lead in assuring adequate supplies for use in the anticipated hostilities with Germany.<sup>206</sup> But French capital preferred the safer policy of distributing its investments in British, Russian and Roumanian companies rather than assume the risk of majority financial control and industrial management of an international producing trust. Besides this handicap, French marketing companies saddled their country with import restrictions and tariff differentials for the protection of a national pseudo-refining industry. French plants were not complete refineries. Therefore at the outbreak of the war France lacked refining and storage facilities as well as raw supplies and tanker transport. As a result the Government during the war was almost wholly dependent upon American wells, refineries and tankers. Several times, especially in the first years of the war, France was close to capitulation and defeat because of inadequate petrol supplies for her land and air forces, according to Premier Clemenceau.<sup>207</sup> This experience made France at the close of the war perhaps the most "oil-conscious" country in the world. Realization of the importance of oil in peace and war, which had grown gradually in Great Britain, and which was to come much later in the United States, was concentrated in France in the period of secret pacts during and after the war. French diplomacy in the early secret treaties with Great Britain acquired the Mosul fields. Later France's share was scaled down to 21.25 per cent by Great Britain, which took majority control.

The Paris Government was more successful in the oil fields of its military satellites, Poland and Roumania. French capital controls about 85 per cent of Poland's annual production of 5,800,000 barrels. Under the Franco-Polish agreement of 1922, the French-owned product has a privileged export status. French capital, in addition to heavy direct holdings in Roumania, controls indirectly

most of the nominally Roumanian companies. Through her military alliance France obtains many intangible privileges in competition with Great Britain and the United States, in the Roumanian fields. This favouritism is important under the Roumanian nationalization law. Similarly in Czecho-Slovakia, France has used her power as political and military monitor to obtain shares in concessions previously promised to Standard.

The French Rothschild group had large holdings in Tsarist Russian fields.<sup>208</sup> After the Revolution and nationalization, Great Britain with superior military forces in the Near East was in a better position than France to seize the Caucasian oil districts. Because Bolshevik rule made future French operation of these fields exceedingly doubtful, and because the British through political-military dominance and petroleum strength of Dutch-Shell and Anglo-Persian had an advantage, the Rothschilds were glad to unload their Russian shares. Standard bought them. Minority French financial groups retained Tsarist oil shares, but these holdings were relatively unimportant. Hence France's only hope of getting supplies from Russia now is through purchase from the Soviet State trust.

Minor fields acquired by France from Germany in the war have increased French domestic production only to about 525,000 barrels, or seven per cent of the amount imported. The country thus remains dependent on foreign supplies. Most of these have been furnished by Standard, under a close working agreement with the Government.

Standard took this market away from Dutch-Shell and Anglo-Persian. Twenty-five years ago Standard dominated in France as in the entire world market. Then the two British companies won the French price war, resulting from their challenge to Standard's supremacy there. In this earlier struggle Sir Henri sought financial support from the Paris Rothschilds. That was the origin of the minority French interest in Dutch-Shell which continues to this day. Standard recaptured the French market during the Great War. Dutch-Shell and Anglo-Persian wells and tankers were supplying the British navy. While Standard furnished French war supplies, it made governmental and commercial contacts and built up a distributing system which after the Armistice gave it a favoured position in the revived Anglo-American competition.

But all the while France was planning to liberate herself from the dominance in war and peace of either Standard or Dutch-Shell. Immediately following the Armistice the Paris Government formed the *Compagnie Française des Pétroles*, a combine of the French distributing organizations whose pre-war activities had hampered national defence plans. This loose native organization was to exploit exclusively all oil fields in France and future foreign acquisitions. The company is limited to French capital and its directors must be approved by the Paris Government. It receives preferential treatment in marketing, which in some instances forces Standard and other foreign sales trusts to operate with the national organization. A State institution was formed to supervise production and distribution.

To stimulate domestic alcohol production the Government requires petroleum importers to purchase fixed amounts of alcohol. This scheme for industrial national defence has met with difficulties, however, because of the Government's inability to supply stipulated amounts of

alcohol. On the basis of 1926 imports companies should have received from the Government 106,000 tons of alcohol, while the amount available for this purpose was less than 23,000 tons.<sup>209</sup>

Despite these manifold efforts of the Paris Government, involving domestic monopoly control of production, diplomatic manoeuvres to acquire foreign producing fields, and State interference with foreign marketing organizations, France has made little headway toward petroleum independence. She has been dependent upon Standard for fully 60 per cent of her supplies and upon the British for most of the remainder.

Out of this situation grew demands of the Left political bloc in 1926 for a complete State import and marketing monopoly, similar to that since established in Spain.<sup>210</sup> The proposal was approved in March 1926 by the Finance Committee of the Chamber of Deputies. M. Margaine, author of the measure, supported his argument with figures of alleged excessive prices extorted by Standard. The idea of the Finance Committee in approving the proposal was that the Government would make these profits for the almost empty French treasury, and at the same time obtain storage and distributing facilities essential for defence purposes.

Standard appealed to the Washington Government to head off the "Bolshevist menace" threatening American capital in capitalistic France. Washington made repeated informal diplomatic representations, and used against France its effective weapon of virtual credit boycott. France could not afford, in its impoverished condition and in its need for American political support in European diplomacy, to ignore Washington's desires. So for a while American oil company investments in France, amounting to \$20,000,000, were safe.

Under the law of April 1926, the State was given control of petroleum imports, effective a year later. Details of the import monopoly were to be worked out in the interim. American pressure was partly responsible at the end of the year for a law postponing creation of the monopoly until January 1928. French companies and banks also increased their opposition. *Le Courrier des Pétroles*, organ of the native oil interests; led the protest campaign. It argued that the Government under the existing system was receiving more than 1,000,000 francs annually from oil tariffs and taxes, and that the allegedly infinitesimal additional revenue to be gained under the State monopoly system would not compensate for this loss and for the large capital investment necessary to institute the new system. Less than six weeks before the monopoly was to become effective, Premier Poincaré under this local and foreign pressure proposed a compromise plan.

In the Chamber debate in the spring of 1928 Deputies Pioquema and Margaine charged that the Government modified its original proposal on orders from the American companies and American Government. In its denial the French Government made these charges a question of confidence and was upheld by the Chamber, 318 to 202.<sup>211</sup>

The Poincaré measure, or some modification of it, is expected to be enacted in 1928.<sup>212</sup> Though not entirely satisfactory to Standard, it is a relief from the spectre of complete Government monopoly spreading from Spain to France.

The bill provides for State control through a licensing system of all importation of petroleum and by-products. Licences for crude shall not exceed 15 years and for derivatives three years. The State

shall participate directly or indirectly in organizations established to acquire storage reserves, which may be requisitioned by the State from foreign owners. Foreign importing companies, with an established trade before promulgation of the law, may obtain special licences running five years for annual imports equal to their pre-war imports. The Government shall have access to the importers's plants and accounts. Under the compromise measure the State expects to derive a maximum petroleum revenue with no direct commercial risk, at the same time building up a national storage reserve of 25,000,000 barrels and forcing construction within the country of refineries with a potential capacity equal to national consumption. The latter result is to be accomplished by an increase in general import duties, with counter-balancing decreases in interior taxes and privileged rates for products refined inside the country. This differential in favour of domestically refined products would amount to about 30 francs per 100 litres of gasoline.

American, British, and Soviet companies in 1928 were perfecting tactics for competition under the proposed restrictive arrangement. The Phillips Petroleum Company, an independent American concern which is extending its production holdings from Oklahoma to Peru, negotiated with the Paris Government in 1927-28. Mr. Phillips appeared before a special committee of the Chamber of Deputies by request. This American Independent is anxious to extend its competition with Standard from the United States and Peru to France. Captain J.K. Robison, retired, is investigating the French field for the Petroleum Conversion Corporation of New York, a Franco-American syndicate.<sup>213</sup> This is the officer who attained notoriety while in charge of American naval oil reserves in permitting their transfer to Messrs. Sinclair and Doheny. The Soviet trust in October 1927 sold the French navy 33,000 tons of oil, its third contract of the kind within 18 months. Moscow at the same time was negotiating for wholesale contracts with French distributing companies. Russian oil was partly responsible for the decrease in 1927 of oil imports from the United States, which fell from 66 per cent to 56 per cent of the French total.

French hopes of escape from foreign-controlled petroleum supplies have been revived by the Mosul gushers, in which France through the Turkish Petroleum Company apportionment has 21.25 per cent interest. The Paris press publishes extravagant prophecies of French oil independence by 1930. The idea seems to be that the Mosul producing industry will be organized by that time, the long pipe-line to the sea completed, and supplies shipped directly to France in the still small French tanker fleet.

Other things being equal, France perhaps may attain a large measure of independence from Standard and Dutch-Shell, say, by 1935. This dream assumes, however, that the British with controlling interests in Turkish Petroleum, and the Americans whose minority interest equals the French, do not sabotage the Paris plan in order to retain their French market. France must hurdle political and financial obstacles if she is to acquire adequate tankers and refineries for her prospective Mosul oil. Aside from the great technical problems yet to be solved in exploiting the Mosul field and constructing the pipe-line, there remain the major disagreements among the British, Americans, and French within Turkish Petroleum, regarding the pipe-line route or routes.<sup>214</sup> Until this dispute, involving the larger conflict of Franco-British political and military interests in the Near East, is settled, large scale Mosul production cannot materialize for France or anyone else.



Great Britain, anxious to run the pipe-line through Palestine-British territory, has not agreed to the French-Syrian route, and probably will not unless she is bought off by France. Such eventualities may not prevent the old French dream of oil independence from coming true eventually, but they promise increased international diplomatic intrigue over Mosul in the interim.

Italy, like France and Spain, is without important domestic petroleum reserves. "In practice the Government has refused to grant concessions to aliens," according to the Federal Trade Commission report.<sup>215</sup> Premier Mussolini is watching the monopoly marketing experiment of his fellow dictator, General de Rivera. Already Italy has a semi-monopoly, somewhat different in form from either the Spanish or French plans. As in the other two countries, Standard is the largest distributor and hardest hit by State participation in the industry. Italy produces only 60,000 barrels, about two per cent of its annual consumption. Il Duce has been looking afield in Albania, where Anglo-Persian is drilling, and toward northern Africa, and the Near East for a larger Fascist empire including oil.

He has organized the Azienda Generale Italiana Petroli, a State-subsidized company. It operates as a "disciplinary" machine, regulating the markets by selling at cut rates. Within less than two years it lost about 500,000,000 lire, more than twice its original capital. Standard of New Jersey's subsidiary, Societa Italo Americana de Petroles, therefore tends to lose profits in competing with the State organization selling below cost and charging the loss to the national treasury. Fascist propaganda attempts to make the public purchase from the State firm as a matter of patriotism. The foreign competitor allegedly has exploited the Italian people for years. Signor Mussolini denies that his semi-monopoly scheme is intended to force Standard and British distributors out of business. But these companies consider the present arrangement as a first effective step toward complete governmental monopoly, probably similar to the Spanish system.

The struggle between Standard and the British trusts for markets of eastern Europe, the Near East, and the Orient has been shifted, as we have seen, by Russian products. British companies have the advantage in these markets of nearer producing fields. Anglo-Persian has the south Persian monopoly, producing nearly 37,000,000 barrels annually and capable apparently of almost unlimited production. Dutch-Shell has its Dutch East India fields. Standard has only small holdings in the Roumanian field, less than the British there. Hence the importance of the Russian-Standard sales alliance. Russian supplies are enabling Standard for the first time to compete effectively with Sir Henri in eastern Europe, the Near East, and the Far East.

While in the Near East and Orient this competition narrows down to Standard and the British, in eastern Europe Russia contests the market with the other two.

The Soviet Naphtha Syndicate in its relations with France, Italy, and Spain sells directly to the naval ministries, to the State monopolies and pseudo-governmental organizations. In central and eastern Europe, as in England, the Russians operate directly. Russia continues to compete in England despite the vicious Deterding propaganda attacks and price war, and despite the break in diplomatic relations. In Germany the Russians in 1928 were negotiating with the Gallia Oil Sales Company for formation of a 10,000,000 mark firm to sell Baku products. In Sweden Russia is trying to challenge

Standard's supremacy by selling at cut prices through the Nordiska Bensin Aktiebolaget. As a result Swedish gasoline prices in 1927 fell 30 per cent. Russian exports in the fiscal year 1926-27 to western Europe amounted to about 1,300,000 tons, compared with less than 500,000 tons to eastern Europe and the near East. These total Russian exports doubled the Tsarist exports of 1913. There is Standard-Soviet competition in Czecho-Slovakia, which in 1926 used over 45,000 tons of Baku crude, compared with total imports of 93,000 tons. In the Czech market Standard draws on its Roumanian wells. Standard subsidiary, Vacuum, has the advantage in the Czech gasoline market because of its refineries in that country and nearby Hungary, Vacuum Oil of Czecho-Slovakia is erecting new plants at Prerov and increasing its capital 30-fold to 60,000,000 crowns. Its 1926 profits exceeded 300 per cent on capital investment. In 1928 Moscow closed advance contracts in Prague for 100,000 tons of crude, in addition to smaller contracts for gasoline and refined products. Ramifications of Russia's extensive direct and indirect foreign marketing system are shown in the following official statement:

"The [Soviet] Oil Syndicate sells oil products both in the domestic and world markets through its offices and direct representatives. Besides, it is connected with a number of foreign companies, through which it sells its products. Such companies, the shares of which are in a large part owned by the Oil Syndicate, are Derunaft in Germany, Societe des Produits du Napthe Russe in France and Russian Oil Products, Ltd., in England and in the British colonies.

"The Oil Syndicate and the foreign firms allied with it deliver petroleum products to foreign firms and government departments (for instance, the French and the Italian Ministries of the Navy), in many instances, on long-term contracts.

"Among the principal purchasers of Soviet Oil products are: The Vacuum Oil Company and the Standard Oil Company of New York, in the United States; Lubricating Fuel Oil Company, Ltd., Medway Oil and Refining Company, Independent Oil Distributing Company, in Great Britain; Petrofina Frangaise, Desmarais Freres, Petrol Block, Bigard Freres, in France; Purfina Belgo-Caucaisienne des Petroles, Societe d'Arments, in Belgium; Rotterdamsche Oli Import blaatschapij Rotol, in Holland; Deutsche Petroleum A.G., Benzolverband Reichskraftsprit, Oelwerke Schliemann, Mineraloelwerke Albrecht, Gallid, Eriag, Nitag, in Germany; Societa Nazionale Olii Minerali, Rafineria di Olii Minerali in Italy, and Banca Arnus in Spain." 216

Poland is a declining competitor for the eastern European markets. In 1926 it sold Czecho-Slovakia 26,000 tons. Only about seven per cent of Poland's annual production of 5,800,000 barrels is American. The French-controlled Polish industry operates under a national combine system. An older federation was reorganized as a *cartel* in 1927 on a five-year basis. A central sales export organization is to be established under observation of officials appointed by the Warsaw Government. Prices and sales conditions for individual companies dealing directly with their own customers are to be fixed by the cartel. Disagreement between the Pilsudski dictatorship and this syndicate prevents the State-owned refinery from joining the *cartel*. Inclusion of the State organization, creating a more complete monopoly, will depend probably upon the syndicate's willingness to grant a larger measure of governmental control.

“The Polish oil industry, it is evident, is seriously concerned regarding the continuously decreasing output of crude oil, which, concurrently with increasing internal consumption, raises the question whether Poland, within a year or two, may cease to be an oil-exporting country,” according to a 1928 report of the American Trade Commissioner in Warsaw.<sup>217</sup>

More important than the four-cornered competition among Polish-French, British, Standard, and Russian interests in the eastern European markets is the Standard-British conflict in the Near East and the Orient.<sup>218</sup> Standard purchase on long-term contract of Baku products has virtually eliminated Russia from the Near East trade, or rather has substituted Standard as the marketer of Russian oil in those regions where it is Great Britain’s natural competitor. Thanks to the decline of Russian production under Tsarist inefficiency, subsequent slow rehabilitation during the revolutionary and counter-revolutionary periods, Caucasian oil had practically disappeared from the world market. By this default the British were given a virtual production and sales monopoly in the Near East for several years. This situation is largely responsible for the present dominant international commercial position of the British trusts and their high profits, despite the costly competition with Standard in western Europe and the Americas. In challenging Great Britain’s monopoly in the Near East, Standard is now with this Russian weapon striking at the very heart of the British trusts.

Domestic marketing in that area is insignificant compared with the struggle for producing fields and competition for fueling naval and merchant ships on the Suez Canal route. Among the domestic markets there are monopoly obstacles confronting Standard.

“In Greece the Anglo-Persian Oil Company (Ltd.) received from the Government an exclusive concession for all petroleum rights in eastern and western Macedonia for an exploration period of five years, with an option for a 50-year exploitation concession in certain districts,” according to the Federal Trade Commission.<sup>219</sup> Greece has a kerosene monopoly, and in 1928 was negotiating with Dutch-Shell for a British gasoline monopoly. Close relationship between the Athens and London Governments gives Anglo-Persian and Dutch-Shell advantage over the New York company. The gasoline monopoly negotiations are said to turn on a promise by Sir Henri to float a highway development loan for Greece. While these conversations were going on, however, the Washington Government late in 1927 suddenly granted to Greece the unused balance of the post-war American reconstruction credit which had been withheld for several years. This may make Greece less dependent financially upon Dutch-Shell and more favourably disposed toward Standard. Semi-state monopoly in Turkey competes with Standard, chief foreign distributor there.

Standard and the British divide Palestine’s market, which uses annually about 6,000,000 gallons of kerosene and 2,000,000 of gasoline. No petroleum is produced, though both British and Americans have carried on extensive explorations. After the Great War the London Government, holding Palestine as a Mandate, tried to prevent Standard from continuing geological examinations under concessionary rights acquired before 1914. The State Department protested to London, the diplomatic argument continuing from 1921 to 1924.<sup>220</sup> London finally agreed to permit Standard to continue investigations providing its data were turned over to British authorities and on

condition that the Government remain free to withhold concessions.

Farther east the American and British trusts compete in India, Australia, and China. American kerosene exports to China in the last 10 years amounted to \$381,000,000. Australia virtually excludes foreign companies from exploiting its lands. State-subsidized exploration has failed to produce oil in commercial quantities. The State Commonwealth Oil Corporation in 1927 discontinued shale operations in New South Wales, explaining that world over-production necessitated temporary abandonment of otherwise profitable fields. The country therefore remains dependent upon imports, which were about 272,000,000 gallons in the fiscal year 1926-27.<sup>221</sup>

British and American companies shared this business about equally, with Standard of New York a leading figure. Atlantic Refining, a Standard subsidiary, and Union Oil of California in 1928 extended their operations in that market. The Australian Government through Commonwealth Oil Refiners operates State-subsidized treating plants and sales organizations at financial loss. In New Zealand State railways in 1928 divided kerosene contracts between British and American trusts, the latter getting onethird. At the same time the gasoline tax was increased.

At the strategic gateway to India, the Ameer Amanullah of Afghanistan in fear of British penetration rejected London concession pleas and in February 1928 promised a 50-year exclusive concession for exploitation of the minerals and oil of his country to New York interests.

American and other foreign companies are prevented in effect from owning oil-producing properties in British India. The London Government has stated that "prospecting or mining leases have been in practice granted only to British subjects or to companies controlled by British subjects."<sup>222</sup> This restriction extends to transfer of British holdings to foreigners. Much attention was devoted to India, especially Burmah, by the Federal Trade Commission report of 1923.

American consular dispatches describe the British Government policy there, regarding ownership and production, as "one of entire exclusiveness."<sup>223</sup> Standard of New York informed the State Department that it was not even allowed to purchase a warehouse in Burmah.<sup>224</sup> Twenty-five years ago the British Shell Company, before the Dutch-Shell combine and its close connexion with the British Government, was excluded from India on the strength of a rumour of combination between Shell and Standard. "The Indian Government of the day believed that this state of affairs existed, went to the assistance of the [British] Burmah Oil Company and put a duty on the importation of petroleum into British India, which created the first monopoly that was created in the oil trade," the Shell managing director explained to the British House of Commons later; "I admire the [British] Government of India for having protected that industry, and thereby being the means of creating a strong and powerful company."<sup>225</sup> Many times since that amusing instance Standard, Sinclair, and other American companies have tried unsuccessfully to obtain Indian lands.

The British "big three," Dutch-Shell, Anglo-Persian and Burmah Oil, the latter two interlocking in the Government-owned company, have those rich producing fields to themselves. "The Burmah Oil Company is partly owned by the Anglo-Persian Oil Company, in which the British Government is interested," the Federal Trade Commission pointed out in this connexion.<sup>226</sup> Burmah Oil and Dutch-Shell have now merged their interests to fight Standard.



Under the British conservation policy, India's production for 15 years has been held down to an annual rate of about 8,000,000 barrels. In 1927 production was reduced 500,000 barrels. The United States Geological Survey estimates Indian reserves at 1,000,000,000 barrels. Meanwhile India imports much of its supply for current consumption. These foreign supplies come chiefly from the British-owned fields in the Dutch East Indies and Persia, and smaller quantities from the United States. In addition to the production monopoly, the British have had a virtual gasoline sales monopoly. American competition with the British until recently was limited to kerosene. Annual kerosene consumption is about 175,000,000 imperial gallons, the Americans supplying about one-third. But this competition now includes gasoline. Standard of New Jersey is importing from its new colonial field in the Dutch East Indies, which it obtained despite Deterding protests.

The Indian sales war is described in the words of the participants themselves in the preceding chapter. Chiefly with cheap Russian oil, Standard is attacking successfully the British stronghold. Sir Henri is resorting to tactics which saved him in his first struggle with Standard a quarter of a century ago. Then he federated and later merged Standard's small competitors, the Royal Dutch and Shell firms. Now he is bringing Burmah Oil, with its Anglo-Persian and British Government connexions, into his Dutch-Shell combine.

It is charged by persons usually well-informed that Sir Henri seeks control of Anglo-Persian and is taking advantage of the fall in Burmah stock to acquire that company, which owns 28 per cent of Anglo-Persian. He is also said to have obtained much of the 16 per cent bloc of Anglo-Persian stock held by the public, though the British Government's 56 per cent is still intact.

With the battle going against the British allied companies, Burmah Oil in March 1928 appealed to the Government of India for a tariff wall to shut out Standard. The Government appointed an inquiry board and may raise the requested barrier.<sup>227</sup> As the British Government is the Indian Government and as the British Government is directly connected through Anglo-Persian with the Burmah Oil Company, it would appear that the British Government is appealing to itself. It would appear further that this fight in the last analysis is between an American company and the British Government.

Dutch-Shell tried unsuccessfully in the spring of 1928 to make an Indian peace with Standard with the proposal that native (Dutch-Shell-Burmah) production be apportioned 70 per cent of the kerosene sales market, the British and Standard to divide equally the remaining 30 per cent imported.

Compromise may be possible later if Sir Henri is willing, as Standard was willing 15 years ago in a similar struggle in China, to divide the Indian trade equally and hoist prices jointly. But at this point the Deterding commercial interests may conflict with British Empire policy. Officials watching the struggle think the London Government will not permit the American trust to extend its sway in that vital part of the Empire, unless there is a trade in which Great Britain gains elsewhere.

Much more than commercial oil supremacy and profits is involved in the Standard-British conflict in India and the Near East. There is the issue of British Imperial defence, of naval needs and trade routes of the Empire. Standard's partial alliance with Russia, its Turkish Petroleum Company

shares, its prospective fields in the “free” Masul blocks and in north Persia, make the American trust an unwelcome power in that strategic region which Great Britain hitherto has dominated as by Divine Right.

This is the sequel to the London Government’s concession drive toward the Panama Canal. America, in turn, heads toward the Suez Canal. It is not necessary to suppose that this retaliation is by State Department design. But it is apparent that Standard, invading the British Empire’s eastern stronghold, will have the vigorous support of the Washington Government.

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196. Unless otherwise credited, statistics in this chapter are from Commerce Department publications: Commerce Year Book, 1926, Commerce Reports, April 1927-April 1925; Foreign Trade Notes, September 1927-April 1928; *British Petroleum Trade in 1925*; *Petroleum Refinery Statistics, 1926*.

197. *Tulsa Oil and Gas Journal*, Supplement 1927, “Petroleum Refineries.”

198. Federal Trade Commission, *supra*.

199. John H. Nelson, *The Economic Outlook for Exports of Petroleum Products*, p. 13; an address delivered by the Chief of the Petroleum Section, Commerce Department, to the American Institute of Mining and Metallurgical Engineers, February 1928, and published by that society.

200. *London Petroleum Times*, Nov. 26, 1927.

201. Cf., *Tulsa Oil and Gas Journal*, Dec. 29, 1927. *Petroleum Facts and Figures, supra*, pp. 167-180.

202. Cf., *New York Times*, Nov. 10, 1927, Jan. 1, 1928. *Wall Street Journal*, Jan. 13, 1928. Soviet Union Information Bureau, Washington, press release, Jan. 14, 1928.

203. *New York Times*, Dec. 30, 1927.

204. *Ibid.*, Jan. 6, 1928. Soviet Union Information Bureau, Washington, press release, Jan. 14, 1928.

205. Federal Trade Commission, *supra*, p. xviii.

206. Cf., Francis Delaisi, *Le Petrole, 1920*, for earlier phases of French policy.

207. Cf., Chap. II.

208. Cf., Chap. X.

209. Commerce Department, Foreign Trade Notes, Nov. 19, 1927.

210. Cf., *Paris Le Courier des Petroles*, periodical of the French industry, for current discussions.

211. *New York Times*, March 3, 7, 8, 1928.

212. A modification of the Poincare measure was passed by the French Parliament March 15, 1928, providing State control of imports of petroleum and derivatives. At the same time a companion law was enacted changing import duties and internal taxes on such products.

213. *New York Times*, Nov. 17, 1927.

214. Cf., Chap. IX.

215. Federal Trade Commission, *supra*, p. xxi.

216. Soviet Oil Industry, *supra*, 25-26.

217. Commerce Department, Commerce Reports, Feb. 27, 1928.

218. Cf., texts of Deterding and Standard statements, Chap. X.

219. Federal Trade Commission, *supra*, p. xxi.

220. Texts of 12 notes, Sept. 15, 1921-March 14, 1924, in 68th Congress, 1st Session, Senate Document No. 97, pp. 59

ff.

221. For Australia and New Zealand, cf., London *Petroleum Times*, Dec. 17, 1927. Commerce Department, Foreign Trade Notes, Oct. 8, Nov. 5, 19, 1927. New York *Times*, Nov. 10, 12, 1927.

222. Federal Trade Commission, *supra*, pp. xvii, 101.

223. *Ibid.*, p. 43.

224. *Ibid.*, pp. 40, 44.

225. *Ibid.*, p. 43. Cf., London *Petroleum Review*, March 10, 1906.

226. Federal Trade Commission, *supra*, p. xvi.

227. New York *Times*, March 26, 1928.

## CHAPTER TWELVE

*Having No Oil Germany Invents Some*

FROM fear of petroleum shortage comes search for substitutes, and the Anglo-American struggle to control such substitutes as rapidly as they are developed commercially. This fight centres in Germany.

For 20 years Germany has tried to free herself from the hold of foreign corporations, chiefly Standard. The Kaiser's military machine was inadequate because it lacked oil. This explains in part the German *Drang nach Osten* and Berlin-Bagdad policy which led up to the Great War. Germany planned to get, in addition to her small domestic reserves, the petroleum resources of Roumania, Anatolia, Mosul, north Persia, and the Caucasus. The Deutsche Bank in 1913 acquired minority interest with the British in the Turkish Petroleum Company, whose Mosul concession claim was based on the earlier German Bagdad railway concession.<sup>228</sup> Throughout the war the Kaiser's staff directed operations in eastern Europe and the Near East in conformity with the general foreign policy and immediate military necessity of acquiring foreign resources. Military defeat not only shattered this dream of oil empire but robbed the Fatherland of some of its small domestic fields.

Germany then sought to solve her problem in a manner unique, or rather characteristic of the Teutonic genius. Oil shortage during the war, an important factor in her ultimate military defeat, had mothered the invention of substitutes. The great German chemical industry and its scientists developed several processes for manufacturing synthetic gasoline. Since the war Germany has led in the further development of such substitutes.

The most valuable is the Bergius process for the commercial liquefaction of coal. Since Dr. Friedrich Bergius filed his first patents in 1913, he has been under the watchful eyes of the British Government and Mr. Deterding. Bergius, originally a man of wealth, was so impoverished by the post-war deflation that he was induced to accept British capital in forming the International Bergin Company. Headquarters were established at The Hague, Sir Henri's old home. Later British capital obtained a footing in the German Bergin Company, which took over the inventor's experimental plant at Rheinau. Control of the patents was finally obtained by the German dye trust and a Ruhr coal combine. Dutch-Shell apparently was more interested in keeping Standard away from these valuable patents, than in developing them for itself.

In some manner not altogether clear Standard in 1927 made a deal with I.G. Farbenindustrie, the German dye trust, which resulted in reducing British holdings and giving the Rockefeller company certain interests in processes for synthetic production and for refining crude oil.<sup>229</sup> This agreement and its significance is described by Dr. Wilhelm Mautner of Amsterdam as follows:

“Relations had been entered into with this company for over a year, namely, the 25 per cent participation of Standard Oil in the German Gasoline A.G., the sales organization selected for



marketing the synthetic oil of the I.G. Besides, there were persistent rumours and reports of participation by Standard in processes of the I.G. for making synthetic motor oils, either by the Bergin method acquired by the I.G. or by that company's own process based on its experience with the Bergin. It was learned that the negotiations between the I.G. and Standard were progressing favourably and that Mr. Teagle [president of Standard of New Jersey] on his European trip [in 1927] was to put the finishing touches to this agreement. An understanding between the I.G. and Standard was really reached; however, the communiqué announcing this event, in spite of its intentional brevity and vagueness, left no doubt that the negotiations, insofar as they had resulted in an agreement, concerned something else besides the synthetic oil; namely, the working of the patents, especially as regards crude oil (we may even say, in the field of crude oil refining.) The communiqué reads as follows:

“ `The negotiations in progress for some time between the Standard Oil Company of New Jersey and the I.G. Farbenindustrie A. G. have now ended with the agreement contemplated for co-operation in the United States in the mutual utilization of patents, namely, those concerning crude oil. At the same time, thorough discussions were carried on regarding co-operation in the other fields of common interest.’

“This means in any case that the utilization of crude oil patents is restricted to the United States only, and that the I.G. is therefore free to conduct negotiations with other interested concerns. But it also means that there exists not merely one, but many other fields of common interest. ...

“As regards processes for improved preparation of petroleum (by which is meant the preparation of heavy oils not well adapted for the usual refining method and hitherto handled by the cracking process), the public formerly knew nothing. It is claimed these processes have passed the laboratory stage and are now ready for large-scale experiments. These tests are to be made at Oppau. As we lack detailed information, we can at best make only conjectures as to the nature of these methods, and perhaps recall that for a long time Dr. Bergius, in addition to his oil-from-coal process, also busied himself with petroleum refining, and that there also resulted some points of contact between his experiments and those of the I.G. So far as we know, besides certain processes worked out by German scientists for refining and cracking oils, there was also a so-called Melamid method, which Stinnes acquired, and still another owned by the Dea and called very valuable by Dr. Bluemner. ...

“Surprise was expressed that Dutch-Shell was not named in all these negotiations, not even in those concerning refined oil production, although this concern possessed a 50 per cent interest in the Internationalen Bergin Compagnie voor Olie en Kolenchimie (I.B.C.), the company organized to utilize the Bergin patents in foreign countries, and a 25 per cent interest in the German Gasoline A. G. The fact that in the case of the coal liquefaction process of the I.G., the Bergin method itself was not concerned, might be a good reason for this 'freeze-out.' But as the American announcements, which referred to an acquisition of the Bergin patents by Standard, were obviously made only because they confused the crude oil refining process with the synthetic oil process, and in the case of the latter did not distinguish between the process of the I.G. and the Bergin method, we cannot but believe the conjectures stirred up of an enmity between the I.G. and Dutch-Shell. ...

“But in this connexion we must call attention to other things. It will be recalled that in the summer of 1926, there were changes in the board of directors of the I.B.C., the Maatschappij voor Kolen en Olie Technik (Makot) and the Deutsche Bergin A.G. für Kohle und Erdoelchemie (Deberg), when the I.G. assumed control of the Bergin concerns and an English group acquired an interest. Whereas

Dutch-Shell previously had four to eight votes in the board of directors of the I.B.C., it now has only three to ten. And as the capital of the I.B.C. was also changed . ... we are inclined to believe the recent report in a Dutch newspaper that there was a change of relations and a decrease in financial participation by Dutch-Shell in the I.B.C. ...

“As regards refined oil, sales agreements probably exist only in Germany, for there Dutch-Shell, Standard and I.G. are interested in the Deutsche Gasoline at the ratio of 25:25:50. ...

“From these new agreements, we must expect the same as from present understandings with Standard: no matter how great their material importance for the participants may be, this significance is not so great as the actual fact that such a far-reaching agreement is possible between the leading enterprise in America’s largest industrial branch and the most important concern of the German chemical industry.”<sup>230</sup>

I.G. Farbenindustrie in 1928 announced Bergius improvements increasing from 490 to 700 kilograms the amount of crude oil extracted from 1,000 kilograms of coal.<sup>231</sup> Though commercial development of this product may be slower than its inventor expects, Standard’s success in breaking through the old Dutch-Shell barrier which surrounded the Bergius and other German chemical trust patents may prove eventually more important than the Rockefeller connexions in Russia. This will depend largely on the rapidity with which the prospective shortage in natural petroleum develops in the United States.

In Germany, where such a shortage in mineral petroleum has always existed, the chemical trust expects under the Bergius and other oil-from-coal processes to produce by 1937 enough synthetic oil to meet Germany’s estimated demands of 2,500,000 tons annually at that time.<sup>232</sup> Annual capacity of these plants in 1928 was estimated at 300,000 tons. Investments in the German plants are said to total \$30,000,000, in addition to about \$20,000,000 spent on experiments.

German chemical trust officials are convinced this synthetic product will be manufactured in the future by all countries lacking adequate natural petroleum supplies.<sup>233</sup> “Foreign countries with coal deposits but without petroleum will want the process at any cost, even where it is not commercially profitable in competition with petroleum,” Dr. Karl Bosch, an I.G. director, said in a recent London interview.<sup>234</sup> “Hydrogenation of coal tomorrow will be regarded as essential to national defence as is the air-fixation process today. For national defence Great Britain above all will want to produce benzine from coal. The British navy will insist on having hydrogenation plants at home. In time of war there is always the risk of being cut off from this or that oil field.”

Great Britain’s present oil plight, despite all her post-war success in acquiring foreign producing fields, is described by Sir Thomas H. Holland, former president of the Institution of Petroleum Technologists, in the October 1927 Journal of that society. “The total consumption of petroleum products in the British Empire, however, amounts to about 10,000,000 to 11,000,000 tons, whilst its own output of crude oil is only about 3,000,000 tons,” Sir Thomas points out. “Thus, the Empire is dependent on outside sources, not only for three-quarters of its normal requirements of petroleum products, but it has still insufficient refining capacity, even if it could be sure of getting a sufficient supply of crude. ... It is important to remember that, in case of temporary isolation, even

the Empire sources of crude oil may not be accessible. In any event, they would be quite insufficient even if they were available to the full, and thus the prospect of obtaining oil from materials other than crude free petroleum is one that is of special importance to Great Britain.” But, as he goes on to say, “there seems little hope in the near future of turning our oil shale and torbanite to account in quantity sufficient and with commercial profit to meet the growing demand for the various products of oil.”

Processes for obtaining motor fuel from coal are grouped by the United States Bureau of Mines in four classes: high-temperature carbonization of coal, including the gas and coke manufacturing industry; low-temperature carbonization of coal; hydrogenation and liquefaction of coal by the Bergius process; complete gasification of coal and conversion of the resulting gases by pressure synthesis into methanol, synthol, and other liquid combustibles. In addition to such processes, experiments are being carried on in several countries in utilization of agricultural products for production of motor fuels, including alcohol.

The oldest method of supplementing natural oil obtained from wells is extraction of petroleum from oil shale. For more than 75 years an oil shale industry has operated in Scotland, much of the time at a profit. This industry has suffered reverses latterly in competition with low-priced American and other well-oil in a period of over-production. Production from oil shale in Scotland was under 2,500,000 barrels for the peak year 1914, which is somewhat less than daily crude oil output in the United States in 1928. Shale-oil is produced in smaller quantities in France, Italy, Spain, Esthonia, and Australia.

The Coolidge Federal Oil Conservation Board has studied prospects for large scale shale-oil production in the United States to take the place of diminishing well-oil reserves. In commenting on the results of its investigations covering production of natural petroleum substitutes from agricultural products, coal and lignite, as well as oil shale, the Board stated:

“Oil shale operations, in order to be profitable, doubtless will have to be conducted on a very large scale, involving a probable capital outlay of several million dollars for a single commercial plant. Unlike the oil industry, where a man with small capital by making a strike can often obtain a quick return of many times the capital invested, the oil shale industry is likely to be a large-scale manufacturing industry with a small profit per ton of material treated. Although the industry, when once established, will doubtless pay a fair return on the capital invested, it may be difficult to finance operations until the supply of crude oil is definitely on the decline or until the demand exceeds the supply over a period of years.

“Oil shale cannot be considered as an immediate source of oil, either for displacing oil from wells or for supplementing the production from wells, except to a very limited extent. It should be considered as an important oil reserve, to be drawn upon if and when conditions become such that operations can be conducted at a profit. In the meantime, however, experimental and development work might well be continued, so that when shale-oil is needed the information will be available as to the best methods to follow in retorting the shale and refining the shale-oil.

“Other important sources of oil are the coal and lignite deposits of this country. It has been estimated that the reserves of bituminous, sub-bituminous, and semi-bituminous coal in the United

States, within 3,000 feet of the surface, amount to nearly 2,500,000,000,000 tons and would yield about 92,000,000,000 barrels of motor fuel. This is more than 300 times the production of motor fuel for the year 1927. It should not be considered, however, that all this coal could be made available at present prices, since some of the deposits are far removed from the railroads and in many places the beds are too thin or too deep to be worked under present conditions. It has been estimated that the lignite deposits of the country amount to 940,000,000,000 tons capable of yielding 12,000,000,000 barrels of motor fuel. ...

“The possibility that coal will be the source first to be drawn upon for supplementing the petroleum supply leads this Board to unite with the Naval Oil Reserve Commission in recommending the creation of two reserves of coal available for this special purpose. ... The proposed reserves to be recommended for Executive withdrawal include some 4,000 acres of publicly owned coal deposits in Wyoming and Montana, with an estimated content of 250,000,000 tons of sub-bituminous coal from which 80,000,000 barrels of oil could be produced.”<sup>235</sup>

Sir Henri Deterding is of the opinion that substitutes will not be able to compete with the natural product under normal conditions. His 1927 Dutch-Shell report, as summarized by the London Times, June 9, stated: “The question whether benzine obtained from coal may be able to compete with natural benzine is one of price. The conclusion arrived at is that the natural benzine distilled from crude oil must of itself continue to hold the advantage over synthetic benzine, and that, in those countries where no excessive taxes are levied and other uneconomical burdens do not bear down the oil industry, it will always be able to compete with success against the synthetic product.”

Sir John Cadman in his inaugural address as chairman of Anglo-Persian on November 2, 1927, discussed the same subject. “In my opinion,” he said, “very many years must elapse before natural petroleum resources will be unable to meet the greater part of the world’s requirements. Of course, the time will eventually come when the world may have to look for a great part of its supplies from secondary and synthetic sources, but he would indeed be an optimist who imagined that—on the reaching of such a stage—prices would remain as low as those existing in the past.”

Dr. Bergius claims he is producing his substitute at a cost of 90 marks a ton, and selling it for 165 marks. He argues that, with large scale production, natural petroleum prices must be cut in half to compete with “Bergin.”<sup>236</sup>

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<sup>228</sup>. Cf., Chap. II.

<sup>229</sup>. Cf., Boston *Living Age*, Sept 15, 1927.

<sup>230</sup>. Wirthschaftsdienst, Aug. 26, 1927.

<sup>231</sup>. New York *Wall Street Journal*, Nov. 30, 1927.

<sup>232</sup>. Cf., Commerce Department, Commerce Reports, April 16, 1928. Foreign Trade Notes, Oct. 8, 1927.

<sup>233</sup>. Cf., New York *Wall Street Journal*, Jan. 10, 1928, for efforts of German chemical trust to penetrate the United States and to form world combine.

<sup>234</sup>. Ibid., Jan. 14, 1928.



235. Second Report, Jan. 16, 1928.

236. Cf., Boston *Living Age*, March 1, 1927. Tulsa *Oil and Gas Journal*, Dec. 29, 1927.

## CHAPTER THIRTEEN

*The System Breaks Down in the U.S.A.*

AN American oil shortage is near, according to the Coolidge Conservation Board. What we have left is being wasted by competitive and predatory private industry. The world fares better. Abroad are sufficient reserves for many decades. For half a century the world has come to us. Soon we shall be dependent in peace and war on foreign resources.

If there is anything more dangerous than speculation in oil stocks, it is speculation in oil statistics. But there is general expert agreement that foreign deposits are adequate to supply world demand for a long time. The most widely accepted estimate is still perhaps that of Dr. Eugene Stebinger of the United States Geological Survey, made in 1920 and revised in 1922.<sup>237</sup> After warning that all such figures are "highly speculative," he placed the world reserve at about 70,000,000,000 barrels. At the present rate of consumption that amount would last a century.

To what extent a future high-price element will tend to check the present rapid consumption rate and stimulate development of substitutes can only be guessed. Improvement in motor construction may compensate through economy of consumption for increased commercial use of oil. Another factor is the location of much of the world reserve in remote regions, where production and transport cost may raise the sale price to prohibitive heights. In some foreign fields the cost of drilling one well is \$500,000, to which must be added the toll of extensive pipe-lines and long ocean haul.

Dr. Stebinger's estimate of world reserves follows:

<i>Region</i>	<i>Relative Value</i>	<i>Millions of Barrels</i>
United States and Alaska	1.00	7,000
Canada	.14	995
Mexico	.65	4,525
Northern South America, including Peru	.82	5,730
Southern South America, including Bolivia	.51	3,550
Algeria and Egypt	.13	925
Persia and Iraq	.83	5,820
S. E. Russia, S. W. Siberia, and Caucasus	.83	5,830
Roumania, Galicia, and western Europe	.16	1,135
Northern Russia and Saghalin	.13	925
Japan and Formosa	.18	1,235
China	.20	1,375
India	.14	995
East Indies	.43	3,015
<b>Total</b>	<b>6.15</b>	<b>43,055</b>

This total estimate of 1920 was increased two years later from 43,000,000,000 to 70,000,000,000, and should probably be increased more in 1928 in view of recent discoveries in Russia, Venezuela, Colombia, and elsewhere.

Dr. Stebinger's early estimate gave the United States about one-sixth of the total remaining world reserve. The inadequacy of this supply is apparent from Department of Commerce figures showing the United States in 1927 produced and consumed about 72 per cent of total world output. American production has always been disproportionate to world production. From 1880 to 1890 it was about two-thirds of total world production, in the next two decades roughly one-half, and from 1910 to 1920 again about two-thirds. Up to 1923 this country had produced more than 62 per cent of the world total for the preceding half-century. While world production approximately doubled every decade during that period, the United States except at short intervals led in actual output and also in relative increase.<sup>238</sup>

Since Dr. Stebinger estimated the United States reserve at 7,000,000,000 barrels in 1920, discovery of new fields has failed to compensate for increased production. Geological Survey estimates used by the Coolidge Conservation Board in 1926 placed the amount of reserves in proven sands recoverable by ordinary methods at 4,500,000,000 barrels. This supply would be exhausted, theoretically, by 1932 at the present rate of consumption. Hence the alarmist tone of the Board's report.

"There must be natural concern over our future supply of oil because of the manifest dependence of so large a part of our industrial life, national defence, and domestic comfort upon continued adequate supplies," according to the Board. "The total present reserves in pumping and flowing wells in the proven sands has been estimated at about 4,500,000,000 barrels, which is theoretically but six years'

supply, though, of course, it cannot be extracted so quickly. Another addition to this natural cause of anxiety for future supplies lies in the fact that the maximum rate of production from all fields is in their early days before gas pressures which expel the oil are diminished, and thus of the current production more than one-half is coming from about four per cent of the producing wells—for the most part only a year or so old—and from fields that have been discovered within the past five years. Therefore future maintenance of even current supplies implies the constant discovery of new fields and the drilling of new wells, and thus the maintenance of this large ratio of flush production. Hitherto there has been no failure to discover such new fields as required. However, this dependence upon fortuitous discovery of new fields renders it imperative that every effort shall be made to secure the maximum amount of oil from the known fields and the most beneficial use of the oil that is produced.<sup>239</sup>

In appointing the Board, President Coolidge on December 19, 1924, had declared:

"I am advised that our current oil supply is kept up only by drilling many thousands of new wells each year and that the failure to bring in producing wells for a two-year period would slow down the wheels of industry and bring serious industrial depression. The problem of a future shortage in fuel and lubricating oil, not to mention gasoline, must be avoided or our manufacturing productivity will be curtailed to an extent not easily calculated."<sup>240</sup>

Estimates of the Board and the Geological Survey fixing reserves in proven sands recoverable by ordinary methods at 4,500,000,000 barrels are not seriously contested by independent geologists, though some oil company estimates are higher. A "Committee of 11" of the American Petroleum Institute, quoted by the Institute's brief of 1926 to the Board, was more optimistic than the Geological Survey regarding the "1,000,000,000-acre reserve," covering lands in which no oil has been discovered yet. Mr. Henry L. Doherty, leader of the Institute's minority, warned the Board that the "Committee of 11" report, "in view of its gross inaccuracy, is like a poisoned well—exceedingly dangerous."<sup>241</sup> The Board decided that predictions that any appreciable amount of oil would be discovered in the "1,000,000,000-acre reserve" were unwarranted. "Certain parts of the country were known by the geologists to be impossible of appreciable oil production," the Board stated. "Such positively barren areas are estimated to aggregate 43 per cent of the total area of the United States. But this does not warrant the assumption that the remaining 1,100,000,000 acres of the country, or any large part of them, will be found oil-bearing. Considerable portions of this area have already been drilled for oil or water. It is a certainty that we are learning each year more of the geologic structure at the hands of a large body of public and private geologists, but the percentage of dry holes in new exploitation is increasing."<sup>242</sup>

The chief dispute regarding the extent of reserves centres rather around estimates of oil remaining in proven sands which is commercially recoverable by other than present exploitation methods. Estimates regarding this worked-over reserve vary from a ratio of two to eight barrels remaining in the ground for every barrel recovered by present commercial methods. Geological Survey figures show 9,000,000,000 barrels produced in this country up to 1926. This, added to the 4,500,000,000



barrels still recoverable by ordinary methods, would total 13,500,000,000 barrels. Using the minimum estimated ratio of two to one, there would be an additional reserve of 26,000,000,000 barrels remaining in proven sands, which cannot be extracted with profit at present prices and with present methods. But the majority group of the Institute, in the brief presented to the Board in 1926, was much more optimistic. Their brief argued that oil remaining in proven sands not recoverable by ordinary methods is much more than 26,000,000,000 barrels, and that reworking of this "lost supply" will be commercially practicable in the future.<sup>243</sup>

This issue raises related questions of future improvement in exploitation methods, future price increases permitting increased production cost in recovering "lost" reserves, and the larger problem of inefficiency and waste in a competitive industry lacking governmental regulations. Waste of limited reserves under present exploitation methods was President Coolidge's incentive for naming four members of his Cabinet as a Conservation Board. In his letter of appointment, December 19, 1924, the President said : "It is evident that the present method of capturing our oil deposits is wasteful to an alarming degree in that it becomes impossible to conserve oil in the ground under our present leasing and royalty practices if a neighbouring owner or lessee desires to gain possession of his deposits."

The extent of basic inefficiency and waste in the American industry was demonstrated in 1927 when production was increased from 770,000,000 to 905,000,000 barrels. Despite glutted world markets and general over-production in most of their foreign fields, British and American companies in the United States were increasing output.

The paradox of the American capitalist system deliberately destroying profits is explained partly by Mr. Coolidge's reference to leasing and royalty practices in this country. In one field many companies, large and small, are operating. If one producer taps a subsoil pool, his neighbours must drill also before his wells drain the common deposit under the entire field. In a competitive field one producer cannot restrict production and conserve his supply except by joint agreement with the other producers. In some cases, as in California and the Oklahoma Seminole field, limited cooperation in restricting production has been achieved among competing producers temporarily, under encouragement by the States. The Secretary of the Interior in 1928 asked Governors of 20 States to co-operate in obtaining uniform State and Federal conservation legislation. But the evil system remains.

This competitive system not only prevented American producers from restricting production to meet the glutted world market of 1927, but was directly responsible for the world's over-production. The situation was costly for the American nation which needs conservation. It was also costly for the American companies. With the drop in prices of crude and refined oil, ranging from 10 to 50 per cent, the companies lost profits. Mr. N.O. Fanning, in a financial study published in a special issue of the *Oil and Gas Journal*, December 1, 1927, found that:

"Over-production of crude oil in the United States has cut deeply into the profits of the petroleum industry. ... Lower prices have been offset only partially by increased sales, as shown by financial reports of oil companies for 1927 so far issued. Three outstanding indications of the unfavourable

aspect of the oil business this year from a financial viewpoint are a decrease of \$24,480,829, or 35.9 per cent, in net profits of 17 representative companies; a drop of \$591,465,936, or about 24.2 per cent, in the market value of the securities of 20 representative oil companies whose stocks are listed on the New York Stock Exchange, and last, a flood of \$360,888,035 new financing accomplished by petroleum companies so far this year." During 1927, 23 of the larger American companies reduced or eliminated regular dividends or extra payments. Net earnings of 14 representative companies show an average of 5.23 per cent in 1927, 10.59 per cent in 1926.<sup>244</sup> Net income of Standard of N.J. fell from \$117,600,000 in 1926 to \$40,400,000 in 1927; and Standard of N.Y. dropped 65 per cent to \$11,400,000.

Contrasted to the waste of the American system is the British method in their fields, say, of India or the Dutch East Indies or south Persia. Of course in those fields the absence of chaotic production is due to monopoly control. Sir John Cadman, who negotiated the San Remo pact to exclude Americans from major fields of eastern Europe and the Near East, emphasizes this contrast. In his 1927 Anglo-Persian report, he said:

"I would like to point out that, in some respects, the Persian oil industry enjoys a position which the Federal Conservation Board would like to give the American oil industry as a whole. Our royalty holders speak with one voice. The interests of those royalty holders are those of the industry itself; clearly it is in the interest of Persia as it is of this company that production should be steadily controlled—that is to say, steadily regulated in conformity with the world's demands; that the reserves of oil underground should not be extravagantly and uneconomically forced to the surface, regardless of the world's requirements. Fortunately we are not compelled to over-produce, which is often the case elsewhere—owing to the feverish rivalry of offsetting competitors. ... Further I might also mention that the improved yields and the economies we are constantly striving to introduce into all phases of our operations represent an important, if only partial, offset against the effect of over-production and uneconomic prices." Sir John also described the difficult problem confronting the United States: "How to conserve that country's oil reserves without stinting the present generation is, perhaps, the greatest and most complicated economic problem the United States authorities have ever been called upon to face."<sup>245</sup>

The Conservation Board in its 1926 report proposed that the United States Government and private companies solve the American problem as follows:

"The major part of the measures that must be taken to protect our future supplies must rest upon the normal commercial initiative of private enterprise. The field for governmental action is considerable, but to formulate the broader by-laws of the industry in the sense of conservation and to concentrate thought upon them is the major part of the Board's task in co-operation with the industry.

"The directions in which industry can contribute to assured future supplies are: (1) Continued exploration for extension of known sands and deeper sands in known fields. (2) Continued exploration for new fields. (3) Systematic research and experiment upon methods of securing a larger proportion of the oil from the sands. (4) Systematic research and experiment in new methods

and cheapened costs in refining and cracking oils and waste elimination. (5) Cooperative methods in sane development of new fields to prevent wasteful flush and over-production. (6) Research and application by engine builders of more economical use of petroleum products. (7) Expansion of American holdings in foreign oil fields.

"The contributions which the Government can make are considerable: (1) Continued and expanded research by the Geological Survey in geologic studies of the accumulation of oil and structure of oil-bearing areas; by the Bureau of Mines into methods of producing and refining-including oil shales; and by the Bureau of Standards into questions of constitution and utilization of oil products. (2) The more intelligent handling of Government-controlled oil sources on public and Indian lands.

"Of the fundamental conservation measures above mentioned, that of co-operative methods in development of new fields to prevent temporary gluts merits more exhaustive discussion, as it is a promising field for important action by both industry and the Government." vent wasteful flush and over-production. (6) Research and application by engine builders of more economical use of petroleum products. (7) Expansion of American holdings in foreign oil fields.<sup>246</sup>

As the Board indicated, certain measures may be taken by the Government without touching the larger issue of inefficiency and waste under private ownership. The Government has a direct responsibility regarding public lands, naval reserves, and Indian lands. "The Government as the largest land-owner is committed to practical conservation of irreplaceable raw materials, by the protection of the public estate and the guidance of its development," according to the Board. "Especially is such an obligation sacred and inescapable as it concerns the great sources of energy, coal and petroleum deposits in Government ownership."<sup>247</sup> Secretary of the Interior Work in opening the Board hearings admitted: "The amount of petroleum now being taken from the public Indian lands represents one-tenth of this country's annual petroleum recapture [which] suggests that the Government itself is no negligible factor in the current production of petroleum." He added there were then outstanding 457 oil leases on Government lands.

Secretary Fall, Work's predecessor, in March 1922 ruled that Indian lands could not be leased to aliens. One of Mr. Fall's last official acts was to block an Osage Indian land lease of the Roxana Petroleum Corporation, a Dutch-Shell subsidiary. This action was in line with popular demands for retaliation against Dutch-Shell in connexion with the exclusion policy of the British and Dutch Governments, especially in the Djambi dispute in which Sir Henri Deterding had obtained a valuable concession at the expense of Standard.

Later the British interests forced a reversal of the Fall decision in the Roxana lease case. They capitalized Mr. Fall's guilt in the naval oil scandals, compared the alleged fairness of the Djambi lease with the corrupt Teapot Dome lease, charged the State Department with suppressing the Dutch official replies to the Djambi exclusion charges of the Department, and attacked the Federal Trade Commission report on "Foreign Ownership in the Petroleum Industry" for quoting "forged" British Government orders to bolster the contention that the London Government excluded American companies from India.<sup>248</sup> Secretary Work in May 1923 granted the Indian lease to Dutch-Shell.

But in his 1927 annual report Dr. Work recommended legislation giving his Department discretion in leasing and developing reserves in the Osage Indian Reservation in Oklahoma. "The Secretary is now required to offer annually for leasing a large area of undeveloped oil lands, regardless of over-production or other market conditions," he said. "Such modification of law seems necessary if the Osage tribe is to obtain the greatest ultimate benefit from the oil resources of its reservation, and is also important as a measure of conservation."<sup>249</sup>

In addition to this Work recommendation regarding Indian lands, the Conservation Board in its second report of January 16, 1928, joined the Naval Oil Reserve Commission in recommending that the President create two reserves of coal, lignite, and shale: "The proposed reserves to be recommended for the executive withdrawal include some 4,000 acres of publicly owned coal deposits in Wyoming and Montana, with an estimated content of 250,000,000 tons of sub-bituminous coal from which 80,000,000 barrels of oil could be produced."

Adequate conservation of public lands, Indian lands, and naval reserves would leave untouched the wasteful depletion of the bulk of American oil supplies by privately owned and operated industry. Private industry during half a century, and especially during the recent years of over-production, has demonstrated its unwillingness or inability to correct the evil. Several excuses are given by the private companies. These range from a denial that oil reserves are being exhausted to charges that the Sherman Anti-Trust Law requires unrestricted competition and waste.

Conservation is a catch word used by politicians "to attract support for their attacks upon all large industrial organizations," the Standard of New Jersey declared in *The Lamp*, November 1927. It lamented that "the public has been led to believe, for example, that, if petroleum is not conserved, gasoline will reach a prohibitive price or will be wholly unobtainable. ... There will always be gasoline or at least equivalent motor fuel from shale or coal, of which our resources are relatively unlimited. If oil is exhausted, the price of this equivalent motor fuel will undoubtedly be higher than the average price which gasoline has carried, but this higher price will not be prohibitive nor in itself so high as to materially affect national prosperity by limiting the use of automobiles."

In reply to public attack on the industry, the companies are making a counter attack on the anti-trust laws. Typical arguments were published in a special issue of *The Oil and Gas Journal*, December 1927, and distributed among the press and public officials. This publication was entitled "The Oil Industry's Answer Today." Dr. L. Vernon Gibbs wrote under the heading "Oil Industry Must Have Moratorium—Relief From Mandate of Sherman Law Compelling Over-Production Needed to Curb Over-Production and Conserve Oil."

Granting that the anti-trust laws raise barriers to close co-operation of individual companies, it should be pointed out that four corporations including Standard handle more than 80 per cent of the crude and refined exports of this country. Despite the law Standard has continued the dominant factor in the industry. The Federal Trade Commission has found that the Standard group controls 58.9 per cent of the country's proven oil lands, having 79.4 per cent of the total oil investments, and receiving 74.9 per cent of the total earnings. Production of Standard companies accounts for 29.3 per cent of the crude output, 51.5 per cent of the gasoline, 61 per cent of



kerosene, 50.7 per cent of the fuel oil, and 62.2 per cent of the lubricating oil.<sup>250</sup>

The Senate Committee on Manufactures in its report in 1923 on "High Cost of Gasoline and other Petroleum Products" stated: "Through the Standard control of the pipelines connecting the producing centres of the west with the consuming centres of the east and middle west not only is the price fixed according to the will of the Standard group which any other interest must pay for the transportation of petroleum, but members of the group really determine whether any concern outside their group shall have petroleum transported at any price. The methods by which the Standard companies control the oil industry today are more subtle than those by which the Standard Oil Company of New Jersey, through its subsidiaries, controlled it prior to the dissolution decree in 1911. But the results are the same." The Federal Trade Commission in its report of December 12, 1927, stated it found no recent evidence among large companies of agreements to fix prices. The report also denied common control of Standard companies.

If profits are a test, the "dissolution" of Standard under the Sherman Law of 1911 has been most advantageous to the trust. Annual cash dividends of the 23 Standard companies increased from \$51,686,634 in 1912 to \$213,760,695 in 1927, according to a Dow, Jones and Company compilation.<sup>251</sup> In that 16-year period since the law was enacted the 23 recognized Standard units, exclusive of other subsidiaries and holding companies, paid cash dividends amounting to \$1,909,061,462. In addition they paid in that period \$1,388,079,245 in stock dividends.

Perhaps the most significant contemporary development of the American oil industry in this period of over-production and disastrous losses for small operators is the process of consolidation by which Standard, Gulf, Texas, and Dutch-Shell extend their dominance over the country. With the anti-trust laws still on the statute books, the trade term used to describe this monopoly trend is "integration of properties."

The rapidity of this development, which is little realized by the public, is indicated by a *Wall Street Journal* survey from which the following excerpts are taken:

"Many interested in oil securities will remember 1927 as a year when profits were sharply reduced or eliminated; when dividends were reduced or passed, and the industry sold \$440,000,000 new securities. To others, efforts toward conservation of petroleum resources in the United States may appeal as the outstanding development of 1927, Students of oil and executives alert to trade developments will give these events their measure of import. But more than likely they will go beyond these phases and record 1927 as the year big oil companies got much bigger. ... It is the further integration of these companies in all departments of oil to get as nearly as possible complete independence of others in the matter of source of supply of crude oil. The impelling motive behind these moves is that these companies have the bulk of their huge investments in refining and marketing facilities. It is to bulwark these with the largest and cheapest cost supply of raw material that this group in 1927 has acted to strengthen their crude supply.

"In these steps some eight big oil units, four of them of the old Standard Oil group, have been outstanding in successfully centreing 1927 activities on building up their already large oil reserves and supplying transportation thereto. The following may be set down as those oil companies which went

far in 1927 toward augmenting and rounding out the complete cycle in oil: Standard Oil of New Jersey, Royal Dutch-Shell, Gulf Oil, Standard Oil of Indiana, Standard Oil of California, Texas Company, Sinclair Consolidated, and Standard Oil of New York. In this process, integration has been carried to an unusual degree of completeness. Never since the days prior to dissolution of old Standard Oil of New Jersey has there been such concentration of effort by a relatively few oil companies, each separately owned and independently managed to get complete integration. And probably never has greater success accrued from such efforts."<sup>252</sup>

In addition to the open "integration," there is Standard's "buying for control" stock market operations by which it is acquiring the nominally "Independent" Sinclair companies. This has been going on for some time, but no outsider knows how complete Standard's control of Sinclair has become. The New York *Times* recently carried this story: "Wall Street heard yesterday that arrangements virtually had been completed for the transfer of the control of the Sinclair Consolidated Oil Corporation from Harry F. Sinclair and associates to other oil interests. The report was accompanied by a sharp advance in the Sinclair stock on the New York Stock Exchange. Closing at 283/8 the stock showed a net gain of 2¾ points. More than 300,000 shares changed hands. ... Yesterday it was said in well-informed circles that, as a result of the heavy accumulation of stock in the open market by other interests, Mr. Sinclair had been eliminated as the dominant factor in the company. ... The best information seems to be, however, that the Prairie Oil and Gas Company, a member of the old Standard Oil group, is to take over Sinclair, possibly with the idea of effecting a merger, and that the Standard of Indiana is to acquire the 50 per cent stock interest which the Sinclair company holds in the Sinclair Crude Oil Purchasing Company. The Standard of Indiana already has the remaining 50 per cent interest in that company."<sup>253</sup>

Data on ownership in the Federal Trade Commission report of December 1927 reveal the extent to which Standard and the three other large companies within two years and a half acquired oil land reserves of the country:<sup>254</sup>

Company (Including subsidiaries)	Total Acreage		Proven June 30, 1926
	June 30, 1926	Acquired from 1/1/24-6/30/26	
Standard of N. Y.	1,446,359	1,051,678	171,443
Standard of N. J.	3,295,305	2,820,279	74,678
Standard of Calif.	1,057,270	438,429	63,613
Standard of Ind.	333,250	252,952	16,234
Gulf Oil Corp.	2,696,845	2,185,597	150,740
Texas Company	1,892,760	1,049,791	32,082
Sinclair Consolidated	470,678	306,159	39,017
Shell Union Oil	1,665,402	1,352,643	41,395

Unity of certain nominally separate companies though sufficient for profits and control of pipe-line and tanker transportation, is not sufficient—according to the companies—to permit the system of general co-operative production required for conservation. The American Petroleum Institute at its 1927 annual convention could make no contribution to the conservation program of the Federal Board, except a resolution favouring "the enactment of laws to prevent the waste of such gas by the

various oil-producing States in which natural gas is being unnecessarily wasted." Institute directors were unable to agree on the report of their Conservation Committee recommending to the companies themselves that "oil should be produced in such a way as to retain in the sand the maximum percentage of the original gas energy."<sup>255</sup>

Failure of private industry to meet conservation requirements has stimulated popular agitation for Federal Government intervention through regulation or, if necessary, control of the industry. The companies are spending much effort and money to block this movement. The argument against Government interference is stated by Dr. Gibbs in the article referred to above, as follows:

"There are men in high position who declare that Federal control or operation is the only road to conservation; but Government control or operation under any bureaucratic system will not save depletion of the Nation's oil reserves or effect conservation—on the contrary, it would result in industrial stagnation, and exhaustion, without getting ready for the transition to the refining of oil from soft coals and oil shales. The only attempt of Congress to aid in perfecting a process for refining oil from shale is now rusting away in idleness on the western Colorado plateau owing to the failure of Congressional appropriation. It is more important for the industry to meet exhaustion of crude oil from wells with crude oil from shale and soft coal than it is important to save the loss of a few barrels of crude oil. The present over-supply is the result of adverse conditions converging at this time and forcing the industry into over-competition and over-production, but the resultant physical waste of oil has been exaggerated until the rabid discussion amounts to mild hysteria. ...

"It is the consensus of belief that Congress, by giving any board or bureau control over private property, would be committing our Government to an imperialistic design beyond the intent of the framers of the Constitution, and beyond the power granted Congress under the Constitution. ... It matters not what term is used to designate interference with private property by Government. It may be called regulation, control, supervision, or ownership—to go beyond the rights granted by the Constitution to the State in interfering with property rights is despotism. The road from mild despotism to Bolshevism runs in a straight line."<sup>256</sup>

In the same publication, *The Oil Industry's Answer Today*, Mr. J.E. Eaton, in an article entitled "Reserves of Nation Ample for Future," warned that "the oil industry is at present confronted with the question of Government control."

Opposition of the American Petroleum Institute to any form of governmental interference in the industry was expressed by its president, Mr. E.W. Clark, in reply to an invitation by Secretary of the Interior Work for the Institute to name three members of a "Committee of Nine" to consider possible conservation legislation. In naming three representatives Mr. Clark stated that the Institute did not wish such participation in the work of the Committee to be construed as a commitment to any legislation. Mr. Clark added that he could "not undertake to pass upon, still less accede to any suggestion that the Federal Government may directly regulate the production of crude oil in the several States, or that it should attempt to do so."<sup>257</sup>

The report of this "Committee of Nine," composed of three representatives each of the Institute, the Government, and the American Bar Association, was made public on February 5, 1928, by the

Conservation Board which is considering its recommendations. Opposition to any change in the present law governing oil production was expressed by the Committee. But it urged that the anti-trust laws be amended in line with the demands of the companies.

"In our judgment, the only practical law governing the right to recover oil is that which now exists and which has been developed to meet the necessities of the case," the report stated:

"To sum up, the recommendations are these—(1) Federal legislation which shall (a) unequivocally declare that agreements for the co-operative development and operation of single pools are not in violation of the Federal anti-trust laws, and (b) permit, under suitable safeguards, the making in times of over-production of agreements between oil producers for the curtailment of production. ... (2) Similar legislation by the various oil-producing States. (3) Immediate further study into the matter of the waste of natural gas, in order that legislation may be formulated which will forbid such waste as fully as may be done without working injustice and unreasonable hardship. (4) Legislation by Congress granting the Secretary of the Interior authority to join and to permit lessees from the Government to join in agreements for the co-operative development and operation of single pools. (5) The passage by Congress of the legislation heretofore recommended to it by the Secretary of the Interior, removing the existing mandate upon him to offer for lease annually, regardless of conditions, 100,000 acres of Osage Indian lands."<sup>258</sup>

All debate regarding oil conservation comes soon or late to the question of Government regulation. Has the Government any such power ?

"The power of the Federal Government to regulate oil production is doubtless limited to its own lands, unless the national defence is imperilled by waste or exhaustion of the oil supply," according to the 1926 report of the Conservation Board.<sup>259</sup>

Former Secretary of State Hughes, acting as counsel for the American Petroleum Institute at the Board hearings May 27, 1926, argued that the Federal Government lacked authority to control oil production within the States, even under Article I of the Constitution, empowering Congress to provide for the common defence and general welfare. Mr. Hughes, a former president of the American Bar Association and former justice of the United States Supreme Court, quoted constitutional authorities and Supreme Court decisions to prove his contention that: "The Government of the United States is one of enumerated powers and is not at liberty to control the internal affairs of the States respectively, such as production within the States, through assertion by Congress of a desire to provide for a common defence or to promote the general welfare. This is too elementary to require discussion and it is impossible to believe that the legal advisers of the Board will suggest that it proceed on any different view."<sup>260</sup>

As an alternative to alleged unconstitutional governmental control, Mr. Hughes suggested that the Government achieve conservation by placing restrictions on public lands and, if necessary, by purchasing private oil lands. He too repeated the favourite plea of the private companies that the Government "lessen restrictions upon combinations in the conducting of interstate commerce," that is, modify the antitrust laws.



From the Hughes brief it appears that Congress has power without a popular referendum to conscript lives for war, but has no authority to conserve oil resources to prevent war or to provide the conscripts with an essential defence weapon. In advising the Government as a conservation measure to buy oil lands, Mr. Hughes overlooked the fact that most of the petroleum reserves are already exhausted and failed to explain whether the private companies would be willing to accept a fair price for remaining reserves which the Government may some day be forced to acquire.

Opposition of majority groups within the Republican and Democratic Parties to governmental control would seem to be sufficient guarantee to the oil companies that Washington Administrations, within the next decade at least, will not be responsible for any major interference with the industry. Unless there is war.

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237. *Annals of the American Academy of Political Science*, May 1920, p. 123.

238. See Appendix A.

239. Federal Oil Conservation Board, *Report, Part I, September 1926*, pp. 5-6.

240. *Ibid.*, p. 1.

241. Federal Oil Conservation Board, *Public Hearing, May 27, 1926*, p. 43.

242. Federal Oil Conservation Board, *Report, Part I, September 1926*, p. 9.

243. Federal Oil Conservation Board, *Public Hearing, May 27, 1926*, pp. 2-7.

244. *New York Wall Street Journal*, April 10, 1928.

245. *Tulsa Oil and Gas Journal*, Supplement Dec. 1, 1927, *The Oil Industry's Answer Today*, p. 33.

246. Federal Oil Commission Board, *Report, Part I, September 1926*, p. 13.

247. *Ibid.*, p. 24.

248. 68th Congress, 1st Session, Senate Document No. 97, pp. 3-46.

249. *New York Times*, Dec. 5, 1927.

250. Federal Trade Commission, *Prices, Profits and Competition in the Petroleum Industry*, Dec. 12, 1927, p. 77.

251. *New York Times*, Dec. 18, 1927.

252. *New York Wall Street Journal*, Jan. 5, 1928.

253. *New York Times*, March 28, 1928.

254. Federal Trade Commission, *Prices, Profits and Competition*, *supra*, p. 23.

255. *New York Times*, Dec. 9, 1927.

256. *Tulsa Oil and Gas Journal*, Supplement Dec. 1, 1927.

257. *New York Wall Street Journal*, Nov. 18, 1927.

258. *Washington United States Daily*, Feb. 6, 1928.

259. Federal Oil Conservation Board, *Report, Part I, September 1926*, p. 15.

260. Federal Oil Conservation Board, *Public Hearing, May 27, 1926*, p. 18.

## CHAPTER FOURTEEN

*We Decide to Go On Fighting*

THE oil problem of the United States is acute. Industry and the army and navy are dependent on adequate future reserves. The demand is increasing. The supply is decreasing. Domestic resources under a competitive and wasteful system are being rapidly exhausted. Basic conservation is blocked by \$11,000,000,000 of private capital controlling the industry. The Federal Government is not disposed to force drastic reforms upon private industry, and its constitutional power to do so is questioned. In the future the United States must depend increasingly upon foreign sources for essential commercial and military-naval supplies.

American acquisition of foreign reserves is blocked in many places by Great Britain. The British have been more successful than Americans in grabbing foreign fields. The British Government virtually excludes Americans from productive areas of the Empire. The British dominate the world's remaining supply. They are conserving their reserve, while helping to drain American pools. This situation produces a basic conflict between American and British companies and between the Washington and London Governments. That conflict is intensified by British Government ownership and direction of a company which is reaching out for territories flanking the Panama Canal. Oil is also drawing the Washington Government into dangerous disputes with Latin American, European, and Asiatic countries over property rights. But these manifold conflicts converge in the struggle between the United States and Britain over the world's limited petroleum reserve as a determining weapon in their rivalry for commercial and naval supremacy.

In retaliation for Great Britain's policy and position there is a growing demand that British companies be excluded from American fields. Already there are laws excluding foreign companies from American Government land's. But British penetration increases.

Discussing the unusual expansion in 1927 of the four large oil groups operating in the United States, the *Wall Street Journal* stated: "With its usual foresight, the Royal Dutch-Shell group has been in the forefront of expansion. Through subsidiaries it financed, during 1927, \$105,000,000 new money in this country at an average cost of around 5 per cent on long-term basis. All but \$25,000,000 was for its American subsidiary, Shell Union Oil Company, so its integration efforts have been centred in the United States. Royal Dutch extended its pipe-line from St. Louis to Chicago, completed a modern refinery there and started to develop adjacent markets intensively. It has taken a big position in west Texas with gathering lines to radiate to numerous fields, tying into a trunk-line to pipe oil all the way into Chicago. Some \$30,000,000 of new money is to be used for pipe-line development."<sup>261</sup> In the period 1923-27 the network of trunk pipe-lines controlled by Dutch-Shell here is understood to have increased from less than 1,000 miles to 2,064 miles. Among its 1927 acquisitions was a 600-acre terminal on the Houston Ship Channel.

Dutch-Shell's 1926 annual report showed that 35 per cent of its total world production came from

the United States.<sup>262</sup> This was a nominal decrease from 40 per cent in 1925, explained by the company's increased production in Venezuela. But actual Deterding production here rose in 1926, and further in 1927 to an acknowledged total of 42,300,000 barrels.

Dutch-Shell (Shell Union Oil and subsidiaries) led all other companies in production in the United States in 1924 and 1925, and was third in 1926, according to the Federal Trade Commission oil report of 1927.

As we have seen, Dutch-Shell in the two and a half year period ending June 30, 1926, increased its land holdings in this country over 500 per cent, acquiring in that time 1,352,643 acres mostly in unproven lands, according to the same authority. With a total acreage of 1,665,402, Dutch-Shell was the largest American land-owner in 1926 excepting only Standard of New Jersey, Gulf, and Texas. These production and ownership statistics for Dutch-Shell are based only on holdings reported to the Commission. No authoritative data are available for the increase in Dutch-Shell oil lands in the United States since June 30, 1926.

Foreign-controlled producing companies (chiefly Dutch-Shell) held 13.4 per cent of the total reported proven and unproven oil lands in June 1926, compared with 51 per cent held by Standard companies and 35.6 by Independents, according to the Commission. Concerning Dutch-Shell production, the Commission said:

“In 1924 and 1925 the Shell Union Oil Corporation, controlled by the Royal Dutch-Shell combination, ranked first among all of the oil-producing companies of the country and in 1926 it was third. Its total production exceeded 40,000,000 barrels in each of those years. Its producing subsidiary and affiliated companies were the Shell Oil Company of California, the Roxana Petroleum Corporation, the Wolverine Oil Company and the Comar Oil Company. The Comar Oil Company is owned jointly by the Roxana Petroleum Corporation and the Marland Oil Company and it is operated by the Roxana.”<sup>263</sup>

The importance of so-called unproven lands, of which Dutch-Shell acquired 1,349,320 acres in the two and a half years ending June 30, 1926, was stressed by the Commission: “The holdings of unproven acreage indicate the activity of producing companies in attempting to discover new oil reserves. ... The holdings of certain companies lie largely in oil fields that have been producing for many years, while other companies have most of their acreage in the newer fields. Consequently the relative importance of different producing companies cannot be determined by the size of their holdings of proven oil lands. The existence of oil under unproven lands can be determined only by drilling oil wells. Many of the present highly productive oil pools were tested in the past and considered barren of oil, only to be drilled to a much greater depth at a later date and found to be highly productive.”

Immediately following Standard's published attacks on Dutch-Shell in connexion with Russian oil and the Indian sales strife, the Washington Government struck at the British trust. Secretary Wilbur appointed a special board of admirals to investigate how much United States navy royalty oil Dutch-Shell was getting, and to recommend legislation to stop such sales. Rear-Admiral H.H.

Rousseau, chief of the Naval Oil Office and chairman of the investigating board, on March 26, 1928, testified at hearings of the House Naval Affairs Committee on this subject. As reported by the Washington *United States Daily*.

“The only specific case of export traced, he said, was that of the Honolulu Consolidated Oil Company, of California, which has a lease on Reserve No. 2 at Buena Vista Hills. The production of this lease, he said, was between 250,000 and 300,000 barrels per month, and the Honolulu Company had made a contract with the Shell Company, of California, a subsidiary of the Royal Dutch-Shell Company, a foreign-controlled concern, for all the oil produced from this lease. This contract was the basis for the investigation now being conducted by a special board of the navy. ... He stated that a report on production of oil from Reserve Nos. 1 and 2 showed that 70 per cent of this production is used in California and neighbouring states, 15 per cent in the Atlantic States, and the remaining 15 per cent, or 300,000 barrels per month, goes into the export trade. ...

“Acting-Chairman Britten asked Admiral Rousseau his views on the economic situation created when Great Britain, a year ago, sent the price of rubber sky-high. He asked:

“Why did the United States not counter by raising our petroleum prices, in view of the fact that we produce 72 per cent of the world production?”

“ ‘I think that’s what our oil men want,’ Admiral Rousseau replied.”<sup>264</sup>

Army and navy officers are thoroughly alarmed by the prospect of inadequate supplies in event of war. They say Germany’s defeat in the Great War was largely due to oil shortage. They quote Premier Clemenceau’s appeal to President Wilson for American oil in 1917: “The safety of the Allied nations is in the balance?” They repeat the dictum of Lord Curzon: “The Allies floated to victory on a wave of oil.”<sup>265</sup>

President Coolidge reflected this alarm in his letter of December 19, 1924, constituting the Conservation Board. “It is even probable,” he said, “that the supremacy of nations may be determined by the possession of available petroleum and its products.”<sup>266</sup>

Mr. Henry L. Doherty, who characterized himself as “the only member of the American Petroleum Institute who did not go on record that we had an abundance of petroleum,” testified before the Conservation Board May 27, 1926: “If we were to get into another war within three years, there is no assurance that we would have the petroleum necessary to carry us through that war without embarrassment.”<sup>267</sup> This large “Independent” producer described oil as “our most important munition of war,” and the only one “that can’t be conserved by a mere change of laws.” He expressed particular concern that helium gas, an important war material, is wasted under the American system of producing natural gas. “The United States is the only country which possesses enormous quantities of helium gas,” he pointed out.

Following President Coolidge’s suggestion, the Conservation Board, which includes the War and Navy Secretaries, is devoting much time to the study of defence requirements. Confidential reports made by the Board cannot be quoted. But the nature of those studies is indicated by the Board’s preliminary public report:



“Under its constitutional power to provide for the common defence, the Federal Government should continue to make and execute plans for an adequate supply of petroleum for all military and naval needs of the future. Tank storage sufficient to meet initial demand should be built and maintained intact against war-time emergency. Underground reserves should be preserved to supplement the commercial supply as the next line of defence, and in the administration of these reserves of oil in the ground which form ‘an important part of the national insurance,’ future security, not present economy, should be the sole guiding principle.

“Current peace-time requirements of those branches of the Government responsible for the national defence are approximately 20,000,000 barrels of petroleum products a year. These requirements are adequately provided for under the present normal rate of production. In case of war, the national defence requirements would, of course, immediately increase many-fold. This larger quantity would include the direct requirements, that is, the products actually used by the agencies of the Government engaged in national defence operations; and the indirect requirements—the amount which will be needed industrially to carry out the munition program, or other similar programs of these agencies.

“The production from oil wells within the boundaries of the United States at present is in excess of the estimated maximum requirements for national defence in time of war.

“It is barely possible that future discoveries may reduce, or possibly entirely eliminate the need for petroleum fuels in the national defence. It is also conceivable that substitutes for mineral lubricants may be developed on a scale sufficient to meet major requirements. With the development of the Diesel engine and its adaptability to airplane and motor vehicle use, the military consumption of petroleum as fuel will be reduced per horse-power. ...

“The war-time oil requirements of the navy in any overseas campaign would probably include the major portion of the whole deep-water tonnage under the United States flag. The increasing use of internal combustion engine-drives on commercial carriers makes liquid fuel more and more necessary for war-time water transport. The logistic services of the army and many of its combat weapons, such as tanks, tractor-drawn artillery, and airplanes, are dependent upon petroleum products for fuel and lubrication. Should the oil supply accessible to the United States become exhausted and no satisfactory liquid substitute be developed, it would be necessary to resort to coal for propulsion.

“Our entire war-time reserve should not be in the form of refined products placed in tanks, for two reasons. First of all, the future needs of the army and navy for petroleum products may be in a ratio quite different from that of present use, and in view of the natural tendency of gasoline or even crude petroleum to waste when held in storage, a better policy is considered to be the storage of the higher grades of fuel oil or topped crude, from which the needed products could be derived.

“Further, it is important that there should be an underground reserve in the event that our commercial supply becomes exhausted before that of other nations. This underground reserve should obviously not be drawn upon unless and until other sources become insufficient.”<sup>268</sup>

Defence requirements, coupled with increasing industrial dependence upon petroleum products, put this Cabinet Board behind the State Department’s support of Standard and other American companies in their struggle against the British Government and companies for foreign reserves. Its report stated:

“While the production of oil upon our own territory is obviously of first importance, yet in failure of adequate supplies the imports of oil are of vast amount. The present imports from Latin American fields amount to about 62,000,000 barrels annually of crude oil, against which we export about 94,000,000 barrels of products. The fields of Mexico and South America are of large yield and much promising geologic oil structure is as yet undrilled.

“That our companies should vigorously acquire and explore such fields is of first importance, not only as a source of future supply, but supply under control of our own citizens. Our experience with the exploitation of our consumers by foreign-controlled sources of rubber, nitrate, potash, and other raw materials should be sufficient warning as to what we may expect if we shall become dependent upon foreign nations for our oil supplies.”<sup>269</sup>

President Coolidge in his United Press address April 25, 1927, re-emphasized this Government’s policy of supporting private companies in the acquisition of foreign oil fields.

“Our country consumes vast quantities of oil and gasoline in its use of automobiles, gas engines, and oil-burning furnaces,” he said. “If these products are to be kept within a reasonable price, which is very important to a great body of our citizens, our people who go abroad to develop new fields and to increase the supply ought to have the encouragement and support of our Government. ... The person and property of a citizen are a part of the general domain of the Nation, even when abroad. On the other hand, there is a distinct and binding obligation on the part of self-respecting governments to afford protection to the persons and property of their citizens, wherever they may be.”<sup>270</sup>

The record of American oil diplomacy during the last decade shows that President Coolidge and his Conservation Board enunciated no new policy. Belligerent support of American oil companies abroad by the Wilson, Harding, and Coolidge Administrations indicates this is conceived as a fundamental and continuing policy.

Not that this diplomacy has accomplished much. Perhaps it cannot. Maybe the United States is “too late” as the British officials boast. Many neutral observers are of that opinion.

“It seems little likely that the Americans will ever catch up the lead thus established by their British cousins,” Anton Mohr wrote in 1925. “Now that it is too late, they realize the weakness of their diplomacy, and also that they have too long allowed themselves to be blinded by the splendid sources of supply in their own country, with the result that they have omitted to take timely steps to secure control of foreign petroleum fields, and, through them, control of the world’s future production of oil.”<sup>271</sup> Perhaps, as a result of what a Fleet Street scribe calls “determined but unostentatious enterprise in many directions,” Great Britain can now “contemplate with equanimity” the oil battles of the future.

But if the American Government and companies are beaten, they do not know it. The struggle continues, and will continue. In Mexico there is only a temporary lull. In Central America our veiled exclusion policy is maintained with difficulty against native and British opposition. The

London Government, through the Colombian concession plan, manoeuvres for strategic position dominating the Panama Canal. Hostile competition increases in Venezuela. The Mosul peace is an uneasy truce. The struggle in north Persia grows, with a Yankee named oil adviser to the Government and hatred flaming against the British. In Russia anything may happen. The sales battle between Standard and allied British companies in India is but part of attempted American penetration behind the Empire's lines from Suez to Singapore. The front extends around the world.

“The exploitation of petroleum has become controlled by companies sufficiently powerful to establish their own intelligence branches and sufficiently influential to advise their governments on questions of international policy; for their interests and the interests of the nation as a whole roughly coincide,” said Sir Thomas H. Holland, of British oil fame, in a recent article on “Conditions Affecting the Petroleum Prospects of the Empire.”<sup>272</sup>

At first it was chiefly commercial rivalry between companies. Later the London Government was involved, then Washington. Now the British and American peoples are being aroused. In this country the old anti-trust crusade against Standard, and the Fall-Doheny-Sinclair scandals, put petroleum in bad odour. The public has been in no mood to champion the cause of any oil company at home or abroad. But this sentiment is changing.

The danger point will be reached when near-shortage drives prices upward, and American automobile-owners are told the British have cornered most of the world supply. Secretary Hoover's recent anti-British campaign because of the rubber monopoly,<sup>273</sup> and the Administration's publicity drive against Great Britain during the Geneva Naval Conference, show how it is done. What will happen when the enraged force of public opinion is added to the commercial motives of the oil companies and the defence incentives of the Government? Then the Ku Kluxers and Mayor Thompsons may find a hate crusade crying for their “hundred per cent” leadership. Then all the other Anglo-American economic and political conflicts—real and imagined—can be brought out and magnified.

If by ill fortune such a popular movement coincides with the anticipated scrapping of the Washington Naval Treaty, the international situation will be grave. “The possibility is not remote of there being a new world tragedy over the petroleum dispute,” says General Obregon.<sup>274</sup>

The danger cannot be removed by denying its existence. Peace cannot be maintained by repeating the lie that “war between Great Britain and the United States is impossible.”

War is possible. War is probable—unless the two empires seek through mutual sacrifice to reconcile their many conflicting interests. This would involve sharing raw materials and markets, and dividing sea supremacy, without violating the rights of weaker nations. If some such miracle of diplomacy is achieved oil may cease to be an international explosive.

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<sup>261</sup>. New York *Wall Street Journal*, Jan. 5, 1928.

262. London *Times*, June 9, 1927.
263. Federal Trade Commission, *Prices, Profits, and Competition*, *supra*, p. 30.
264. Washington *United States Daily*, March 27, 1928.
265. Cf., Chap. II.
266. Federal Oil Conservation Board, *Report, Part I, September 1926*, p. 1.
267. Federal Oil Conservation Board, *Public Hearing, May 27, 1926*, pp. 25 ff.
268. Federal Oil Conservation Board, *Report, Part I, September 1926*, pp. 22-24.
269. *Ibid.*, p. 12.
270. New York *Times*, April 26, 1927.
271. Mohr, *supra*, p. 219.
272. London *Journal of the Institution of Petroleum Technologists*, October 1927.
273. Cf., Note No. 6.
274. New York *Times*, Nov. 28, 1927.



*Chapter One**THINKING OF THE UNTHINKABLE*

“WAR IS UNTHINKABLE.” So Prime Minister Asquith said. A few days later Britain was at war with Germany. “War between America and Britain is unthinkable,” we are told now. Like a refrain it runs through most discussions of Anglo-American relations. This assurance is given to us by Prime Minister MacDonald and President Hoover—although they were less optimistic before they talked with the tongues of officialdom. Any one who questions this dogma does not receive a reasoned reply. He is dismissed as a militarist and a war-monger.

Whatever may be the truth regarding the highly complicated and often contradictory relations between America and Britain, it should be clear to intelligent persons that the truth cannot be ascertained by incantation. The phrase “War is unthinkable” is only that. It has no definite meaning. If it means merely that war between the English-speaking nations would be regrettable, it is an obvious aspiration. But, unfortunately, it is usually understood by the people as a statement of fact.

As a statement of fact, it is not true. War between America and Britain is more probable than war between America and any other Power. This does not mean that such a war is inevitable. It does mean that the causes which have produced other wars, and specifically British wars, are active in virulent form in Anglo-American relations now.

This fact is ignored or resented as heresy by most Americans and Britons because they have been reared on childish notions of the causes and nature of war. They bring to this problem only one simple question. Do the American people want to fight the British people? Do the British people want to fight the American people? And their reason answers: Of course not. Are the Washington and London governments plotting war? Their reason answers: Impossible. So they say and believe war is unthinkable.

How such a simple and erroneous conception of war has lodged in the minds of the people in spite of all the facts of history is somewhat difficult to understand. How such a conception can be held by Americans and Britons who lived through the World War and these post-War years is even more difficult to understand. Nevertheless, the myth that war comes only when peoples and governments want war is perhaps more widely accepted to-day than ever before. It is the chief obstacle to an understanding and mitigation of the causes of war.

*HOLY WARS TO ORDER*

War does not begin on the day armed hostility starts, nor end when an armistice is signed and guns are silenced. The World War was the result of causes deep in the 19th century. Hostilities

might have been precipitated, indeed were almost precipitated, several times. That actual fighting began in 1914 was an accident. Germs of war, like the germs which afflict the human body, are always present. This conflict between health and disease is as natural and as inevitable in the international body as in the human body. Of course, the British and American peoples do not will war any more than they deliberately get sick. But when there are organic defects or functional weaknesses or malignant germs, then just as individual carelessness or bravado can be the immediate cause of disease, the ineptitudes of government can become the immediate cause of war.

It is not necessary for the governments to want war. They don't. They know it would injure both nations. Some London and Washington statesmen know that it would injure both nations irreparably. Most of the capitalists do not want war ; peace is more profitable to all but a few. Nor do most of the generals and admirals want armed hostilities. Why should they ? The military life is an easy life—in peace time. The military man likes order ; there is no order in the trenches. The military man is human enough not to choose vermin and mud and death gladly. But the fact that neither the peoples nor the governments, nor the generals and admirals welcomed armed conflict did not prevent the unthinkable World War. It did not prevent the unthinkable Civil War in this country, nor did it prevent the unthinkable Anglo-American war of 1812.

This Unthinkable War attitude does not prevent war when the crisis comes, because physical forces have become too strong to be restrained by mere good intentions ; because of the panic which follows when a patient or a nation suddenly discovers the crisis ; because the very psychological unpreparedness, which the patient or the nation believed to be the greatest protection, then makes the body more vulnerable to the shock. The one who succumbed to the human tendency to ignore disquieting symptoms and disagreeable facts is the one most hysterical when the horror is revealed.

That is why governments, when they find themselves on the verge of unsought war, can so easily turn their pacifist populations overnight into war-mad mobs. The people are shocked into a state of mental paralysis and nervous irresponsibility. The fact that there are major conflicts—between the United States and Great Britain, let us say—is so new to them that they magnify the political disputes into eternal verities worth fighting for. This process of sudden popular conversion of a pacific nation to war is not always brought about by discovery of the actual causes of the conflict. Those real causes, indeed, are often deliberately disguised by the governments concerned. Because those causes for the most part are economic maladjustments which obviously cannot be corrected by wholesale killing.

Hence the necessity for governments to create a moral issue as a bogey. The World War was not the first “war to make the world safe for democracy.” That is the way most wars have been staged, in the sense that the popular ideal of the moment always has been used by governments to ennoble the conflict. No modern civilised people will fight—other than to bar an actual invader—unless they believe it is a Holy War.

To create this Holy War myth is one of the few easy tasks confronting a government on the eve of hostilities. Taken by surprise, the people are in a credulous and highly suggestible condition. The government controls all channels of publicity. The government alone has access to all the facts, especially immediate facts and developments. So even the small minority of dispassionate and informed citizens is in no position to trust absolutely the validity of its opposition. Even if convinced that the government propaganda is based on lies, the minority cannot persuade the majority. It has neither the facts nor the forum from which to present the facts.

Even in peace time the American and British governments withhold from the public important facts concerning international relations. Whenever the American public through Congress drives the Administration into a corner on a question of unpopular policy, and the official legislative representatives request information from the Secretary of State, he usually declines to give such information on the ground that to do so would be "incompatible with the public interest." A government which has so little difficulty in withholding facts in normal times, cannot be forced into making embarrassing revelations in times of national crisis, much less during armed war. This certainly was the experience in Washington and in London during and immediately before the World War.

Governments do more than withhold facts from the public. They deliberately colour facts. Honourable men, who are honest as individuals, become liars as officials. In the name of duty, of course. The significance of such governmental suppression, colouring of facts, and deliberate lies, however, can be exaggerated. Such lies are usually less potent in creating the Holy War myth, which overthrows the Unthinkable War myth, than are certain carefully selected facts. Selected facts, isolated, become first half-truths and then untruths.

All governments have skeletons in their closets. All large nations have Hun records. All have oppressed weaker peoples. All have nasty national traits. Every Power can be shown by an enemy, on the basis of its own acts, to be a menace to civilisation. Hence the ease with which governments create popular support for the war which was unthinkable yesterday.

These are generalities. But they are generalities which can be applied with disquieting precision to the United States and Great Britain. No argument is needed to demonstrate that these generalities apply to both countries in their World War experiences. Americans and Britons equally were confident that war then was unthinkable. Both governments were certain that actual fighting somehow could be avoided. Both governments were "liberal," neither was "militaristic." Prime Minister Asquith was a man of peace. President Wilson was a man of peace. Peace societies flourished among the peoples of both countries. The few who questioned the Unthinkable War myth were derided as mad.

The British people, despite their pacifism or perhaps partly because of their pacifism, were unprepared psychologically to withstand the shock of unexpected war. Yet now they appear to have forgotten that experience. "Most of us suppose that the dread of war in ourselves and our fellows can be trusted to respond to the needs of the hour, when the next war comes upon us," says Mr. H.N. Brailsford, in describing the British attitude.<sup>1</sup> "We rely on some spontaneous rally

of public opinion, when the last tense week of doubtful negotiations confronts us with our dangers. We forget how the Great War stole upon us. In London, ten days before the irreparable decision, the question of Ulster filled our minds, and if we troubled to think of Europe, it was only to fling a curse of irritation at Serbian murders. There is no hope for us, unless we realise that the next war is being prepared every day.”

Even had the British people been aware of the danger, they had no opportunity to stay it. They were not consulted by their Government, when the decision was made. The House of Commons had no choice. Not even the British Cabinet as a whole was free to choose. The issue had been decided for them years before. “We found ourselves on a certain Monday listening to a speech by Lord Grey at this box which brought us face to face with the War and upon which followed our declaration,” Sir Austen Chamberlain explained several years later (February 8, 1922) to the House of Commons.<sup>2</sup> “That was the first public notification to the country, or to any one by the Government of the day, of the position of the British Government which it had assumed. . . . Was the House of Commons free to decide? Relying upon the arrangements made between the two Governments, the French coast was undefended—I am not speaking of Belgium, but of France. There had been the closest negotiations and arrangements between our two Governments and our two staffs. There was not a word on paper binding this country, but in honour it was bound as it had never been bound before—I do not say wrongfully; I think rightly.”

As Lord French later admitted in his book on the War, “The British and French General Staffs had for years been in close consultation with one another on this subject. The area of concentration for the British forces had been fixed.” As Marshal Joffre told a Paris commission on July 5, 1919: “A military convention existed with England which could not be divulged as it bore a secret character.” This situation had been reported by M. Sazonov to the Czar more than a year before the War: “Arising out of this, Grey, upon his own initiative, corroborated what I already knew from Poincaré, the existence of an agreement between France and Great Britain, according to which England engaged itself, in case of a war with Germany not only to come to assistance of France on the sea, but also on the Continent by landing troops.”

Although this situation was known to a few high officers, a few diplomats, a few outsiders, the British House of Commons and the British Cabinet as a whole did not know. “The concealment from the Cabinet was protracted and must have been deliberate,” Lord Loreburn says in his *How the War Came*. Mr. Arthur Ponsonby, former Undersecretary for Foreign Affairs, in *Falsehood in War-Time* (1928), from which the above quotations are taken, concludes: “This commitment was not known. . . . More than this, its existence was denied. . . . No more vital point stands out in the whole of pre-War diplomacy, and the bare recital of the denials, evasions, and subterfuges forms a tragic illustration of the low standard of national honour, where war is concerned, which is accepted by statesmen whose personal honour is beyond reproach.”<sup>3</sup> Though these Anglo-French military and naval conversations had been proceeding since 1906, the British Undersecretary for Foreign Affairs in the House of Commons in March 1911, made a flat denial in answering the question whether “any undertaking, promise, or understanding had been given



to France that, in certain eventualities, British troops would be sent to assist the operations of the French army.” Another formal denial was made in the House of Commons on March 10, 1913, at about the time M. Sazonov was again reporting the truth to the Czar. “It is not true,” Prime Minister Asquith replied when a statement was made from the floor of the House of Commons that “there is a very general belief that this country is under an obligation, not a treaty obligation, but an obligation arising owing to an assurance given by the Ministry in the course of diplomatic negotiations, to send a very large force out of this country to operate in Europe.”<sup>4</sup> So the denials continued to be made by Prime Minister Asquith and Sir Edward Grey down to August 3, 1914—and all the while they were making definite war preparations for the emergency which they did not welcome but which they were too weak to prevent.<sup>5</sup> The manner in which the British Government, once war was declared, conducted an effective propaganda campaign in England and in the United States to establish the myth of Germany’s sole guilt need not be re-told. The effects of that propaganda still live in the Versailles Treaty and in the prejudices of too many Britons and Americans.

Methods used by the Washington Government in making an Unthinkable War a Holy War were essentially the same. But the task was harder. There was much more traditional anti-British than anti-German sentiment in the United States. In the conduct of the War Britain had come into more direct conflict with American interests than had Germany. The American people could not be surprised by war already in progress. Finally, there was little danger of actual invasion of this country. So more skill was required of the Washington Government to convert its public to intervention. For the reasons given it did not succeed in converting Americans in advance. President Wilson was re-elected on the campaign slogan, “He kept us out of war.” This Government’s agents, and the Allied propagandists imported by it, were not effective until the German submarine frightfulness developed.

By that time large financial and industrial groups, for other reasons, were trying to draw us into the conflict. Then it became more expedient for President Wilson to act. It became expedient, that is, so far as these business groups and their Congressional representatives were concerned. As for the American people, no one will ever know. But the “He kept us out of war” election, and difficulties in making the military draft effective, seemed to indicate that the people would not have voted for war in a popular referendum. At any rate Mr. Wilson was too wise to permit a referendum, and governmental control of public opinion operated successfully to suppress any referendum demand. Thus the American people even less than the British people willed their entrance into the World War.

It is significant, however, that once in, conversion of Americans to the Holy War idea was almost complete. The most absurd German atrocity stories were accepted with relish. Teutonic culture, which had been looked up to, now became in the minds of Americans a thing gross and perverted. Whether pre-War German culture was as great as Americans originally rated it, or as degraded as war-mad Americans later came to regard it, is immaterial here. In any event Americans at that time revealed their capacity, under official tutelage, to swing suddenly and violently from one extreme to the opposite in their attitude toward a foreign people. And that

easily inspired hatred of Germany remained as a hangover in America long after it had been thrown off by the British.

### THE DEAR COUSIN MYTH

While many admit that the World War proved the ability of both the Washington and London governments to turn an Unthinkable War into a Holy War, it is commonly believed that this has no bearing on a possible Anglo-American war crisis. America is not Germany, our British friends say. Britain is not Germany, we say. Such dogmatic optimism ignores the basic economic causes of war. Specifically, it ignores the disquieting similarity between Anglo-German relations yesterday and Anglo-American relations to-day. Even many who understand that the present Anglo-American economic conflicts are like those which precipitated the last war, assume that the present rivalry cannot lead to armed strife because of the unique bonds uniting these two nations.

Blood is thicker than water, it is argued. A common language, literature, law, and a common political tradition have created a deep sense of understanding, sympathy, and kinship. This is another one of those pretty notions about the nature of war which violate experience.

Historically, blood and language kinship has meant war more often than peace. Civil wars have been frequent. And the civil wars of Britain and America have been especially unreasoning, vindictive, and bloody. If brother fought brother in our War of the States, by what costly forgetfulness can any one assume that cousin will refuse to fight cousin because of kinship? Those are nearer the truth who believe this kinship between Americans and Britons creates more friction than friendship, and is chiefly responsible for the patent tendency of each to exaggerate the foibles of the other—as cousins are apt to do.

Positive unfriendliness has been fed on both sides of the Atlantic by the memory of the American Revolution. It accounts, in part, for the ease with which American governments during the War of 1812 and the Civil War, and in the later 19th century were able to whip up anti-British sentiment when the actual conflicts between the two countries were much less serious than now.

But this entire approach to Anglo-American relations as a family matter is fallacious. The United States is no longer predominantly of British heritage. Immigration has changed that. Hardly one-third of our population is of British stock, according to the 1920 U.S. Census. The melting pot has changed the old stock as well as the new. Except for a professional Anglophile here and there, one rarely finds an American of any heritage or class who thinks of England as the motherland. And the Anglophile, curiously or perhaps naturally, is apt to be a super-nationalist demanding that we build “the largest navy in the world,”—that is, larger than the British navy.

British politicians and publicists once keenly sensitive to the anti-British feeling engendered here by Irish immigrants, often fail now to appreciate the importance of the newer “Latin-Slav leaven in the Anglo-Saxon lump.” Establishment of the Irish Free State has not appreciably diminished the hostility to Britain of Irish-Americans. The chief difference is that this group’s shouting against the British is losing its identity in the louder chorus of abuse from more recent non-

British immigrants. One of the most potent results of the War is the abiding anti-British influence of German-American groups. They are influential especially in the Middle West. Their temporary submergence during the War has reacted now in a more positive racial affinity with the German Republic. They tend to see the future of international relations in terms of America and Germany versus Britain. These German-American upper and middle class groups are supported by the southern and eastern European immigrants. In the case of the latter the dominant factor is perhaps less a racial and more a class, or at least a social, consciousness. Immediate hostility is aimed not so much at Britain as at the older Anglo-Saxon stock which rules this country socially, commercially, and politically.

With the growth of this non-British stock to its present proportion of 63 per cent of the population, an attempt by it to wrest economic and political control from the older ruling class is doubtless inevitable under any circumstances. But it is apparent that the War and post-War developments have accelerated this spirit of revolt.

Hence Mayor Thompson of Chicago. It is generous of London politicians and publicists to be amused rather than insulted by the Thompson episode. But, as British observers and officials long stationed in the United States can tell them, this Thompson movement cannot be "laughed off." For it is a movement. It represents one of the most fundamental developments in our political and social life. It cuts across every major American problem, whether that be labour organisation, crime, prohibition, the Ku Klux Klan, or foreign policy.

Mr. William Hale Thompson, instead of being the buffoon he is supposed to be abroad, is upon his record one of the shrewdest of American politicians. He is a man of Anglo-Saxon stock, of cultured heritage and good education. But he is a politician. He has demonstrated that an unscrupulous campaign of hate against Britain is the quickest way to win votes in the second largest city in the United States. On the strength of that issue he was able to wipe out his Wartime unpopularity. On the strength of that issue he was able after defeat to return to political power, as few American politicians ever do on any issue. On the strength of that issue he was able to remain in power despite united opposition by the influential press of the city and nation, and despite a record of city crime during his term unprecedented in the history of America's boss-ridden cities. As all rotten structures fall of their own weight in the end, the Thompson administration went down. But the anti-British forces that raised him to power have not collapsed with him. They are as strong as ever.

A fairer example is Mr. Alfred E. Smith, who, by the testimony of his political opponents, is one of the ablest and most honourable men in American public life. Certainly he is one of the most popular. Despite the handicap of being a minority candidate and a Wet Catholic in a prohibitionist Protestant land, he received in 1928 the largest popular vote ever given a Democratic presidential candidate. He is the representative and idol of the immigrant class of which he is a part. In this son of Irish immigrants were fused in hot enthusiasm the ambitions and drive for power of the immigrant groups. Almost without exception, he carried the immigrant districts. The cleavage of class was conscious. "Al" was recognised and acclaimed as "the man of the people" in a sense that none has been acclaimed since Lincoln and Bryan. As the

popularity of Lincoln and Bryan reflected the social movements of their time, so Smith represents the group now struggling for power against the domination of an older ruling class. That group is anti-British. It follows a William Hale Thompson when there is not an Al Smith to lead.

There is general recognition by American politicians of this situation. The Republican Party in 1920 deliberately used an anti-internationalist appeal—similar to an anti-British appeal, as anti-British sentiment helped prevent American entrance into the League of Nations—to unseat the Democratic Administration. The same strategy was utilized by a majority of the Republican politicians in their opposition to Mr. Hoover in the 1928 pre-convention campaign. They knew that the most effective propaganda they could use against him was to call him pro-British. They called him “Sir ‘Erbert.” They emphasised that he had lived much of his life in England. He is one of the few national figures who have survived the charge of being pro-British. Perhaps the reason is that he had an alibi in his anti-British crusade against the rubber monopoly. At any rate it is clear that Democratic and Republican politicians, including Mr. Hoover, do not underestimate the power of anti-British immigrant opinion.

That is not to deny that the Anglo-Saxon minority still rules this country, politically as well as intellectually and economically. But even this minority is not as friendly toward Britain as some professional utterances might indicate. It resents what it considers the patronising attitude of the British—an unforgivable sin to a class which cherishes the exclusive privilege of patronising others. Among the professions any foreign influence is apt to be Continental rather than British. In the army, navy, and diplomatic service there is little love of the British. Instead there is positive hostility.

Such hostility, as indicated, is not new. It has come down from the American Revolution in our history text-books. The same spirit made Americans ready to go to war with Great Britain over a boundary dispute in Venezuela, as to the merits of which the average American knew nothing and cared less. Without preparation, President Cleveland was able to tap a great gusher of British hate which flowed over the cross-roads, the villages, and the cities into the press and onto the floors of Congress. War was demanded. The Unthinkable was called “inevitable” by senators. Nothing but British statesmanship prevented war. There was no evidence of fairness, much less of blood friendship, in Secretary Knox’s note to Great Britain in the Panama Canal Tolls dispute. There was less in the Congressional debates. Even when we were on the point of entering the World War on the Allied side the diplomatic notes of Secretary Lansing to Britain in the freedom of the seas dispute were as bitter as those usually followed by a declaration of war against the recipient.

If ever the much-talked-of kinship should have operated to produce friendship it was during the World War. But the official alliance of that period was not reflected in any love of the American troops for the British. Yankee doughboys do not return in numbers now to renew pleasant associations in England. Indeed, the relatively small general American tourist trade in England is indicative of the lack of positive sympathy between the two peoples. The British speak our language, even our slang. They show our movies, they re-print our fiction, they have Americanised many of their newspapers and hotels and shops. They have the best motor roads



in Europe, the most charming countryside, the most famous lakes, the most beautiful churches, the cultural shrines of the English-speaking world. Logically, England should be the American tourist's paradise. But the larger tourist trade washes other shores.

Americans who go to England do not, as a rule, like their "cousins." Even Ambassador Page, who was later pro-British almost to the point of treason in his sabotage of the policies of his own Government, could write in a private letter to his friend, Secretary Houston, August 24, 1913, of the Briton's "unctuous rectitude in stealing continents." "I guess they really believe that the earth belongs to them."<sup>6</sup> But, as he added in a later letter to President Wilson: "The future of the world belongs to us. These English are spending their capital ... Now, what are we going to do with the leadership of the world presently when it clearly falls into our hands? And how can we use the British for the highest uses of democracy?" Apparently the British have no monopoly on "unctuous rectitude," though probably at least a better sense of humour than that of Ambassador Page. Mr. Page's earlier opinion of the British was not unlike that of many of our diplomats who are now so fond of the Geneva jibe that "England expects every Swede to do her duty."

Vicious attacks on Great Britain during the Kellogg Treaty and cruiser bill debates in the winter of 1928-29 by such senators as Mr. Blaine and Mr. James Reed were little-exaggerated versions of opinions expressed by the man on the street. Senators and press correspondents who have followed Congressional debate for years said that never in peace-time within their experience had there been such unrestrained attacks on any foreign nation. So marked was that hostility that Prime Minister Baldwin, when under fire from the Opposition in the House of Commons, was able to use successfully for the moment the excuse that "suspicion" in America toward Britain was so great that further naval disarmament proposals by his Government would be "useless." These American "suspicions" are commonly ascribed by the British to an inferiority complex. Thus "Augur" writes in the *Fortnightly Review*: "The naval conference at Geneva and later developments prove that people in responsible positions in the United States have a deep distrust of the intentions of Great Britain and are inclined to see hidden plans of aggression in all proposals made by the British. It is clear that the complex of political inferiority which existed among the Americans before the War has not vanished completely even now when really there is no cause for it. The fear of Great Britain has disappeared, but, instead, the inferiority complex breeds a suspicion which must be destroyed before the two countries can come together."

Perhaps at this point we should recall that "profound secret of which the Americans are unaware," as disclosed by another Briton, Mr. L.J. Maxse: "The self-complacency of official England, which is no less exasperating to unofficial England than it is to foreigners, is never a mask for Satanic cunning or diabolic cleverness, but it is sometimes a cloak for somnolence, stupidity, ignorance, and ineptitude." If that be true, unfortunately, the average American cannot be expected to understand it, especially in times of crisis. If the time ever comes when the Washington Government wants to turn the luke-warm friendship or positive dislike of large numbers of Americans for Britain into hatred—as was done in the case of Germany—there is no evidence that the task will be a difficult one.

There are all too many skeletons in the British closet ; many of them, indeed, not even in the closet. There is India.<sup>7</sup> There is the Mui Tsai (child-slavery) system in British Hong-Kong and British forced labour in Africa. There is British sabotage of the American reforms proposed at Geneva for international control of production and traffic in drugs. There is Egypt. There is the British exclusion policy against American oil companies, the activity of the British in the Panama Canal region, discrimination against American stockholders in British corporations. There is imperialism, which means, to many if not to most Americans, British Empire policy.

Americans are more familiar with the faults of British policy than with its virtues. Doubtless that is one reason they love Britain so little. She offends their sense of justice and fair play so often in dealing with weaker people. And Americans—whose capacity for puritanical hypocrisy is unequalled anywhere in the world, unless it be in Britain—cannot respect any other nation which treats defenceless peoples as we treat the Haitians, Nicaraguans, and others.

There is also the matter of prohibition. Bigotry of “Dry” extremists, which is creating such a serious domestic problem, is carried over to poison our relations abroad. Much is made of British rum-running. Little credit is given the British Government for the unusual measures it has taken in Bermuda and elsewhere to co-operate in the enforcement of a foreign law which is disapproved by most of its own citizens ; nor is there appreciation of the restraint of the British public and press when, as in the *I'm Alone* case, the American coast guard sink British ships with loss of life on the high seas.

Given this tendency to be less than fair to our “cousins” and given the skeletons of British imperialism so familiar here, any American Government propaganda agent worth his salt could in a crisis “sell” the idea to “make the world safe for democracy” by fighting Britain.

Not that the latent hostility is all on one side. The British reciprocate. Even in these post-War years, when most British newspapers and officials have been trying so hard as a matter of deliberate policy to be pro-American outwardly, there are constant and unconscious evidences of that patronising attitude Americans resent more than anything else. At times this official pro-American resolution breaks down, as when under the provocation of the Coolidge Armistice Day address of 1928, the name of the American President was jeered in the House of Commons. Incidentally this episode, with few exceptions, was not reported by the British or American press. In his book, *British-American Relations*, Mr. J.D. Whelpley states on the basis of many years of friendly observation of British public and private sentiment that the Englishman’s opinion of Americans “is not as favourable as the American’s opinion of the Englishman. There is a certain peculiar unchangeableness in the British attitude as a nation and individually. It might be described as one of tolerant dislike, though this is perhaps too strong a term to use. At times this feeling comes very much to the surface, and at other times it is submerged under the emotions of the moment, but it is always there, and takes the form generally of a vague distrust as to motives, uncertainty as to what the American will do next, and lack of sympathy with American stridency of life and lack of reserve. There is generally a certain amount of patronage in such approval as is given and a feeling of justification when an American does something which is disapproved.

There is a full appreciation of American energy, resource, vitality, and accomplishment. There is always an under-estimate of the spiritual forces at work in America and an over-estimate as to the importance with which material things are regarded in that country.”<sup>8</sup> Mr. Whelpley’s last sentence is also an uncomfortably close description of the pre-War attitude of the British toward the Germans. Most observers, whether American, British, or foreign, find in the British attitude toward Americans this same dislike or worse. Here are a few examples, taken at random :

Mr. C.E.M. Joad, British professor of philosophy and author of *The Babbitt Warren*. “Perhaps it is because they dimly apprehend this fate for England, fearing that it may become the toy and the plaything of the vulgar rich from over the seas, its culture lost, its beauty shattered, and its people parasites, that the English dislike America.”<sup>9</sup> But most observers tend rather to emphasise the political aspects. As Colonel House wrote to President Wilson in 1919, remarks frequently quoted in England : “Almost as soon as I arrived in England I felt antagonism to the United States. . . . Relations of the two countries are beginning to assume the same character as those of England and Germany before the War. By her industry and organisation Germany was forging ahead as the first power in the world, but she lost everything by her arrogance and lack of statesmanship. Will it be Britain or the United States who will commit this colossal blunder ?”

It must be said, of course, that the British are not original in their dislike of us. As Mr. Edwin L. James, foreign correspondent of the *New York Times*, reports : “Of all the peoples in the world, the Americans are now the least loved. That is one way of saying that the United States of America is the most unpopular nation on the face of the earth. By degrees all civilised countries are being divided into two parts—the United States and the rest of them.”<sup>10</sup>

Mr. Samuel Samuel, a member of Parliament and Dutch-Shell oil official, not long ago told a London audience : “We cannot trust the United States. She is trying to dominate Great Britain.”<sup>11</sup> The Dean of St. Paul’s, in his book *England*, says : “If the British flag were hauled down in the North American continent it is more than possible that the nations of Europe, enraged by the bloated prosperity and airs of superiority of ‘the man who won the war,’ would combine to draw Shylock’s teeth ; and Great Britain, after losing Canada, would no longer have any motive to help a nation which, in the circumstances supposed, would have finally forfeited its friendship.” When this was quoted on the floor of the Senate, British clergymen sent a denial that it represented the views of any considerable number of Englishmen. Perhaps not in quite such an extreme form.

According to Mr. Bertrand Russell, in his *Prospects of Industrial Civilisation* : “It is, of course, obvious that the next Power to make a bid for world empire will be America. America may not, as yet, consciously desire such a position, but no nation with sufficient resources can long resist the attempt. And the resources of America are more adequate than those of any previous aspirant to universal hegemony.” Mr. J.W. Brown, vice-chairman of the National Federation of Professional Workers, in opening the International War Danger Conference in London in 1927, was more specific : “America is undoubtedly the most ruthless and aggressively imperialist nation at present. It is in the imperialistic policy of the United States that great danger exists for future

war.”<sup>12</sup>

Discussing the occasion when members of the House of Commons jeered at the mention of President Coolidge's name in connexion with the 1928 Armistice Day speech, Mr. John L. Balderston cabled the New York *World* from London : “Although I have worked here as newspaper correspondent for 14 years, I have found an England this week that was strange to me, an England whose feelings—at least those of the governing class, which is easy to sense—are extremely difficult to explain. But it seems, at least to one observer, that the Coolidge pronouncement, though of course isolated, signalises a new difficulty and possibly a dangerous era in Anglo-American relations.”<sup>13</sup> On the same day the usually careful London *Times* printed in large type at the head of its letter column, a place usually reserved for contributions expressing the view of the newspaper, a communication which charged that the United States at the Washington Arms Conference tricked Britain into scrapping new and good naval ships in exchange for American ships of doubtful value.<sup>14</sup>

Mr. Balderston quotes the London *News* as stating that the talk of the “unthinkableness of Anglo-American conflicts now or in the distant future hardly fits the fact.”<sup>15</sup> Later the London *News* admitted that relations between the two countries “are more delicate than they have been for a generation;” and the London *Chronicle* declared : “We stand at a critical epoch ; the next four years may well determine for the long future the relations between ourselves and America.”<sup>16</sup>

Mr. Frank H. Simonds, one of America's best informed foreign observers, finds : “So far there has been a general unanimity both in the United States and Great Britain on the verdict that an Anglo-American war was unthinkable. Now, however, one must face the fact that in Britain and on the Continent there is a growing fear lest the unthinkable becomes a very real and well-nigh inescapable menace. Europe, which has a long and unhappy experience in reading the signs which forecast stormy international weather, begins to interpret the new signs with the accustomed standards.”<sup>17</sup> Mr. Simonds' reference to the opinion of Europe is easily verified. For instance the New York *Times* reported from Rome, November 14, 1928, that “almost all the newspapers consider it (the Coolidge Armistice Day speech) foreshadows a gigantic struggle between America and England for world leadership.”

Senator Henri de Jouvenel, former French delegate to the League of Nations, told the War Danger Conference in London in 1927, that there would be another world war by 1935, and added : “If we should see another European war the United States will not be on the same side as England.”<sup>18</sup> According to War Commissar Voroshilov of the Soviet Government : “One must not be particularly far-seeing or a political bolshevik to foresee that a solution of the aggravated English-American controversies lies in the long run in the path of armed conflict. This clash, enforced and violent, will exceed all the bloody slaughters recorded in the history of mankind.”<sup>19</sup> General Ludendorff thinks that such a war is not only possible but “more possible than war seemed possible between America and Germany years ago. For, between America and Britain, there are undeniably, strongly conflicting interests and policies.”<sup>20</sup>

Lieut. Comdr. J.M. Kenworthy, M.P., says : “The danger of Anglo-American conflict is as real as



was the danger of war between Britain and Germany in 1905. We are heading straight for the same tragedy as 1914.”<sup>21</sup> Field Marshal Sir William Robertson, former Chief of the British General Staff, frankly compares the United States to the Prussia of 1914. Speaking to the League of Nations Union in London, Dec. 5, 1928, he said : “America, influenced by imperialistic tendencies, apparently, means, whatever happens, to go on increasing her navy, and her official utterances on the question of armaments not infrequently bear a close resemblance to those claims which we were so accustomed to hear made by Germany before the tragedy of 1914.”<sup>22</sup>

The truth or lack of truth in these opinions of Europeans and of Britons will be considered later ; the point here is that such opinions of us are held abroad—though usually not openly expressed except under extreme Yankee prodding. Before we dismiss such opinions as those of scaremonger journalists, bolsheviks, and militarists, it is necessary to note that they are confirmed in a general way by the highest political authorities in Britain. Mr. Stanley Baldwin, leader of the Conservative Party, said while Prime Minister : “I think President Coolidge is right. I think there is lacking between Europe and America mutual understanding, and I regret it profoundly. . . . I do not pretend to see a way out, but I think this worthy of reflection and consideration.”<sup>23</sup> Mr. David Lloyd George, leader of the Liberal Party and former Prime Minister, has said : “I am frankly alarmed over our relations with America.”<sup>24</sup>

Prime Minister MacDonald said—before he took over the Government, of course—: “The relations between the United States and Great Britain grow increasingly unhappy. The usual committees of friendship are being formed—always an ominous sign, and the usual signals of a faith in doubt are being flown, such as : ‘War between the United States and Great Britain is unthinkable.’ When I hear that I am reminded of the sailor who in dire peril expressed a thankfulness that his religion was still left.”<sup>26</sup>

It is true that several of the above quotations were provoked by Coolidge speeches, and that the Hoover-MacDonald conversations of 1929 stimulated more friendly public statements on both sides of the Atlantic. But, just as the old Anglo-American antipathy was stimulated though not initiated by Coolidge, that friction is not removed by the extreme prophecies of everlasting friendship occasioned by Mr. MacDonald’s visit to Washington. Causes of economic conflict and armed war are too deep to be judged by surface waves of popular feeling resulting from favourable or unfavourable propaganda winds.

In the midst of the Hoover-MacDonald friendship negotiations, the MacDonald Government officially and directly was fighting two special trade battles against the United States, and the Hoover Administration officially was trying to force through Congress a higher tariff law deliberately designed to exclude many British products from this country. The MacDonald Government sent the official d’Abernon mission to the Argentine Government and obtained an agreement giving Britain many millions of dollars’ worth of trade which had been going to the United States, and which Mr. Hoover hoped to retain on the strength of his Argentine tour a few months earlier. While Mr. MacDonald was nearing New York on his visit to the President, his Cabinet colleague, Mr. J.H. Thomas, was boasting of having taken a large amount of Canadian

coal and steel trade away from the United States.

Mr. Thomas in making to the Brighton Conference of the Labour Party the first official announcement of the result of his Canadian mission, said : “I found that Canada was importing from the United States 15 million tons of bituminous coal every year. I convinced the Canadians that some of that should come from England and Wales, because every 300 tons mined in this country means enough work to support a miner and his family one year” —and, he might have added, means work taken away from American miners of whom tens of thousands are unemployed and other tens of thousands are on part time. When a member of the Brighton audience asked Mr. Thomas why he had not told the good news of the steel orders before, he replied : “Because if I had talked too soon the United States steel producers would have got into the Canadian market with offers of their goods reduced \$2 or \$3 a ton, and I was more interested in increasing our export trade than in satisfying public curiosity.”

To which a delegate shouted the objection that Britain “should not begin economic warfare against America, at the very time when the Prime Minister is going to Washington on a mission of world peace, because all wars have economic origins.”<sup>26</sup>

This does not mean that the Prime Minister and the President in their good will negotiations and statements were hypocrites. But it does mean that the trade war at the same time is increasing with a force which sweeps Prime Ministers and Presidents along with it. As Mr. MacDonald has explained,—when not on good will missions—Britain must increase her exports to survive. As Mr. Hoover has explained—when not a good will host—our prosperity depends on keeping the foreign markets which absorb our 10 per cent industrial production surplus. Now it so happens that our Canadian market, raided by the MacDonald Government, is our largest world market. Our Argentine market, raided by the MacDonald Government, is our largest Latin American market, almost as large as that of any three other Latin American customers combined. It also happens that those are “our” markets chiefly because we captured them from the British, and only so long as we can prevent the British from recapturing them from us. All of which is only one little front in the Anglo-American economic world struggle, which cuts under and through the tentative Hoover-MacDonald naval truce.

### HUSH-HUSH

There are two popular attitudes toward the fact of Anglo-American economic conflict, and the further fact that historically such rivalry usually has resulted in armed war. One is that of bland denial of the facts, without proofs or arguments. Such is the familiar course of orators at Anglo-American dinners and occasions of one sort and another. Thus Mr. Charles Evans Hughes, who has participated personally in the Anglo-American conflict as Secretary of State and as attorney for the American oil interests, told the Pilgrim Society of London in the summer of 1929 : “Happily we have no controversy threatening our friendship—merely injudicious utterances of the irresponsible and irrepressible.”<sup>27</sup> This, of course, is the set speech of practically all diplomats of the two governments. Another popular attitude is silence. Especially those who hold most

strongly to the Unthinkable War idea, want to stop discussion of the existing conflicts. This group, and many brilliant peace advocates on both sides of the Atlantic are included, have the notion that the disputes can best be worked out in secrecy or semi-secrecy. Thus they throw over their ideal of open diplomacy. To accept this hush-hush method is to renounce hope of intelligent popular control of foreign policy. What either government has ever done without popular pressure in peace-time—which is the only time there is any chance of intelligent public opinion—to justify trust in such secret diplomacy, we are not told. Since both countries operate nominally through a system of representative government, it would seem that if the people are not able to hear the truth regarding foreign relations, they are not capable of judging the issues or exercising an election mandate upon such issues.

The fallacy of this silence panacea goes deeper, however, than a mere inconsistency in the theory of representative government. Judged only on the basis of practical results, the method of suppressing discussion has the opposite effect from that intended and claimed by its peace advocates. Belligerent propaganda is not and cannot be stopped. The only thing that is silenced is intelligent and responsible discussion. That has been demonstrated repeatedly in the case of naval rivalry. Results are the same, though less obvious, in economic conflicts. Take war debts and the rubber monopoly.

In the case of the debt,<sup>28</sup> the British people would not feel the same bitterness against the American “Shylock” if they understood the situation governing American policy, nor would the American people be so unwilling to cancel all of the debt if they appreciated the British need and the economic fallacy of international war debt payment. Here is a fair example of the failure of the friends of better Anglo-American relations, who go about making pretty speeches of the all’s well variety and cursing those who dare mention the serious misunderstandings.

British friends of peace, to say nothing of the British friends of the United States, do not give their countrymen the American side of the case—it is not the whole truth, but it is a half-truth without which the British cannot arrive at a just or intelligent opinion. Anglophile Americans do not explain to this country the psychological and economic justification for forgiving our debtors. Instead, this pro-British minority among us is strangely silent whenever a practical defence of the British position on an actual issue is needed.

The debt situation in the United States is clear. The Government would cancel all of the debt if such action were politically expedient. But American voters object, and object strenuously, chiefly because they are uninformed. Their ignorance on this subject, and their hostility born of that ignorance, is so great that the Government has to lie to them about the debt funding settlements already made. To this day, they do not know that those funding agreements did cancel war debts from 30 to 80 cents on every dollar. Cancellation of the British debt amounted (at a 5 per cent interest rate) to 30.1 per cent of the total. Whatever the coolness in this country toward Britain, it is a safe generalisation that most Americans would rather die for Britain than lift a finger to help Mussolini. If they understood that Mussolini made even a paper settlement only under duress and only after the promise of a virtual bribe in the form of a new loan larger than his partial debt payment, and that he was then granted an 80.2 per cent debt cancellation, they

would not be so eager to penalise Britain for being the first foreign nation to fund its American debt and the only one to do so voluntarily. Logically, to be sure, Americans might be more anxious to drive a hard bargain to weaken their chief world competitor, than to restrict by debt collection the war preparations of Fascism which do not concern them directly. But they are not moved by logic. They would not wittingly, at the expense of a parliamentary government, befriend a system so alien as is Fascism to their faith in the perfection of the American form of democracy. Even though an intelligent discussion of the war debt issue left the problem unsolved, it could hardly fail more completely to mitigate the bitterness on both sides than has the method of silence.

Analogous to British hostility toward America because of debt collection is American vindictiveness toward Britain over the latter's rubber monopoly. The fact that Britain "did not get away with it"—to use the familiar Americanism most often applied to this dispute—does not lessen the tension.

Mr. Hoover's handling of the rubber controversy, while Secretary of Commerce, is a perfect example of how not to handle Anglo-American relations. It is discouraging evidence of the capacity of otherwise intelligent and well-meaning officials to sow the seeds of war psychology, through stupidity or worse. Here was a growing dispute, which did not break upon officials unexpectedly. Its potentialities were especially dangerous because, unlike most international issues, it touched practically every American family directly and immediately. It meant that the millions of American buyers of motor cars would have to go without a car or pay more. It meant that they would have to pay more for tires every few months.

The situation could have been explained calmly by the Government from the beginning and before the crisis developed. That would have accomplished two things. Americans then would have understood that foreign monopoly price-fixing of a commodity of which they were the chief consumers, while not justified, was no more than British retaliation against our prohibitive tariff and was one way of paying the British war debt to us. Probably also such a discussion here would have lifted the counter-discussion in England to a similar plane of friendliness and intelligence, which might have influenced that Government to discontinue gracefully and sooner an impracticable plan which in the end it had to disown as a failure anyway.

But American officials and publicists watched this growing conflict in the silence so dear to those whose panacea is to ignore such disagreeable situations. The people knew nothing about it until the crisis. Then they wanted to know just one thing: Who put up the price of tires? They were in a mood for propaganda, and they got propaganda without stint. Mr. Hoover and others began a shrill anti-British campaign. It was an effective campaign because, as is usually the case, there was so much truth in it. But the whole truth was not in it. The British side was never stated. Nor were the people told that certain American tire companies were pyramiding the British monopoly prices of raw rubber. Only a few Progressive senators and publicists, most vehemently hated by the professional Anglophiles, tried unsuccessfully to voice these reservations in the midst of the general hubbub. Even now the American farmers, who are not only tire users but



the most rigid sticklers for full foreign debt collection, do not know that the British rubber scheme was close akin to their own farm debenture plan for an export surplus. Nor do the American people as a whole know that the British plan was only a “reverse-English” tariff, which, if anything, was less unfair to Americans than our high tariff wall is to our British debtors.

That American Government’s propaganda ended, for the time, in characteristic fashion—in the glory and self-righteousness of a pseudo-nationalistic victory. “We beat the British.” Of course, we did not win the rubber war, any more than we won the World War. Sabotage by Dutch planters broke the attempted British-controlled production monopoly upon which the restrictive price-fixing scheme depended. Or, put in broader terms, failure was caused by the economic impossibility of permanently raising prices in a world market without stimulating competing outlaw production. Mr. Hoover and his associates in the Government and in the American rubber companies to claim the victory for the United States, and for the sacred American foreign policy of the Open Door in all territories not closed by the United States. Another crusade to make the world safe for democracy !

The net result of the Government’s propaganda and of the misguided silence of advocates of Anglo-American peace, is increased American nationalism and imperialism. This is precisely the sort of thing which would rise up to curse us in a war crisis. Moreover this anti-British propaganda has been used skilfully to blind Americans to the methods of imperialism and labour exploitation employed with the blessings of the Washington Government by Yankee rubber companies in Liberia and elsewhere to “free America from the British monopoly menace.”

So one Anglo-American controversy after another could be examined to show that silence by friends of peace has contributed to the mutual misunderstanding. Never have international economic conflicts been resolved by refusal on the part of some to recognise their existence.

Could the people of Europe have understood in advance that the causes driving their nations to war were not essentially spiritual conflicts between Huns and Hosts of the Lord, but economic struggles for iron and coal and oil, for colonial raw materials, for surplus population and production outlets, for strategic lines and bases, for sea supremacy, would the peoples then have fought ? Perhaps. But if such popular knowledge of war causes and war aims cannot prevent an Anglo-American war, probably nothing can. Compared with this peace insurance other guarantees against war are insignificant.

Unfortunately most of the peace movements of both America and Britain rely almost exclusively on safeguards other than an understanding and settlement of basic economic conflicts. They ignore or deliberately gloss over those realities. They see Utopia in terms of treaties and the kind of naval limitation or truce which passes for disarmament. Certainly no intelligent person can belittle the temporary settlement of political and naval disputes resulting from economic conflict. But neither can he assume that the cause is thereby eliminated.

Since the War such a false assumption has been made more than once by Americans and Britons, in the sudden reversals of public opinion controlled by officials. Perhaps those uncritical reactions have been more characteristic here than abroad. First it was the Washington Naval

Treaty. The speeches of Secretary Hughes and Lord Balfour acclaiming an end of naval rivalry were believed by the people. When the exaggeration was discovered, the public went to the other extreme. And partly because of that reaction the country for six years wallowed in anti-British and big navy propaganda. Then came the Kellogg Treaty outlawing war. That seemed a large order, and rather sudden. But the public took the sweeping statements of that Treaty literally. Later its jokers began to appear. It turned out that the Treaty had only a "moral" value and was not legally binding. It turned out that so-called defensive war was recognised with each nation its own judge—in other words, the Treaty would not have prevented the World War or any other war in modern history. Soon after the Treaty was ratified, Mr. Kellogg and the President were proclaiming that armament and arbitration treaties were necessary to make it effective. And the people were asking how the Kellogg Treaty could be a guarantee of peace one minute and revealed the next as only high-sounding words. It was not that the people themselves had expected too much of the Kellogg Treaty, or the Washington Naval Agreement. They had been led to expect too much by well-meaning, though over-anxious statesmen. That applies to the naval negotiations of 1929-30 too, and to the prospective treaty.

In the midst of the Hoover-MacDonald conversations in Washington it was officially indicated that all friction had been removed in all disputes. Why exaggerate? There was so much friction over war debts the subject could not even be mentioned in the official statements. There was so much friction over the freedom of the seas dispute they were afraid to put it on the agenda lest it break up the naval conference. Economic conflicts were untouched.

Treaties are not enough—not even an unconditional arbitration treaty, which is much needed. Britain and America, no less than Germany, have violated informal agreements and formal treaties, and will do so again with sufficient provocation. Armament reduction is good. Men fight when they are armed. But they fight also when they are unprepared—as America was unprepared in 1917. They fight whenever it is to the economic interest of the governing class to make them believe that an Unthinkable War is a Holy War.

If ever they refuse to fight, if ever they refuse to believe the propaganda and war lies of governments, if ever they decide that the actual faults of the "enemy" cannot be corrected on the battlefield, it will be because they understand the nature of the conflict. Armed with knowledge, they may not fight with guns. Those who preach the unthinkable of war between the United States and Britain, those who pray for silence regarding the present Anglo-American economic conflict, have perceived a half-truth, but a most dangerous half-truth. They see that public opinion is the only hope. But they do not see that uninformed and unintelligent public opinion is the great menace. No militaristic government ever gets more insane, more destructive than a war-mad mob. Soon or late come crises, soon or late come stupid or vicious governments ready to convert such crises into war. And if that time should come, British and American public opinion in its present state could not be trusted.

There is danger of eventual war. There is a fierce struggle for foreign markets, raw materials, financial supremacy. But that struggle in itself is not the gravest danger. The danger is in the people's ignorance. They believe that international conflicts can be settled by armies and navies.

## They still believe that a war can be won.

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UNLESS OTHERWISE DESIGNATED, ALL STATISTICS CITED IN THIS BOOK ARE FROM THE U.S. COMMERCE DEPARTMENT'S COMMERCE YEARBOOK 1928, VOL. I-II ; THE SECOND VOLUME OF WHICH IS BASED ON OFFICIAL STATISTICS OF RESPECTIVE FOREIGN GOVERNMENTS, INCLUDING GREAT BRITAIN.

1 *Olives of Endless Age*, p. 309. 1928.

2 Arthur Posonby, *Falsehood in War-Time*, p. 41. 1928.

3 Cf., Posonby, *supra*, pp. 32-42.

4 —, p. 33.

5 Cf., Memorandum written by Lord Morley between July 24 and August 4, 1914, on the deliberations of the British Cabinet of which he was a member, *New York New Republic*, Oct. 10, 1928.

6 B.J. Hendrick, *Life and Letters of Walter H. Page*, Vol. 1, p. 139. 1925.

7 While Americans are blaming Great Britain for oppressing India, and the British are blaming the United States for its lynchings and general treatment of the Negroes, it is significant that these two groups are feeling their "kinship in oppression." On the occasion of the 20th anniversary of the National Association for the Advancement of Colored People, June 17, 1929, Gandhi, described by the Association as the "spiritual leader in India," sent the following message : "Let not the 12 million Negroes be ashamed of the fact that they are the grandchildren of slaves. There is no dishonour in being slaves. There is dishonour in being slave owners. But let us not think of honour or dishonour in connexion with the past. Let us realise that the future is with those who would be truthful, pure, and loving. For, as the old wise men have said truth ever is, untruth never was. Love alone binds, and truth and love accrue only to the truly humble."

8 P. 34.

9 *New York Forum*, November 1928, article on "Does England Dislike America ?"

10 *New York Times*, July 11, 1926.

11 *United Press*, Oct. 17, 1928.

12 *Associated Press*, Nov. 24, 1927.

13 *New York World*, Nov. 18, 1928.

14 —, Nov. 18, 1928.

15 —, Nov. 20, 1928.

16 *New York Herald Tribune*, Mar. 10, 1929.

17 *Washington Star*, Dec. 23, 1928.

18 *New York Times*, Nov. 26, 1927.

19 *Associated Press*, Mar. 10, 1929.

20 Interview by Karl H. von Wiegand, quoted in the *Congressional Record*, Feb. 19, 1929, p. 3929.

21 *United Press*, Oct. 3, 1928.

22 *New York Times*, Dec. 6, 1928.

23 *New York Current History*, December 1928.

24 *New York Literary Digest*, Dec. 1, 1928.

25 *New York Nation*, Jan. 24, 1920.

26 *New York Times*, Oct. 2, 1929.

27 —, May 9, 1929.

28 Cf., Chapter VII.



**TWO EMPIRES**

A STATE OF ECONOMIC war exists between America and Britain now. The question is whether this economic war, and its resultant political conflict, will lead to armed war. Capitalists and officials, and the public opinion which controls or fails to control policies, can prevent a war of guns. They cannot stop the economic war. They can only mitigate its dangers.

For this economic war is not caused by popular misunderstandings, nor by capitalist machinations, nor by imperialistic governmental policies. These intensify, but do not create the conflict. Rather are they created by it. The conflict is the natural and inevitable result of economic conditions obtaining in the two countries and in the world. These basic national and international economic conditions have developed by a slow organic process. There is no chance of quick change. The World War did not change it ; but merely accelerated that process. Neither peace nor war in this generation can reverse its direction ; though they may affect its tempo. These economic conditions can no more be wiped out than the two countries themselves can be made to disappear. Therefore the economic war produced by those conditions is permanent in our time. Only the nature and the consequences of the conflict can be influenced in part by us. But, given intelligence, that might be sufficient to prevent armed war and worse economic conflicts which would result from armed war.

The possibility of changing popular attitudes and commercial and political policies, which will determine whether this economic war results in armed war, is limited. For those attitudes and policies are not accidental or arbitrary. They necessarily reflect economic interests. To the extent that conditions are common to both countries, the public sympathies and governmental policies are virtually the same. But, in the main, conditions are antithetical—therefore the conflict. To reconcile such conflicting attitudes and policies, between the peoples and between their statesmen, the two peoples and governments must conclude that it is to their selfish national interest to prevent the economic strife from growing until it forces armed war—or, as orators prefer to express it, they must decide to prevent such armed war for the sake of humanity and so rise from the national to the international point of view.

In any event the economic conditions continue. And those conditions of the 20th century are favourable to America and unfavourable to Britain.

**DECLINE OF THE BRITISH EMPIRE**

British conditions of over-population, insufficient food, and inadequate raw materials were not the handicap in the 19th century that they have been since. And Britain's chief economic asset, coal, is not the advantage to-day that it was then.

In the last century Britain was able by superior skill and daring to create out of her limited resources and physical isolation what approximated world hegemony. In the century which brought the Industrial Revolution she became the first and strongest industrial nation. She became the world's manufacturer, merchant, and banker. Partly isolated from warring Europe by the Channel, during her periods of relative peace following the Napoleonic wars she grew prosperous while others wasted their energies and substance in fighting. She had excess labour, waiting to be absorbed by the new industries. She had superior scientists and business men. She had, in her abundant and accessible coal deposits, the best fuel supply of that day and the prime requisite for industrial development. Lacking raw materials, she had the ingenuity to get them from foreign lands either by hook or crook. She had world markets, natural and unnatural, and she held them by force of arms if necessary.

Thus she exacted tribute from the rest of the world. She grew rich. She put her profits back into world investments, and into a navy to perpetuate her holdings and her power. Whenever a serious competitor arose, she eliminated that competitor by war. Germany was not the first—and may not be the last.

But even long before Britain fought and—with the help of most of the world—defeated Germany, she was losing her dominant position. Her condition had remained the same, but the world had changed. Thus her position changed because the rest of the world was catching up. Most of the Western world was going through that same transformation from an agricultural to an industrial civilisation which she had anticipated. This process did not at first reduce her European markets, but rather changed the nature of them. She now provided most of the machinery and some of the capital for her neighbours to become her competitors, and profited indirectly and directly from their industrial development and growing wealth. But to feed her basic, and no longer unique, steel and textile industries, she was driven finally to compensate for the gradual loss of European markets by the creation of markets in the world's undeveloped areas. Her dependence on colonial markets increased. As it increased, her European neighbours grew into competitors for those colonial markets. Her position of economic world dominance, which was at first natural, thus became unnatural.

To maintain her unnatural position, Britain had to resort increasingly to political and military force to retain her territorial and non-territorial economic empire. Her profits by this time were coming less from serving economic needs of others seeking such service, and more from exploitation of weaker peoples who had no choice. Or, as the British imperialists phrased it, she insisted on shouldering the "white man's burden."

The first problem which grew out of this unnatural relationship was not so much incipient revolt by the exploited, as the rivalry of Britain's European neighbours over the privilege of carrying this white man's burden. Colonial markets and raw materials, though not at first so necessary to the survival of the European competitors as to Britain, seemed more and more important to them. So, with a similar urge and a similar goal, the western European nations followed her first in industrial development and then in consequent political imperialism.

As the race of imperialism swept forward, it soon became clear that although Britain had the advantage of a long start some of her rivals had more natural advantages. Her rivals were more nearly self-supporting in food supplies and better equipped with industrial raw materials. Germany's coal in the Ruhr was equal to England's and, when combined with Lorraine iron, placed Britain at a major disadvantage.

Moreover, two new sources of energy, the basis of industrial power, had appeared. Petroleum and hydro-electric power were both better than coal. Britain had no oil ; Germany and her European neighbours had a little. Britain had inadequate hydro-electric power ; her competitors had plenty. Nations once depended upon British coal began the hydro-electric development which is making them independent of her.

Britain still has coal. But she can build no new economic empire upon it. She cannot even maintain with it alone the empire which it chiefly created. It has become a liability. It is the main source of her unemployment. It prevents the modernisation of her industrial plant upon which her future in the international race depends.

These are the British economic conditions upon which her genius built world dominance in the 19th century Industrial Revolution. And these are the same conditions which place her in a weak position in the second industrial revolution which began to develop early in the 20th century—the shift from the coal age to the oil and electric age.

Therefore she was losing ground even in the first decade of this century. Her proportion of the world's trade had dropped from 21.6 per cent in 1871-75 to 15.3 per cent in 1913. Exports in her basic industries of coal, metals, and textiles, were still rising, but less rapidly than those of her competitors ; and she was not getting her share of trade in the newer industries.

International competition for markets and raw materials created an explosive international political situation. To add to her troubles there was serious revolt behind the lines. As competition forced her to press harder upon her exploited colonial peoples, they in turn were driven by a new spirit of discontent and defiance. As competition forced the British workers along at a faster pace, they too began to mutiny. Of those three parallel processes undermining British power—labour unrest, colonial revolt, and the clash of rival imperialisms—the latter reached a crisis soonest.

So came the World War, the result primarily of economic conflict. It retarded development of some economic conditions and accelerated others, but it produced no basic change in such conditions in Britain or elsewhere.

Because she was losing economic power before, the natural result of the War was to speed the process by which she was going down in the scale and others were going up. It did so. Britain was compensated somewhat for those natural losses by unnatural gains ; that is, by temporary elimination of Germany as a competitor and by acquisition of new colonial raw materials and oil resources.

But her losses were far greater than her gains. Her gains were chiefly the result of arbitrary political and military settlements, which, insomuch as they violate natural economic relations, will

not last and while they last will tend to defeat their purpose. She shares directly, and indirectly through the economic interdependence of nations, the destruction of wealth incident to war. The War also accelerated the processes of labour unrest and colonial revolt which earlier threatened her power. Moreover it hastened the industrialisation of countries formerly dependent upon her as a manufacturer and merchant, and raised new nationalistic tariffs and trade barriers against her. Finally, the War failed even to create the chief advantage which Britain expected. It failed to eliminate Germany as a competitor.

The net result of the War and the peace settlement, imposed by the victors to ruin Germany, has been to give her new life and a future potentially the brightest in Europe. The British "victory" has rid Germany of an archaic, oppressive, and inefficient political system. It has relieved her of an armament burden such as is now breaking Britain's back. It has relieved her from paying more than a larger part of War costs and debts because neither Britain nor the other would-be victors can permit her to pay without ruining their own industries and increasing their own unemployment as victims of the enforced dumping of German goods. At the price of terrible suffering, starvation of babies, and elimination of a whole *rentier* class, Germany's enforced post-War financial deflation has destroyed the old. Out of the ruins has risen a modernised industrial plant and organisation better than any in Europe and incomparably better than Britain's. Only a decade after the War, which Britain was supposed to have won and Germany was supposed to have lost, Germany is regaining her world market, rebuilding her merchant marine, repenetrating through cartels the industries of other countries, and in general becoming a more formidable competitor than before the War. The volume (though not the value) of German exports during the first half of 1929 was larger than Britain's.

No wonder the British now complain, "Of all countries, we are left with the heaviest taxation, the most obsolete plan, and the least organised system of production and markets."

Not that the once dominant Britain has changed. But the world has changed. And she cannot change—not very much, at least—to meet the changed world situation. Therefore she is ceasing gradually to be the world's manufacturer, merchant, and banker, by which she at first survived and then conquered; she is ceasing to be the mistress of the seas by which she enforced her old prosperity. The world does not need her as of old. So the world will not suffer her as of old. Even her territorial Empire tends to break up. To retain the Empire she must remould it in a form dictated by its once voiceless members. Her troubles are internal; they may prove vital.

### RISE OF THE AMERICAN EMPIRE

The World War is no more responsible for America's strength than for Britain's weakness, except in the sense that it speeded certain processes already under way. Other processes, advantageous to us, were retarded by the War. The net effect for us was loss. Measured in absolute terms the loss was great. Relatively, however, the loss was much less to America, the younger and potentially stronger, than to Britain.

Our compensating gain—if there is any such thing as gain from war for anybody—was less than



Britain's. Germany was not our commercial competitor and political rival as directly as Britain's. Germany did not menace our territorial empire or our expanding economic empire. Her mines did not take our coal markets. Her merchant marine did not worry us. Her army was not at our door. Her navy was not aimed at us. Her *Drang nach Osten* did not pierce the lines of our imperial communications, nor interfere with our strategic areas. Had Germany won a war with Britain, the United States to-day would be challenging German world power instead of challenging British world power—that is the principal difference.

Our Government had sense enough not to seek territorial or mandate conquests from the War, knowing that our growing invisible economic empire was more powerful, more profitable, and less vulnerable than Britain's obsolete type of political empire. So we did not "profit" from the War by new land or subjects.

The British say the War made us rich. The rest of the world agrees. That is not true. It is not true, either directly or indirectly. We would have been richer to-day, especially in temporary paper wealth at the expense of Britain and the others, had we let them fight their own war. But we went in. The Treasury Department estimates our War expenditures, exclusive of loans, at \$35,000 million net. Supporting the statement that America lost money by the War, Dr. Harvey E. Fisk in his *Inter-Ally Debts* estimates that in terms of purchasing power our national income fell from \$34,400 million in 1913 to \$31,000 million in 1923. There is no adequate measurement for the loss to us in the death and disability of the young men, the dislocation of industry, the moral loss to an adult population that conscripts its youth to fight and gives itself over to hatred ; nor for the Prussianisation of our army, our navy, and our political institutions, particularly the loss of civil liberties not yet regained.

In an international sense, and in terms of the present and future Anglo-American conflict, the War was very costly for us. Because it made us more nationalistic, more distrustful of international treaties and international organisation for peace, which might otherwise contribute more to the prevention of armed war as a result of Anglo-American rivalry. Because, moreover, the War has left us the most hated among nations—an unenviable and exposed position, either in the present economic war or in the possible resultant armed war.

The world hates us now, instead of Germany which is inaccurately charged alone with causing the World War, and instead of France or Britain which are inaccurately credited with winning it. That is because the world owes us for much of the wealth destroyed by the War, and for much of the wealth required for the "victorious" armies and navies of to-day to maintain the unnatural peace settlement. They call us Shylock. Those debts to us will never be paid, probably not even on the present basis of 30 to 80 per cent cancellation.<sup>1</sup> Germany cannot pay the Allies. The Allies cannot pay us. In the end the American taxpayers will pay what is left and what can be paid in terms of tangible wealth for the remaining War costs. Americans will pay because some one must and they are the only ones able to do so—that is, so long as the less wealthy victors are determined to waste their substance in maintaining larger armies and navies for another war instead of paying for their last debauch.

Even if we do not collect our War and post-War debts, the idea is general that we profited largely in another way through stimulation of our industries and extension of our foreign trade. But that industrial and agricultural stimulation was one-sided in this country, as in others. We revamped our existing industries and created new ones for war purposes. Apart from the waste in such time-pressure reorganisation, the Armistice found us, as Britain, with war industries not fitted for peace-time needs. Our agriculture grew like a toadstool, and its surplus is now poisoning the economic health of the nation. Expansion of our exports was a matter of war stuffs and food stuffs, and those export markets were soon lost. The growth of our exports of raw materials, oil, and manufactured products from 1914 to to-day was virtually at the same rate as our normal growth regardless of the War.

We are in a better position than Britain because before the War, as since, our relative position in world trade tended upward while hers tended downward ; and because we have sufficient resources to compensate for depressed agricultural, coal, and textile industries, while she has not. Nevertheless we, like Britain, have suffered from post-War trade conditions, from contracted world markets, restricted purchasing power, depreciated currencies, new national industries protected by heightened tariff walls and trade barriers. Those obstacles have been real, though they have been surmounted in part by exceptional American effort and skill in reorganising home industries and in creating foreign markets.

But neither the War nor American genius is chiefly responsible for America's position of power to-day. Of that power there can be no doubt. As one enthusiastic American banker describes it : "No other nation ever before was at one and the same time the world's greatest producer of goods, exporter, reservoir of capital, and dispenser of credit ; our place is one of dominant power." He exaggerates somewhat. We are not yet dominant in all things economic. But we are headed in that direction—despite British competition.

Our growing power is based on uniquely favourable conditions, which neither Britain nor any other nation has ever had, and upon the ability of a youthful, adaptable, and energetic people to make the most of their rich natural resources and peculiarly fortunate world position. Practically all students, domestic and foreign, agree that these major factors—superior resources, favoured geographic position, and material skill—explain our great strength.

### INDUSTRIAL SUPREMACY

The significance of our present economic position, contrasted with that of Britain, is that it is based on natural conditions favourable not only to retention but increase of America's present major position. Those basic conditions include an abundant food supply, unique raw material and energy resources for industry, the best industrial equipment and most modern technique ; the largest of home markets to absorb the output of mass production ; a regulated supply of labour combining skill and docility, and resulting in high productivity and a minimum of industrial strife ; and, finally, a huge reservoir of capital.

Among these factors perhaps the most important are natural resources. It is generally estimated

that the United States controls about 40 per cent of the world's mineral wealth. With less than seven per cent of the world's population and only six per cent of the world's area the United States is producing 39 per cent of the coal, 35 per cent of the hydro-electric power, practically all of the natural gas, and 71 per cent of the oil. It is producing, in addition to 60 per cent of the world's wheat and cotton, 55 per cent of the timber, 38 per cent of the lead and phosphates, and 50 per cent or more of the copper, iron, and steel. In contrast the United Kingdom, with the single exception of coal, is seriously lacking in all major foods and raw materials. She must import about 80 per cent of her wheat and flour, 60 per cent of her meat, almost 35 per cent of her iron, 90 per cent of her timber and wool, and all of her cotton, copper, nickel, and oil.

American industrial efficiency is based increasingly on its utilisation of electric power. Its output in 1925 was 81,801 million units, compared with Britain's 11,814 million, or an output per capita of population of 710 units compared with 282 units.<sup>2</sup> In the period 1925-29, there has been a more rapid American increase. A comparison in 1928 by the National Industrial Conference Board of New York of eight major industries in the two countries states that "the United States, which uses on an average one and one-half times as much horsepower per wage earner as in Great Britain, turns out, largely as a result of this greater use of power, from two and one-half to three times as much production per wage earner."<sup>3</sup> Industries covered were steel, machinery, automobiles, electrical equipment, ship building, cotton goods, woollen goods, shoes. Another estimate translates the electric power used in the United States as equal to the physical equivalent of 150 slaves for each member of the population. The use of power here has increased almost four times as fast as the growth in population.

According to the *Hoover Committee Report on Recent Economic Changes*,<sup>4</sup> the prime mover capacity in the United States is 800 million horsepower, or about four times as large as that of Britain. The *Report* makes the interesting observation that United States per capita wealth bears the same ratio to British per capita wealth as the United States per capita horsepower to British per capita horsepower.

The rate at which American industry is being electrified is characteristic of similar progress in the improvement of machines and management. We have at least a 10-year lead over Europe in industrial technique, according to the economist, Dr. David Friday.<sup>5</sup> These technological improvements include new machines, better factory planning as to geographical location, interior "serialisation," production control, improved material specifications and checking, and decreased labour turnover.<sup>6</sup>

"Simplification" as preached by Mr. Hoover, is saving American industry \$600 million annually, according to the Department of Commerce. And "standardisation" of products is saving \$750 million a year in the automobile industry alone, according to the American Engineering Standards Committee.<sup>7</sup> Reduction in types of commodities produced range in many industries as high as 90 per cent.

Other factors in our industrial efficiency are : increased exchange of trade information by companies through trade organisations and associations ; improved company and government

commercial intelligence services, statistics, and cost accounting ; and scientific research. In practically all of these fields British industry is far behind America. “We believe that secrecy in business is one of the greatest factors of inefficiency in British economic life to-day, particularly in comparison with the United States,” the *Report of the Liberal Industrial Inquiry* stated.<sup>8</sup>

American industry is spending \$500 million annually on research, the Department of Commerce estimates. But the country of Faraday and Kelvin is much less interested in industrial research. As an instance of this indifference the Manchester *Guardian Commercial* cites the case of a new lead alloy discovered by the Non-Ferrous Metals Research Association with a strength weight for weight 40 per cent greater than lead, and of unquestionable quality : “Yet the association has to acknowledge that it has failed, in spite of many efforts, to arouse interest in the new product among manufacturers.”<sup>9</sup> According to the final *Balfour Committee Report* : “Before British industries, taken as a whole, can hope to reap from scientific research the full advantage which it appears to yield to some of their most formidable trade rivals, nothing less than a revolution is needed in their general outlook on science.”<sup>10</sup>

Mergers have been another important factor in American industrial progress, with the British following far behind. This process accounted for the disappearance of about 5,000 mining and manufacturing concerns in the period 1919-27—in public utilities in 1926 there were more than 1,000 consolidations—the *Hoover Committee Report* shows. There has been a similar trend in marketing and banking. These consolidations in many cases have reduced costs and increased profits. They have hastened the system of mass production, which so many foreign observers believe to be the key to our prosperity. Many of the technological improvements—such as standardisation, labour-saving machines, extensive scientific research—are uneconomic, if not impossible, except in the case of very large production units with large sales organisations and large credit facilities. Certainly it has been demonstrated that such large units usually can afford, because of mass output, to take a smaller profit on the individual product. Thus the most profitable American industries are geared to sell at a low price to many consumers, rather than at a high price to a few consumers.

The general trend in this country has been for large corporations to grow richer, and for small factories to grow poorer or go bankrupt. There are exceptions. And, perhaps, the popular tendency in this country as in others has been to exaggerate the financial advantage that mere size can give. In some industries, and in certain individual mergers lacking efficient management, results have been disastrous. Exceptional cases, however, do not obscure the fact that the most profitable and efficient American industries to-day are those almost exclusively dominated by large units, and that consolidations would improve the condition of such sick American industries as coal and textiles.

Mass production has given American industries a large advantage over British competitors. The British realise this, and are trying with only limited success to correct the disparity. The final *Balfour Committee Report* pointed out that it is “abundantly clear from our survey that the first step to putting British industries in a position to compete successfully in overseas markets, is to



subject their organisation and equipment to a thorough process of re-conditioning . . . [which] will undoubtedly involve a great deal of scrapping and replacement of plant, and enlargement of the industrial unit, both by growth and by re-grouping of units through consolidation or other forms of association, so as to obtain the full benefits of large-scale production, elimination of waste, standardisation, and simplification of practice, and all other measures of economy usually included under the comprehensive term of `rationalisation.’”<sup>11</sup> But British industry is much less able than American industry to adapt itself to these modern requirements. Large British combinations have been attempted in the heavy industries, chemicals and shipping. Such adaptation lags in the coal and textile industries. Steel consolidations have been achieved only by writing off huge sums of capital. Within the period 1925-28, leading companies in heavy industry alone were forced to write off capital of more than \$150 million. Many of their large consolidations, horizontal and vertical, have been unsuccessful.

In many cases the plight of British industry is so desperate—due chiefly to the change in world economic conditions, which are now as unfavourable to Britain as they were once favourable—no amount of “rationalisation” can help. Often it merely makes the maladjustment worse. One of the most depressing statements in the final *Balfour Committee Report* is the following : “It is plain from the information before us that some of the undertakings which have been most efficiently equipped in the absolute sense have been the least capable of competing under the conditions which have prevailed during the difficult post-War period.”<sup>12</sup>

This comes close to a confession of the essential unsoundness of Britain’s position in the contemporary world, an unsoundness which neither British industry nor the London Government can appreciably change. Indeed facts pointing to this conclusion appear repeatedly in that official *Report*. For instance, in discussing the inability of “many depressed British industries, including some of those on which our competitive position has hitherto largely depended, to find the necessary capital to carry out the re-equipment which is essential to the restoration of their health,” it shows that the fault is not with the credit system or any other factor which might be forcibly corrected, but that : “The tap root of the mischief is the continued unprofitableness of so many industrial concerns, which makes them unable either to give security to the banks or to offer an attractive investment to the public.”<sup>13</sup>

The industrial credit situation in Britain is the opposite of that in the United States. While here profits have been ploughed back into industry and thus have compounded plant improvements and profits, most British industries since the War have lacked the profits required for modernisation and others have been more anxious to invest their profits abroad than to re-invest at home.

There is a yet more serious obstacle to putting British industry on a basis to compete adequately with American industry. We have a huge home market ; they have not. Ours is not only the largest home market of any nation but incomparably the richest. And this involves more than the obvious factors of population and superior per capita wealth. It means also a continental area without tariff walls and trade restrictions. It means a common currency, common language,

common customs, common consumer demands. It means that which is important not only to production, but also to advertising and marketing. Thus the United States can have efficient mass production based upon the consuming capacity of its home market alone. But efficient British mass production depends on foreign trade ; it depends, indeed, upon a virtual monopoly of foreign markets such as no one nation—much less Great Britain—is apt to approximate in this era of intensified world competition.

The richness of the American home market, compared not only with Britain but with the rest of the world combined, is difficult to comprehend. With only seven per cent of the world population, the United States now consumes 42 per cent of the world's iron production, 47 per cent of the copper, 69 per cent of the crude petroleum, 56 per cent of the crude rubber, 36 per cent of the coal, 53 per cent of the tin, 48 per cent of the coffee, 21 per cent of the sugar, 72 per cent of the silk, and upward of 80 per cent of the automobiles.<sup>14</sup> How can British industry ever hope to compete in foreign markets against an American industry which can grow rich on this home market and then profitably sell a surplus abroad for a fraction of its production cost if necessary ?

Granting the wide disparity in their respective home markets, neither American nor British industry has progressed as far in marketing as in production efficiency. The *Report of the Liberal Industrial Inquiry* in its summary of conclusions stated : “The heading under which there is perhaps most reason to doubt the efficiency of our [British] existing organisation is that of marketing. Doubts are cast on the suitability of our traditional merchanting system to the altered conditions of international competition in the modern age. It is held to be not without significance that those industries which are now finding it most difficult to hold their own are the old established industries in which the 19th century merchanting system has struck its deepest roots.”<sup>15</sup>

American marketing methods are equally wasteful. Mr. Edward A. Filene, the Boston merchant, estimates on the basis of government statistics that there is \$8,000 million of preventable marketing waste in the \$40,000 million worth of goods purchased in American retail stores annually.”<sup>16</sup> Other estimates of the ratio of marketing cost to total sale price of an automobile, for instance, range as high as 40 per cent. Of the sale price of a familiar manufactured “breakfast food” 63 per cent is in the distribution charge. In the case of bread, the marketing cost is 54 per cent.<sup>17</sup> This waste in distribution, though putting such a heavy burden on the consumer, has not been heavy enough to ruin the market—which is perhaps an even more astounding revelation of the purchasing power of the American public.

That purchasing power has permitted the rapid growth in American production. With the 1923-25 average taken as 100, our industrial output rose from 83 in 1919 to 110 in 1928, according to the Federal Reserve Board index.<sup>18</sup> In the period 1924-28 while American production was increasing from 100 to 110, the British Board of Trade index showed that their increase was from 100 to 105.2. Equally significant, British production declined 1.6 in 1928 compared with 1927, while American production increased four points. From 1924 to 1928 the output of British

mines fell off 10.8.<sup>19</sup>

Of importance in relation to the competitive power of American as against British industry is the fact that the output of the individual American worker is rapidly increasing and that of the British worker is not. Taking the per capita output of 1899 as 100, the *Hoover Committee Report* showed that per capita output rose from 104.5 in 1919 to 149.5 in 1927.<sup>20</sup> While American industrial production increased 29 per cent in the period 1919-25 the number of wage earners decreased seven per cent the *Report* found.<sup>21</sup> Doubtless the horsepower increase of 22 per cent in that period in industry is largely responsible. But whatever the reasons, and they are varied, the increased productivity of labour gives to our industry an immense advantage over British trade rivals. Mr. G.D. Rokeling in the London *Economist* recently estimated on the basis of Board of Trade statistics that 114 British workers produced in 1924 only 19 per cent more than 100 workers in 1907.<sup>22</sup> The London *Times* quoted the *Board of Trade Journal* as follows: "On the figures at present available, the *Journal* says it does not appear possible to make any statement more definite than that a small quantitative increase of net output per head took place in 1924 as compared with 1907."<sup>23</sup> Assistant Secretary of Commerce Klein has estimated that in the machinery-manufacturing industry, for example, the individual American worker in 1928 produced a value of \$5,200 compared with the English worker's \$1,500.<sup>24</sup> Contrasting the purchasing power of wages in the two countries, the *Report of the Liberal Industrial Inquiry* found that in the United States "real wages were at least 30 per cent greater in 1925 than 1919," while "real wages in Britain are little if any higher than before the War."<sup>25</sup> The average increase in real wages in the United States in the period 1922-27 was 2.1 per cent annually, according to the *Hoover Committee Report*.<sup>26</sup> British economists are in the habit of emphasising that the real wage of the British worker is not so low as it seems because his standard of living is enhanced by the Government's social expenditure for education, sanitation, sickness, accidents, old age, and unemployment, an aggregate which they believe to be much larger in their country than in any other.

But whether these governmental social expenditures add more to the British worker's standard of living than similar American expenditures by Federal and State governments and the huge benefactions of private foundations is probably questionable, especially if the non-comparable British unemployment "dole" is excluded. Free social services, according to the Hoover Committee Report constituted 2.4 per cent of the national income of the United States in 1915 and had risen in 1926 to 3.4 per cent.<sup>27</sup> Such expenditure by 48 States, and cities with populations of more than 30,000, rose from \$859 million in 1915 to \$2,860 million in 1926. Private philanthropies here in 1928 alone approximated \$2,330 million, according to the John Price Jones Corporation, fund raising consultants.<sup>28</sup>

So many factors which do not admit of accurate statistical analysis enter into all such estimates that no comparison of real wages can be more than an approximation. Taken for what it is worth, President Hoover, after stating that American real wages in 1928 were "over 50 per cent greater than before the War," has made the following interesting comparison between American

and British real wages : “Moreover our real wages and our standards of living are the highest in the world. And I am again speaking of the real buying power of wages. To compare ours with foreign wages we must find a common denominator, because translations of foreign currencies mean but little. If we say that five per cent of butter and 95 per cent of flour form the basis of that useful mixture called ‘bread and butter’ then the weekly earnings in each country would buy at retail in those countries the following total of this useful compound : railway engineers—United States 717, United Kingdom 367 ; carpenters—U.S. 731, U.K. 262 ; electricians—U.S. 778, U.K. 267 ; coal miners—U.S. 558, U.K. 267 ; weavers—U.S. 323, U.K. 136 ; day labour—U.S. 259, U.K. 160.”<sup>29</sup> Real wages, measured by food and rent purchasing power in October 1928, were 100 in Philadelphia compared with 53 in London, according to the National Industrial Conference Board index based on League of Nations statistics. Granting that those figures are only approximations, they indicate in a general way not only the greater prosperity of the American worker as such, but the difference in purchasing power per capita between the two populations.

America’s superiority over Britain in national wealth and income, or in capital resources upon which the improvement and expansion of production and markets so largely depend, also is difficult to measure accurately. U.S. Census estimates in 1922 placed our total national wealth at \$320,000 million. Taking the annual rate of increase shown for the period 1904-22 of 7.2 per cent—which is somewhat less than the annual income estimates given below—our total national wealth in 1929 may be estimated at more than \$481,000 million. Britain’s national wealth is estimated at about \$120,000 million.

According to *Hoover Committee Report* estimates, the “total accrued social income” of the United States was “apparently four and one-half times that of the United Kingdom in 1924,” or \$79,400 million compared with \$17,700 million. It estimates our national income in 1928 at \$89,000 million. Contrasting the rate of change in the period 1913-27, Mr. Evans Clark finds on the basis of estimates of the National Bureau of Economic Research and the Bankers Trust Company, that our total income increased 66 per cent and Great Britain’s only four per cent ; the per capita income in this country increased 26 per cent compared with a five per cent increase there.<sup>30</sup>

Taking a longer period of measurement, 1907-24, Mr. A.W. Flux in his address on “The National Income” to the Royal Statistical Society in 1928 arrived at figures even more discouraging for Britain : “The real income per head of the total population or of the nominally occupied population appears thus to have decreased by a small percentage, and if numbers actually at work are taken instead of numbers nominally occupied, the result appears to differ little from that calculated on total population—namely, a decrease of three per cent.”<sup>31</sup> The *Report of the Liberal Industrial Inquiry*—starting from earlier estimates of the Colwyn Committee, Professor Bowley, and Sir Josiah Stamp—observed in 1928 : “The general conclusion of such computations is that our national income is now (or was in 1924) about the same, in terms of real value, as it was before the War ; but, as the population has increased by nearly seven per cent, it is appreciably lower per head. . . . The Colwyn Committee estimated that the total national savings were in 1924 about 500 million pounds, as against, say, 375 million pounds before the War. Allowing for the



fall in the value of money, savings on the pre-War scale would have amounted in 1924 to 650 million pounds. Thus there was a decline in the real value of savings of about one quarter.”<sup>32</sup>

The spread between American and British income up to 1924, as shown by the *Hoover Committee Report* quotation given above, has since increased. While British per capita income has not increased since 1924, in the United States it jumped from \$697 in 1924 to \$745 in 1928.<sup>33</sup>

Another way to measure America’s financial superiority is to compare the national debts and rapidity of retirement. Britain’s national debt in 1928 was more than \$37,000 million, an amount larger than in 1919. In 10 years more than half of Britain’s colossal tax collection has gone to carry the debt, without reducing it. In the same period the Washington Government cut its debt nearly \$10,000 million, leaving a balance of only \$17,000 million. In America the relation of the amount of interest on the national debt to the gross national income is less than 1-to-80 ; but in Britain it is 1-to-17.<sup>34</sup> One reason for Britain’s slow debt retirement is her heavy current military—naval expenditures, amounting in the year 1928-29 to \$551 million. Obviously she is less able financially to carry that burden than the United States to carry its similar armament load of \$684 million (1928-29).

In both countries capital complains that heavy taxation burdens industry. But in Britain almost 20 per cent of the national income passes through the hands of the State in taxes, compared with 10 per cent in the United States (including local taxes). Though Britain taxes her rich men relatively much more drastically than the United States, the British workers carry a far heavier tax burden than their American fellows and one so heavy as to curtail seriously the living standards and purchasing power of the British population. “In the case of the working man with a large family the rates may consume nearly 10 per cent of his income, if his children are to be housed with the barest minimum of decency,” the *Report of the Liberal Industrial Inquiry* points out. “In the case of the rich man they will usually amount to less than one per cent of income.”<sup>35</sup>

Uneven distribution of wealth, according to the British expert, Dr. Henry Clay, is worse in Britain than in any other country. This is an important industrial, as well as human factor. It tends to lower the morale and productivity of labour and at the same time reduces the purchasing power of labour and the home market. American multi-millionaires—that is, those making tax returns on annual incomes above \$500,000—number seven per one million of population, or just double the British ratio. But incomes of \$50,000 to \$75,000 are comparatively more numerous in Britain. Dr. Clay’s study, based on estate duty statistics for 1920-21, showed that one-third of one per cent of property owners held 38 per cent of total British property, and that less than two per cent of the owners held 64 per cent of the total wealth.<sup>36</sup>

For the United States estimates of the Federal Trade Commission Report in 1926, on statistics of 1922, indicated that one per cent of estate holders owned 59 per cent of the total wealth ; this compares with the 1916 estimate of the U.S. Commission of Industrial Relations that one per cent of the population owned 60 per cent of the wealth.

Concerning income distribution, study of the period 1918-26 in the *Hoover Committee Report* based on Dr. King’s estimates, seems to show that there is no rapid change in this country, the ratio

having remained fairly constant with about 10 per cent of the population receiving about 33 per cent of the income.

Of “earned income,” the *Report* says : “If we take enterprisers’ labour income at nine and a half billion dollars in 1925, all labour income represents nearly 69 per cent of total realised income, and property income represents about 31 per cent. . . . ‘Earned income’ includes employes’ labour income and enterprisers’ profits. In both the United Kingdom and the United States in 1924, ‘earned income’ was about three-fourths of the total ‘social accrued income.’ In both countries the proportion is larger in 1924 than before the War, the proportion for the United Kingdom in 1911 being about two-thirds, and for the United States in 1914 about 73 per cent, as against 76 per cent in 1924.”<sup>37</sup>

### ROBOTS AND RADICALS

In evaluating America’s industrial advantages over Britain, foreign observers usually contrast the relative industrial peace in this country with the British unrest. Much economic waste in the capitalist system results from strikes, deliberate labour sabotage. Lowered production morale and decreased labour efficiency are part of the capital-labour conflict. Thus the relatively docile temper of American labour under the present economic system is one of the chief assets of American capital, both in the matter of even-flowing high production, and in competition for domestic and foreign markets. The super-mechanised state of American industry, the speeding-up processes of “scientific management” upon which present mass production and profits are based, require a capacity and willingness on the part of the worker to transform himself into a human machine or “robot” which the more class conscious British worker has not yet shown. The reasons American labour has adapted itself more readily to the robot ideal are varied and paradoxical in view of the frontier heritage and traditional individualism of Americans. In this country labour organisation has not developed parallel with organisation of capital. Getting a much later start than British labour, most of the unions here have been smaller and less aggressive. Geographical isolation of the country has separated the American labour movement from more radical British and European developments. Absence of fixed social castes and economic classes operated to make every industrial worker, in his own mind at least, a prospective millionaire. Although few became rich many shared more liberally than formerly in the surplus which capital set aside for producers. Especially during the last decade, as we have seen, the real wages of labour, or at least of the organised labour “aristocracy,” have increased rapidly enough to prevent social unrest. American capital has had a much bigger melon to cut than ever before and, while keeping much more for itself than ever before, it has wisely also enlarged labour’s slice. In the period immediately following the War, under the burden of deflation and vicious anti-labour tactics by employers, there was a brief flame of protest. Unions took the offensive. Left-wing groups gained more power. But before this movement gathered headway, the country was passing out of the period of industrial depression and into “prosperity.” That prosperity has converted a vast majority of the workers—temporarily at

least—to the efficacy, even the nobility, of the capitalist system as it operates here.

Membership in trade unions declined from more than five millions in 1920 to about four millions to-day. And the majority of that union membership, represented by the American Federation of Labour, is hardly less enthusiastic about the present economic system than are employers. The Socialist Party, partly due to the labour popularity of the defeated Democratic candidate, Mr. Smith, polled in the 1928 national election only 266,000 votes of a total 36,800,000. The Workers (Communist) Party vote was 48,000.

A vivid and not altogether inaccurate picture of the American-British contrast can be seen by placing the victorious Hoover platform of 1928 against the victorious MacDonald platform of 1929. One is capitalist, the other is socialist, and they are about equally representative of the popular will in their respective countries. Mr. MacDonald, for all the moderateness of his socialism, is no more moderate than Mr. Norman Thomas and would have run little better than the latter in the American election. Though British labour in its political and industrial philosophy seems most conservative to Moscow, it is as far from American labour on one side as from Communism on the other. Nor has “Mondism” and the present swing of British labour toward closer co-operation with capital, created in that country anything approximating the submissiveness of its American fellow workers.

British capital, with such a maladjusted industrial plant and under such unfavourable world economic conditions, is not likely to provide radical British labour with a sufficient share of profits to maintain permanent industrial peace. The fall of British union membership to five millions, the lowest figure in 12 years, is not comparable to similar union losses in America. While in this country that reduction is one index of the low state of labour solidarity, in Britain it represents little more than a normal transference of labour action from the industrial field, following the disastrous 1926 general strike, to the political field. With British labour victorious in the 1929 national election, it cannot properly be compared with American organised labour which not only has lost in the industrial field but which is almost completely lacking in national political power.

Perhaps the best proof of the near-perfection of the spirit of American labour for the purposes of an unrestrained capitalist system is its submission to legal injustices and physical violence without effective protest. The anti-labour injunction flourishes in all parts of this country. There is terrorism and murder by sheriffs and company police especially in the coal and iron and the textile industries, and constant violation by officials and employers of the workers' constitutional civil liberties. If American workers' capitalist morale has not been shaken by such conditions, it appears unlikely that social unrest soon will cripple American production as such unrest has and does retard revival of British capitalist production.

The significance of social unrest is not limited to the immediate loss in industrial output resulting from strikes. As the final *Balfour Committee Report* states: “Much more important than this relatively trifling loss is the inflammation of animosities and the poisoning of class relations which often result from or are incidental to industrial warfare, together with the blow inflicted by a

serious and long continued stoppage on business good will and on the reputation of British trade for certainty of delivery.”<sup>38</sup>

Aside from the obvious example of the large coal and textile strikes, there is abundant evidence that British industrial strife weakens British trade in the competition with America for world markets. In a typical trade report the British Bank of South America, for instance, complains that alleged superiority of British goods as a selling factor abroad is now offset “by the lack of confidence on the part of overseas buyers ingendered in incessant strikes in this country and by the consequent uncertainty of securing delivery of the goods ordered.”<sup>39</sup>

For British capital to observe that one reason it is suffering from American competition is, from the capitalist point of view, the inferiority of British labour, is not enough. The diagnosis is much simpler than the remedy. The question is, in the words of a London journal : “Will British labour, with its long traditions of organisation and collective bargaining, submit itself to the discipline and regimentation which appear to be indispensable to the American system ?”<sup>40</sup>

It is useless to seek the answer to this question, and the other questions raised in the foregoing pages, without the constant realisation that British industry is sick with organic disease and that cures ordinarily beneficial for milder functional industrial ills in the United States and elsewhere cannot cure British industry. The tell-tale symptom that Britain’s industrial disease is organic, rather than functional, is the extent and nature of British unemployment. Other industrial nations always have had, and doubtless will continue to have under the capitalist system, permanent minor unemployment and periodic major unemployment, but no other country to-day—much less the United States—has such a hopeless unemployment problem as Britain. In the decade before the War British industrial unemployment ranged from three to eight per cent of the employable industrial population. In the period 1920-28 it ranged from eight to 17 per cent, that is, from one to two million.<sup>41</sup>

Realising that other factors make the situation more serious there than here, the *Balfour Committee Report*, nevertheless, was of the opinion that on a numerical basis alone British employment compares favourably with American : “The absence of any firm basis of insurance statistics in the United States makes the figures very difficult to compare with those of Great Britain, but, so far as any conclusion can be safely deduced from the very partial data available, it would seem to be that the volume of industrial employment in the United States has of late years fluctuated more violently and rapidly than in Great Britain, and also that the average percentage of unemployed persons in American industry has been at least as high as in this country.”<sup>42</sup> It goes on to estimate the average of American industrial unemployment in the post-War period at from 12 to 15 per cent.

That estimate appears excessive in view of later American research in what is admittedly a most inadequate field of data. Data accepted by the *Hoover Committee Report* in 1929 indicated that the “minimum” range of American industrial unemployment was from 15.3 per cent in 1921 (4.25 million) to 6.3 per cent (2.0 million) in 1927.<sup>43</sup> But the average for the five years 1923-27 was only 6.1 per cent. That “minimum” average would be raised by some to a maximum of nine per



cent. Inclusion of 1928 and 1929 would not materially change the figure in either case. In contrast, the British average for 1923-1928 was nearer 12 or 13 per cent. Even with other conditions in the two countries equal, that spread between the American 6-9 per cent and British 12 per cent of unemployment would make the difference between relative prosperity and severe depression.

Other conditions, however, are not equal. Practically all are favourable to the United States. First, the higher real wage and larger savings of the American worker, noted above, enables him to mitigate somewhat the distress of unemployment. Second, there is an interchange of labour between industry and agriculture here, and not in Britain, which in part takes up the slack. Third, larger profits and capital reserves of individual industries and of American industry as a whole, permit raising of the work age and lowering the school age, decreasing the number of per capita working hours, and otherwise automatically providing more jobs ; expedients which are not so easy in Britain.

Perhaps of more importance is the generally admitted superior “mobility” of American capital, business management, and labour. Official and semi-official reports on British economic conditions recognise the lack of such mobility as a fundamental handicap in that country. Neither the British industrialist, merchant, nor worker adapts himself easily to changes. The British are thus handicapped in the creation and conduct of new industries, and in the transfer of surplus labour from old industries to new—a capacity essential in this super-machine age in which the price of industrial efficiency is increasing technological unemployment.

This factor reveals not only that American unemployment is a much less serious phenomenon, than is the British, but also that the latter probably will tend to grow worse rather than better. Our industrial unemployment to-day is largely technological ; it exists, paradoxically, because of efficiency and prosperity and despite larger domestic and foreign markets. Britain’s unemployment is due chiefly to changed world conditions and contracting markets ; she has yet to feel the full force of technological unemployment. So, under the pressure of American competition, as she modernises her plant and methods she will create a new type of unemployment, which she is peculiarly unable to correct because of her lack of mobility.

The price of industrial efficiency on the American scale is, as we have seen, to increase in six years the quantity of output 29 per cent and at the same time reduce the number of workers seven per cent.

To a surprising degree, though far from completely of course, the United States is correcting this technological unemployment problem by creating new machine industries and stimulating new markets for them at home and abroad. Possibilities of this corrective process are limited in this country of industrial mobility only by the exhaustion of scientific research and of domestic and foreign markets. American leadership in production and marketing is greatest precisely in those industries in which there is most room for expansion in world consumption, and in which British and other foreign industries hitherto have been least able to compete ; namely, in the automotive, rubber goods, aviation, radio, motion picture, and electrical industries.

Even in Britain, where these new industries are so much smaller than here, they have provided the only increase in employment. Those increases cannot be sufficient to her needs, however, until she is able to supplant her American competitor in world markets. And, as shown, in addition to all her other handicaps in the development of new industries, Britain lacks the large home market which makes possible America's dominance as an exporter.

Thus any consideration of British unemployment must circle back eventually to the "old heavies," the industries which made her the world's commercial empire, and upon which other nations no longer depend because they are generating their own industrial energy, fabricating their own steel, and weaving their own cloth. No economic depression in this generation can reduce America to Britain's present state, because we are dependent on no one industry or group of industries. Britain is dependent now, as in the past, on coal, steel and textiles. Hence, although America suffers with Britain to-day from the world market depression in coal and textiles, we hardly feel what is almost a death blow to the British.

In terms of unemployment the British economic problem is thus permanent. That 20 per cent of British unemployment is in the coal industry is not so significant in itself is the fact that there is a permanent surplus of almost 250,000 miners. This is in addition to a permanent surplus of 100,000 in ship building, iron, steel, and heavy engineering trades, and an unestimated permanent surplus in textiles. Attempted British remedies have been in the nature of salve for a malignant growth. Public "relief works" at an expenditure of \$5 million gave direct employment for one year to no more than 2,000 men in road construction.<sup>44</sup> Expenditure of \$520 million gave directly the equivalent of one year's work to only 350,000 men, according to an estimate in 1929 of the Unemployment Grants Committee on the 1924-28 project. Employment of 100,000 men for one year under the housing plan cost \$375 million. By spending \$6.5 million in six years the Ministry of Agriculture provided the equivalent of one year's work for only 11,200 men.

None of the palliatives yet devised can appreciably remedy the unemployment situation. Meanwhile any increased industrial efficiency will tend to make the unemployment problem worse.

Still the British—or some of them at least—do not despair. They are, perhaps, in the position of men on a ship in distress. They must be so intent on keeping the pumps going that they have neither the time nor the courage to consider the structural weaknesses developed by the ship in the storm. Thus the distinguished economist, Mr. John Maynard Keynes, famous for his pessimistic but accurate prophecy of the world economic consequences of the Versailles peace, is optimistic as he watches the pumps reduce by inches the water in the badly strained British ship. "Between 1924 and 1928, [British] money and wages remained practically unchanged, while return to the gold standard at pre-War parity had the effect of increasing real wages by a further eight per cent. It follows that employers have been faced with the task of improving their efficiency by 16 per cent, as compared with 1924, before they could recover their pre-War position. Now it is not over-optimistic, I think, to suppose that efficiency is being increased at 1.5 per cent per annum on an average in the whole field of industry, which, if it is the case, is a

considerable achievement. This means that to-day efficiency has reduced the adverse lead from 16 per cent to about 10 per cent.”<sup>45</sup>

But probably Mr. Keynes would admit that neither increased industrial efficiency nor any other technological or political panacea is solving the problem from which most other British economic problems flow. That is over-population.

### POPULATION PRESSURE

Over-population is a relative term. But if it can be applied accurately to any nation it can be applied to Britain to-day. The United Kingdom has a greater density of population for her area than any major nation, and is surpassed among all nations only by Belgium and Holland. For every square mile she has 482 persons to feed and support, compared with Japan's 405, Germany's 346, Italy's 341, France's 192, and the United States's 40.<sup>46</sup> Even those comparative figures do not indicate the extent of Britain's handicap, which is increased by the inadequacy of her agriculture, and by the preponderantly industrial character of her population. About 80 per cent of the population of England and Wales is urban, compared with 52 per cent in the United States.

Some consolation is derived from the fact that birth control and other factors have checked the rapidity of population growth. Without discussing the causes Mr. Robert R. Kuczynski in his book, *The Balance of Births and Deaths*, states that, despite a lengthening of the average life span the tendency in Britain and other western and northern European countries is toward diminution of population. He reaches the following unorthodox conclusion regarding England, which in 1927 had 655,000 births and 485,000 deaths: “It may seem at first sight that an excess of 170,000 births is a proof of considerable vitality.... Yet, incredible as it may sound, those 655,000 births of 1927 mean that on the average each woman during her lifetime gives birth to but two children, and that if the population is to hold its own, not one of the children thus born may die before obtaining parenthood.” This means that “The population of England is bound to die out. And this state of affairs is by no means confined to England. Conditions are about the same in Germany, and only slightly better in France.”

Though the death rate in England has fallen by one-third in less than half a century, the birth rate has fallen until it is below that of any country other than Sweden. The 1927 rate was 16.6, the lowest recorded since civil registration was required in England, lower even than the War years. There was a negligible increase of 6,000 in 1928.

Speculation, however, on the relief which may be obtained by Britain ultimately from that process does not materially lessen her difficulty during the next two critical decades. Even if British population becomes stationary by, say, 1945 that will not get rid of the excess in the present 45 million population, which most economists estimate at a minimum of one million. As a matter of fact the present rate of growth, though little more than half the pre-War rate, is still one million every four years, based on the 1921-27 average.

Of the panaceas offered for unemployment resulting from overpopulation, many are temporary

expedients which have cost \$3,000 million in the last 10 years without appreciable results. Such are the sundry schemes for part-time employment on public works, discussed above. Another scheme is to settle excess factory workers on farms in England. Mr. George Lansbury, before becoming a member of the Labour Ministry, proposed that the Government spend \$500 million for that purpose. But there seems to be no major relief possible in that direction. In its 1928 report the Industrial Transference Board stated that \$50 million would settle no more than 5,000 or 7,000 families on smallholdings in England. In view of the cost, of adverse agricultural conditions, and the experience required of persons making a success of farming in England, the Board could only "hesitate to suggest at the present time the initiation of extensive schemes of land settlement on ordinary agricultural small-holdings."

The need rather is to get the surplus population out of the United Kingdom. With the national income in purchasing power only roughly what it was in 1914 and the population seven per cent larger, emigration is the obvious way out. But that path, like all other suggestions for relief, is beset by many barriers.

The United States is one barrier. "Among the obstacles which hinder industrial emigration from Great Britain an important place must be given to the exclusive policy of the countries which in the past have been the main recipients of British emigrants, and . . . no schemes of Empire Settlement, as at present understood, can afford an alternative outlet to British industrial emigration comparable with the outlet closed by the United States," according to the final *Balfour Committee Report*.<sup>47</sup>

There is no prospect that the United States ever again will provide a large-scale outlet for Britain's excess population. The American trend is to tighten its restrictive immigration policy. Under the present law permitted immigration is only about one-sixth that of the annual average for the eight pre-War years. This exclusion policy is designed to keep the size of the American industrial labour supply within manageable limits and to reduce the excess practically to technological unemployment, which can be cared for at least in part by development of new industries and by the falling birth rate of the country. Complete suspension of immigration for 10 years is urged by the American Federation of Labour. Though the total of national wealth doubtless could be increased by letting down the immigration bars, voluntary restriction of immigration under the present law and voluntary reduction of birth rate are important factors in raising the standard of living of the average American citizen.

Britain is encouraged by changes in the American immigration law of 1922, which in 1929 almost doubled the 34,000 quota for Britain and Northern Ireland. The change, however, was made over the opposition of President Hoover, the U.S. Chamber of Commerce, organized labour, and most of the press. Probably the British quota will be reduced again to about the same figure which obtained in the period 1922-28.

With the United States closed to any large emigration flow, and British citizens unwilling to go in numbers to such new countries as the South American republics where English is not spoken, the problem of British emigration has become one of Empire Settlement. While the United



Kingdom has 482 inhabitants per square mile, the Union of South Africa has only 16.2, New Zealand 14, Australia 2.1, and Canada 2.6. The average density of population of these four Dominions is thus only 8.7. The average annual rate of growth of Canada in the period 1921-27 was only 140,000 and in Australia only 133,000. The population density of the British Empire as a whole is only 33 per square mile, or somewhat less than that of the United States.

Empire Settlement if successful would dispose of many difficulties with one sweep. Besides finding an outlet for surplus home population, it would provide the under-populated colonies with citizens. More, it would provide the Dominions with the "right kind of citizens," that is, loyal Britons who would keep their new country faithful as a unit of the Empire in peace and in war. The scheme is perfect in theory. But it has not worked well. "It is a matter of regret, and indeed astonishment, to find how disappointingly slow has been the rate of settlement of British people in Australia and Canada, notwithstanding the passing in 1922 of the Empire Settlement Act for the express purpose of stimulating it," the Industrial Transference Board reported in 1928. It lamented that, while British emigration lagged under the stimulation of subsidy and patriotic effort, "in 1927, 82,000 Continental Europeans settled in Canada. In the same year approximately 22,000 non-British persons arrived in Australia." Despite all the money, effort, and talk expended British emigration declined in 1928.

Reasons for this failure are fairly obvious. A typical statement of the situation is the 1928 report of the Oversea Settlement Committee, which listed among others the following factors adverse to British settlement in the Dominions : The industrial character and urban preference of the British unemployed ; the effect of British social insurance and unemployment benefits, tending to anchor the surplus population at home ; the Dominion's need for agricultural workers, but relative inability to absorb more industrially ; opposition of Dominion organised labour to a British influx, tending to increase Dominion unemployment and reduce wages. Another difficulty not usually stressed in this and other official reports, which recommend further government subsidy of Empire Settlement, is that ordinary British emigration has tended to decline and thus neutralise the small gain from subsidised passages to the Dominions.

But, whatever the causes, Britain's unemployed are not enthusiastic over the prospect of becoming pioneers in the Dominions ; and the Dominions underneath their patriotic demonstrations are not enthusiastic over receiving British miners, metal, engineering, and textile workers who are not pioneer farmers, who have grown accustomed to living on part-time work and the dole, and who have socialist sympathies. Hence the paradox that such under-populated British Dominions as the Union of South Africa, Australia, and New Zealand are absorbing only an insignificant number of Britain's surplus, and that Canada is doing little better. Bearing on the attitude of the British unemployed, the Industrial Transference Board professed to find a demoralisation due to idleness : "To loaf for one, two, three, or more years destroys the will to work." The London *Times* recounts the experience of a Government emigration agent in a campaign in the distressed mining areas of South Wales, who "failed to recruit a single volunteer among the boys between 14 and 19 years of age in what ought to have been a most fertile field," which that newspaper describes as "alarming and discouraging." 48

In 1928 agricultural workers formed the largest group of male emigrants, or 21.7 per cent of the total ; though those 12,478 were less than in the two preceding years. The next largest group, “commercial, financial, and insurance,” numbered less than 1,000 males, another decrease. There were even fewer from the trades in which unemployment is greatest.

This whole problem is illuminated by the experience of the special Empire Settlement scheme in the summer of 1928. From 30,000 applicants, the Government picked 8,449 unemployed men and subsidised their passage from Liverpool to Canada. Elaborate arrangements were made with Canadian authorities for their absorption in the harvest fields. But of the total only 2,720 remained—some temporarily,—and 5,729 returned to Britain and the unemployment dole. Extreme charges were made by the returning men against Canadian officials and farmers. Two British Labour members of Parliament, Mr. David Kirkwood and Mr. Tom Johnston, who were in Canada at the time, joined in the criticism of alleged mistreatment and alleged temporary imprisonment of many of the men who were returning. But Mr. MacDonald and Lord Lovat, chairman of the Oversea Settlement Committee, who were also then in the Dominion, were not inclined to blame the Canadians for the failure of the plan to transform miners into harvesters wholesale. Canadian farmers were no less critical of the emigrants than the latter were of them. To the farmers most of these miners seemed unfit for farm work, or worse, unwilling to work. The net result of the experiment has been to make western Canadian communities more suspicious of British industrial immigrants, and to make scores of British communities to which the harvesters returned more hostile to the idea of oversea settlement. So the latest joint schemes of the British and Canadian governments, including special ocean passage rates of \$10 for adults and free transportation for children, together with arrangements for obtaining and developing farms with a minimum of capital, are not producing hopeful results.

In western Canada the conviction is growing that European peasants are better immigrants than British miners and factory workers. And, although the Canadian Government takes the position that the annual rate of 50,000 British immigrants is as many as Canada can absorb, the immigration from non-British countries has continued at a higher rate than from the United Kingdom. The London Government is exerting strong pressure to change this. It remains to be seen whether the Ottawa Government’s reluctant and temporary decision to restrict “non-preferred” European immigration 30 per cent in favor of the British, or any other artificial expedient, can materially affect the barriers to British industrial migration to Canadian farms. The natural trend in western Canada has been in the opposite direction.

The Toronto *Globe* recently published a population study under the headline, “Heritage in Great West is Passing to Aliens, So Statistics Reveal.”<sup>49</sup> That study showed that Canadian immigration in 1927-28 consisted of about 50,000 British, 25,000 Americans, and 75,000 from other countries. The Province of Manitoba, formerly almost solidly British, in the 1926 census had a rural population of 175,000 British stock and 171,000 foreign stock ; Saskatchewan, 252,000 British and 313,000 foreign. Thus in the western provinces the farm population is now almost in balance as between British and foreign stock, or in some cases the foreigners dominate. In the east the French Canadians are overflowing Quebec into neighbouring provinces. Such conditions

are not favourable to any Canadian Government which insists on co-operating with the London Government in the artificial stimulation and subsidy of British industrial migration. That this system is highly expensive, as well as economically unnatural, is indicated by the statement of Premier King that his Government is spending about \$17 on every assisted British settler compared with only 11 cents on every foreign settler.

No such artificial stimulus is needed to create a population flow between Canada and the United States. But then, the bulk of American immigrants to Canada are farmers, and most of the Canadians seeking prosperity in the United States are industrial workers. The paradox of enforced Canadian absorption of excess British industrial workers is complete when one realises that in the midst of the British migration schemes the Ottawa Government has been petitioning the Washington Government to permit several thousand Canadian workers to cross the border daily to work in Detroit and other American cities, returning at night to their Canadian homes. Or, put in another way, while the Vancouver city council was warning the subsidised British miner-harvesters not to expect employment in that city, Vancouver contractors were importing American labour for public work and hop-picking.<sup>50</sup>

Behind the natural resentment of many Canadians against making their country suffer for British unemployment ills, is the frequently expressed fear that proposed British immigration will breed hatred instead of friendship between the mother and daughter countries and increase social radicalism in the latter. Typical of this point of view was a speech in the Canadian Parliament, February 27, 1928, by Mr. H. Bourassa. As summarised by the *Journal of the Parliaments of the Empire*, he said : “Instead of offering abnormal inducements to foreign immigrants, whether they came from the British Isles or from Continental Europe, they should offer advantages, at least equal if not superior, to the farmers of Quebec and Ontario as well as to the Maritime Provinces, who had a taste for the West. They should make a serious attempt to bring back some of their Canadians, especially those who had not been out of the country too long [in the United States, presumably]. . . . The efforts of all good Canadians should not be directed to making Canada an easy cure for the social evils of England, and a safety valve for the possessing classes of that great country. From a social point of view, let them beware before they open their doors to any one who might come from England with a heartfelt hatred against all British institutions. Of course, if they wished to hasten the day of secession, if they wanted to precipitate Canada into a crisis with Great Britain, let them bring as many people as they could of that kind to Canada.”<sup>51</sup>

In South Africa, controlled by the (Dutch) Nationalist Party, there is even less enthusiasm than in Canada for the particular type of immigrants which Great Britain must get rid of.

Opposition to such British immigration at this time is open in Australia. In the spring of 1929 the Australian Workers' Union, the strongest labour organisation in that country, sent a delegation to the British Isles to warn British labour not to migrate to Australia where unemployment existed. The British Economic Mission reported in the same year that Australia was not then a suitable place for emigrants. Official statistics show that in the period 1923-27 Australian unemployment ranged from about seven to nine per cent. In that period there was a

net immigration increase of 40,000, which most authorities agree must be reduced. Although Australian sentiment is coloured by fear of an alleged Yellow Peril, and is thus theoretically sympathetic with British immigration to preserve the British character of Dominion population, economic exigencies are such that Australia cannot for many years to come serve as an outlet for excess British industrial population. Meanwhile the British proportion of the Australian population is being diluted. It fell from 81.4 per cent in 1925 to 75.5 per cent in 1927, with compensating gains by other Europeans.

In New Zealand the situation is no better. That Dominion has suspended its system of assisted British immigration. All efforts so far have been unsuccessful in meeting the local unemployment problem. At the most New Zealand cannot absorb more than a maximum of 7,000 immigrants annually.<sup>52</sup>

So what is to become of the million and more British workers who are permanently unemployed? Being surplus population, they are a drain upon the rest of Britain. They should migrate. But, for one reason or another, they do not want to leave home, they are not fitted to be pioneers on colonial farms, and there is no enthusiastic welcome awaiting them anywhere. Most countries now have industrial unemployment. No other country wants Britain's unemployed. In a small way doubtless the London Government at great expense will be able to get rid of a few thousand each year. But it is improbable that such subsidised emigration will compensate for the growth in population during the next decade, much less diminish the surplus.

Unable to support her population with the present volume of industrial production and unable to get rid of her surplus workers, Britain therefore is thrown back to the task of increasing her foreign trade to provide jobs for them.

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<sup>1</sup> Cf., Chapter VII.

<sup>2</sup> *Report of the Liberal Industrial Inquiry, Britain's Industrial Future*, p. 308. 1928.

<sup>3</sup> Press release, Aug. 6, 1928.

<sup>4</sup> *Report of the Committee on Recent Economic Changes, of the President's Conference on Unemployment, Herbert Hoover, Chairman ; including the Reports of a Special Staff of the National Bureau of Economic Research, Inc.* 1929. The foregoing study, commonly called the *Hoover Committee Report*, consists of a brief interpretative summary by the committee, followed by two volumes of "basic survey" or special reports by N.B.E. R. economists such as Edwin F. Gay, Leo Wohnan, Edwin G. Nourse, W.R. Burgess, and Wesley C. Mitchell. References, to the above, throughout the present book are to the basic survey. The first reference, to which this note applies, is p. 91.

<sup>5</sup> *Washington News*, Aug. 24, 1928.

<sup>6</sup> Cf., *Hoover Committee Report, supra*, pp. 350, 513. Also G.E. Barnett, *Machinery and Labour*, 1927.

<sup>7</sup> *Hoover Committee Report, supra*, p. 119.

<sup>8</sup> P. 121.

<sup>9</sup> Jan. 31, 1929.

<sup>10</sup> *Final Report of the Committee on Industry and Trade*, presented by the President of the Board of Trade to



Parliament, March 1929, Cmd. 3282 ; commonly referred to by the name of the committee chairman, Sir Arthur Balfour : p. 218.

11 P. 297 ff.

12 P. 181.

13 P. 289.

14 Secretary of the Treasury Mellon, radio address, Oct. 29, 1928.

15 P. 463.

16 New York *Wall Street Journal*, Nov. 29, 1928.

17 Cf., Abraham Epstein, "Is American Capital Intelligent ?", New York *American Mercury*, January 1929.

18 *Federal Reserve Bulletin*, May 1929.

19 New York *Wall Street Journal*, March 15, 1929.

20 P. 446.

21 P. 53 ff.

22 New York *Wall Street Journal*, Nov. 9, 1928.

23 London *Times Weekly*, Sept. 27, 1928.

24 Washington address, May 10, 1929.

25 P. 39.

26 P. 633.

27 P. 19.

28 *United Press*, Dec. 31, 1928.

29 Newark address, Sept. 17, 1928.

30 New York *Times*, Nov. 27, 1927.

31 Manchester *Guardian Commercial*, Nov. 22, 1928.

32 Pp. 14-19.

33 *Hoover Committee Report, supra*, pp. 889, 757.

34 —, P. 764.

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35 Pp. 436-437.

36 Cf., *Report of the Liberal Industrial Inquiry, supra*, p. 242 ff.

37 P. 768.

38 P. 113.

39 Boston *Living Age*, June 1, 1927.

40 London *New Statesman*, March 26, 1927.

41 *Balfour Committee Report, supra*, p. 130.

42 P. 134.

43 P. 879.

44 New York *Times*, Feb. 27, 1929.

45 Presidential address, National Mutual Life Assurance Society, as quoted by the Boston *Christian Science Monitor*, Jan. 31, 1929.

46 *Commerce Yearbook—1928*, Vol. II, pp. 678-679.

47 P. 237 ff.

48 Jan. 17, 1929, weekly edition.

49 Quoted by Baltimore *Sun*, Oct. 2, 1928.

50 Labour Department Report, Oct. 4, 1928.

51 April 1928, p. 383 ff.

52 For discussion of New Zealand's immigration obstacles, cf., statement by Prime Minister Coates, *Journal of the Parliaments of the Empire*, April 1928, p. 458.

## America conquers Britain

*Chapter Six*  
*DOLLAR VERSUS POUND*

CHANGED WORLD CONDITIONS are as unfavourable to Britain, the industrial producer and world trader, as they were once favourable. American competition magnifies all her problems. Unable to solve her problems of over-industrialisation and over-population, either by migration or by maintaining—much less increasing—the sale abroad of her surplus manufactured products in open or in preferred Dominion markets, she is in a bad way.

But her present condition is hardly as desperate as these factors, taken alone, would indicate. The answer is in her great financial reserve strength, built up by the prosperity of a century. She is living on her fat. She is even adding to that accumulation of fat, though at a much slower rate than formerly, by exploiting backward Asiatic and African colonial areas and by taking tribute from most of the rest of the world in her capacity as international banker. It is as world banker that she is able to change her unfavourable commodity trade balance into a favourable “invisible” trade balance. The United States, though displacing her as chief world manufacturer and chief world merchant, has not yet displaced her as chief world banker.

Thus to the extent that international finance affects international trade, the two foregoing chapters, by isolating Anglo-American trade competition for the purpose of study, have somewhat distorted the significance of the trade facts. To complete the picture, it is necessary to put in the investment perspective.

INVISIBLE BALANCES

Profits are made not only by export of tangible goods but by the export of capital, not only through sales abroad but through investments abroad. International economic relations consist not only of an exchange of “goods”—that is, of commodities and bullion—but also an exchange of “services.” And the latter are sometimes, as in the case of Britain, more important than the former in achieving a so-called credit balance.

In its publication, *The Balance of International Payments of the United States in 1928*, the Department of Commerce shows that exports of the United States in that year amounted to \$5,334 million and imports to \$4,497 million, leaving an apparent credit trade balance of \$837 million. But inclusion of “miscellaneous invisible transactions” reduced the credit balance to \$730 million. Those compensating invisibles included not only such credit items as \$523 million interest received from private foreign investments and \$210 million receipts from War debts, but also such debits as \$525 million of American tourist expenditures abroad, and \$189 million of American immigrant remittances to other countries. For the same year the Board of Trade statement showed that the British excess of imports over commodity exports, amounting to a debit balance of \$1,795

million, was transformed by invisible exports into a net credit balance of \$745 million. The largest of these credit invisibles was \$650 million of “net national shipping income,” and \$1,425 million from “oversea investments.” From these figures it would appear that the net credit balance of each country is roughly the same, with Britain having a slight advantage. These totals, however, are arrived at through somewhat different methods by the two governments; therefore, they are not entirely comparable in the form given.

Approximate comparisons are made by several authorities annually, the most widely accepted probably being those of the London *Economist*. The following table and quotation from the *Economist*, June 2, 1928, cover the period 1922-27:

“In the following table, giving the results for six years past, we have added to the figures from Mr. Hoover’s Bulletin a column of amended figures in which the full total of ‘errors and omissions’ has been assumed to be an addition to the balance on ‘current items account,’ and therefore an addition to the net export of capital. Even on this extreme basis the American outflow does not equal that of Great Britain. Comparison of either column with the figures for Great Britain—which in this case have been converted at the precise average current rate of exchange of each year—amply bears out in fact the general thesis we have put forward:

NET IMPORT (—) OR EXPORT (+) OF CAPITAL FROM THE UNITED STATES AND GREAT BRITAIN

Year	United States		Great Britain	
	Mr. Hoover’s Return Min. \$	Adjusted Figures Min. \$	Min. £	Min. £
1922	+ 130	+ 263	+ 154	+ 681
1923	+ 228	+ 112	+ 153	+ 699
1924	+ 310	+ 306	+ 86	+ 390
1925	+ 429	+ 493	+ 54	+ 261
1926	+ 13	+ 163	— 7	— 34
1927	+ 671	+ 671	+ 96	+ 466
	+ 1,325	+ 1,784	+ 536	+ 2,463

“Our readers will recall that the enquiries recently carried out by Sir Robert Kindersley indicate that the Board of Trade estimate of our income from abroad in 1927 understates the position by at least £10 millions. None of these figures are of very great accuracy, and they cannot be strained too far. But they are not inherently improbable. The great fact of recent years is not that American capital, unable to find a use at home, is inundating foreign countries, but that the outflow has now reached such dimensions that it equals and even appreciably exceeds the inflow of capital from foreign countries which was stopped by the War, but has now revived in very considerable volume. The fact is that America’s trade balance shows no sign of producing a very large export surplus the proceeds of which she can lend abroad. She can only swell her foreign issues by lending money that is lent to her or by shipping gold.”

In quoting the above conclusions of the *Economist*, the National City Bank of New York, in its *Bulletin* of November 1, 1928, stated: “The table is a comparison of the official American and British figures, and we are not prepared to question the showing or conclusions drawn from it. The important point is that there has not been so large an outflow of capital from this country as



the list of foreign flotations in this market would indicate. In the onward march of what some persons have called Economic Imperialism, Britain apparently is still leading.”

The judgment of the London *Economist* and National City Bank of New York, that the United States has not yet attained the high position of Britain as an exporter of capital, is accepted by others—though certain important qualifications will be presented here later. In a foreword to *The Balance of International Payments of the United States in 1928*, Secretary of Commerce Lamont stated: “The investigation shows that, as a creditor nation, we are no such giant as is often supposed. War debts aside, we are a net creditor nation in the amount of probably less than nine billions. The growth of New York as a world financial centre has put us in net debt, on short-term account, to the extent of some \$1,638 million; and foreign long-term capital invested in the United States is now over four billions.”

America’s position as a creditor “is not so advanced as we commonly imagine, at least in comparison with our resources and with the position of a full-fledged and old creditor nation like Great Britain,” according to Dr. Virgil Jordan, chief economist of the National Industrial Conference Board.<sup>1</sup> “At present the United States is merely coming of age as a creditor nation. We are by no means fully developed industrially and financially. Despite our rapid and sudden alteration from a debtor to a creditor position, we still stand in this respect midway between the older and more highly industrialised nations of Europe and the undeveloped nations like Canada and of South America, destined for long to draw capital from the former for our own development and to lend capital to the latter for theirs. As our creditor relations grow naturally in the course of 10 or 20 years we shall find ourselves lending more than we borrow and therefore bound to receive in payment more goods than we sell.”

That the United States—which before the War was a debtor nation to the extent of \$5,000 million—has now become a net creditor nation of \$9,000 million (in addition to \$11,000 million of questionable government War debts due), is significant. Dr. Max Winkler in his *The Ascendancy of the Dollar*, Foreign Policy Association Information Service Supplement, March 1929, uses higher estimates than the Department of Commerce and fixes the gross total of American private investments abroad in 1928 at \$15,600 million. That would mean a net total of almost \$12,000 million, allowing for \$3,700 million of foreign holdings here estimated by the Department of Commerce. Our present creditor position is a healthy and normal one, rather than a temporary inflation.

The comparison between British and American foreign loans and investments shows again that Britain must export a major part of her products and savings in order to exist, whereas the United States with a larger home market and undeveloped domestic outlets for large-scale investment has much less need at this stage of her progress to export a predominant part either of her goods or of her capital savings. This point, which is frequently ignored by persons unable to understand why Britain in her weakened condition has larger foreign investments than the healthier and potentially stronger United States, was stressed by the Midland Bank of London in its July 1928, *Bulletin*:

“So-called ‘invisible’ trade is, therefore, far more important, both absolutely and relatively to merchandise trade, in the case of Great Britain than of the United States. But perhaps a more important point is that, combining the two groups, the total turnover of current trade, ‘visible’ and ‘invisible,’ is probably three to four times as great per head in the case of the United Kingdom as in that of United States. This is an interesting but not surprising conclusion, for with a vast country, containing some 120 million of people, unrestricted by tariff and other barriers to trade, and largely self-contained in the matter of raw materials, the internal market must necessarily be vastly predominant.”

More significant than the relative positions of Britain and the United States as creditor nations is the comparative trend. Britain is adding to her foreign investments, but much more slowly than formerly. She has about \$20,000 million in foreign investments compared with our (gross) \$15,600 million (excluding War debts). But her average surplus for foreign investments during the last four or five years has been about \$500 million less annually in actual money value than her pre-War rate.<sup>2</sup> Meanwhile we are adding to our total much more rapidly than formerly. Thus we are catching up with her. Foreign lending by the United States was almost twice as large as that of the United Kingdom during the four year period 1925-28. The average annual amount from the United States was an estimated net of about \$1,100 million compared with an average British net of about \$650 million.<sup>3</sup> In 1928 America’s figure was \$1,100 million and Britain’s \$700 million. That American total, though almost double the British total of the same year, was somewhat less than the \$962 million record for all time made by Britain in 1913, if the pre-War price level is adjusted to the present.

From the standpoint of our national strength it is well that we are not catching up with Britain in accrued foreign investments too quickly. The basic consideration is the rate at which a nation’s total national wealth is increasing, whether by domestic or foreign investments. Just because we are so much richer—and therefore stronger as an economic Power—than she, our problem is the relatively simple one of apportioning to the best advantage our large annual savings between lucrative domestic and foreign investments. She has the much more difficult problem of creating sufficient wealth and savings under conditions of over-production and over-population with which to make mounting foreign investments to compensate for her heavily adverse trade balance. With ample investment opportunities at home, we are under no temptation, or should be under none, to force unduly our natural growth as a foreign investor. Britain, in exactly the opposite position, is torn between the need of ploughing back her savings into the, for her, all important foreign field, and the need of using them instead to “rationalise” her domestic plant that it may compete with the United States as a producer and exporter of wealth in the form of manufactured goods.

Furthermore Britain in her foreign investments is constrained more than the United States to choose those with the most direct immediate return. This touches the question of the nature of the capital export. The form of such a credit, in its effect upon the lending nation, is no less important than the amount in any comparison of America and Britain as creditors. For instance,

one effect of loaning money to poorer nations is to increase their immediate purchasing power. This helps not only the lender but other nations, especially other creditor nations, which compete with the lender for the trade thus financed. In that sense British pre-War credit operations created better markets for her chief competitor, Germany, as well as for British trade (though, as will appear later, Britain wherever practicable has earmarked such credits for her own trade). Similarly, in the post-War period American credits have revived a sick world, and in so doing increased international trade for Britain and others.

Apart from the War debts to us, which represent wealth already destroyed in contrast to reproductive credits, much of the post-War activity of the United States as banker for Europe has been of a quasi-humanitarian sort. Much of that money was loaned under conditions and for purposes much less profitable directly to the United States than alternative investments possible in this country, Canada, or Latin America. By loaning Europe the money she wanted, it is true we have gained a certain amount of "ownership" of Europe. But ownership in Europe during this period has involved relatively greater risk than profit.

While we have been loaning money to European governments, municipalities and corporations, Europeans themselves have been sending their own funds in large amounts to the American money market. Thanks to this process, in effect we have been borrowing their money and loaning it back again to them. In return for the slightly higher interest rate received, we took the risk of underwriting Europe at a time of great chaos and uncertainty. The American paper held by Europeans is good, but it remains to be seen whether all the European paper held by us is good. Francesco Nitti, former Finance Minister and former Premier of Italy, puts it as follows: "Europe has sufficient capital to make loans to her industries, but she prefers to have a guarantee of a third party. The United States insures the European investor against the danger of political disorders and against monetary disorders, which are largely the result of the first. Europe prefers to lend to herself, but she prefers to lend through America, because in this way she feels more secure."<sup>4</sup> Presumably most of central and western Europe is passing out of the post-War period of political and fiscal instability, and is becoming again an investment safe enough for the Europeans themselves. They may be expected therefore to buy back some of that American ownership.

Britain has been no more anxious than the Europeans to carry this European financing load during these unfavourable years. In 1927, for instance, when our total foreign investments were twice as large as Britain's, our European investments were four-fold as large as hers, or, put in another way, she risked in Europe about one-sixth of her foreign total, while we risked almost half of ours. It would be absurd, of course, to suggest that these European investments represent chiefly altruism on our part. But so far as direct trade returns are concerned they have probably helped Britain and others as much as they have helped us and as direct investments have been less profitable to us than certain British investments made elsewhere during the same period. In part these large European flotations on the New York market have been possible only because of the relative inexperience of the small American investor as compared with his British cousin. Our supremacy in the field of European financing in the post-War period, therefore, should not

be understood altogether in the light of winning in banking competition against Britain.

But there has been direct Anglo-American credit competition in some other fields, a competition which is growing as the world overcomes the capital shortage caused by the War destruction. First, in the richest of all fields, the United States itself. British investments, which in this country were at the rate of \$111 million a year just before the War or approximately double that amount at present money values, dropped in 1927 to \$1.5 million. Britain's next longest drop was in Canadian flotations, from \$645 million (present value) in 1913 to \$50 million in 1927, compared with our \$268 million. Her annual rate of investment in Latin America dropped almost to one-fifth of her pre-War rate, and is now only at one-third the American rate of growth. In the Far East, including her Dominions and India, she fares somewhat better, investing now at an annual rate of \$255 million, which is almost up to her pre-War rate and considerably above our own. The only area in which she is dominant, as she formerly was dominant almost everywhere, is Africa, where there is as yet virtually no American credit competition. Africa is the only region in which Britain has increased her annual rate of investment, rising from \$78 million (present value) in 1913 to \$172 million in 1927.

In other words, Britain, partly because she is being restricted in Dominion and Latin American markets by United States credit competition and partly by deliberate design, is turning increasingly for foreign investment outlet to undeveloped colonial regions such as Africa, the Malay Peninsula, and similar regions rich in raw materials such as copper, tin, oil, and rubber. By so doing she is gaining in rapid monetary returns and in mineral and other natural resources of the colonial areas; but she is losing her hold on raw materials and markets in the larger semi-industrialised countries. This also explains in part Britain's poor showing in trade competition, as compared with the United States, in such regions as Latin America.

We practically have bought our way into Latin America in order to sell to that combined market 39 per cent of its total imports. To do this we increased our investments in South America proper from \$177 million in 1912 to \$2,215 million in 1928. Including Cuba and Mexico, our Latin American investments exceed \$5,000 million. Our 200 per cent gain in South American trade in the last 15 years reflects our twelve-fold increase in investments there. Our investments there are also superior to Britain's in the matter of geographical and financial diversification. Hers are chiefly in the Argentine, Brazil, and Chile, mostly in railroads, while ours spread to all countries. In the Argentine, our total of \$500 million is still far below her \$2,000 million, half of which is in railroads. The phenomenal growth and diversification of American investments is shown by the following comparative figures in millions of dollars for 1912 and 1928: Chile from 15 to 520, Argentina 45 to 500, Brazil 50 to 447, Colombia 2 to 211, Peru 35 to 150, Venezuela 3 to 172, Bolivia 10 to 110, Uruguay 5 to 67, Ecuador 10 to 30, Paraguay I to 15, Guianas from 1 to 9, according to estimates by Dr. Max Winkler. Diversification extends from government and municipal loans to branch banking, merchandising, manufacturing, railroads, communications, electric power and public service corporations, raw materials such as copper, nitrates, iron, tin, rubber, and oil, and foodstuffs such as fruits and sugar.

Rapid extension of foreign investments has been made possible in part by growth of our



international banks, with branches abroad. In the period 1927-29 in New York alone 50 banks participated in mergers, creating ever larger concentration of capital for domestic and foreign use. National City Bank, in addition to its extensive organisation in this country and Canada, has 98 branches in 26 foreign countries. Such branches are outposts of the American trade and investment empire.

### TRADE FOLLOWS THE LOAN

Wide diversification of American investments abroad raises the question of the effect of foreign financing upon the creditor and debtor nations, politically and economically. Effects vary widely with the type of credit. First, there are loans made by one government to another, such as the War and post-War debts due the United States amounting to \$11,000 million. These are in a class apart, and will be considered later. In addition there are private American investments abroad amounting—according to Winkler—to about \$15,600 million of which about \$13,000 million was made in the period 1914-28. The geographical distribution in round millions is: Europe \$4,800; Canada \$4,100; Latin America \$5,500; Far East and elsewhere \$1,200.

Our capital export is of two general classes. The purpose of one class is to stabilise foreign exchanges, to relieve foreign banks, or otherwise aid foreign governments in their exclusively financial operations. The second class in the main are industrial credits and investments, made to governmental agencies or private concerns for the purpose of developing natural resources and industry. Of the present total almost half are direct American investments in foreign resources and industries. Our pre-War investments were almost exclusively of that type. But in the period 1914-28 two-thirds of the total went to foreign governmental agencies.

Now that the world is passing out of the post-War period, our investments are beginning to flow again in larger proportion to direct investment in industrial enterprises. Industrial distribution of our 1914-28 foreign corporate securities, which total \$4,500, is in round millions of dollars as follows: Public utilities 1,000, railways 777, banking 666, paper 443, sugar 349, mining 261, oil 185, iron and steel 152, matches 99, steamships 98, chemicals 73, harbours and docks 28, miscellaneous manufacturing 24, automobiles 22, department stores 21, tobacco companies 20, churches 16, chain stores 15, fruit companies 15, rubber 13, cables 12, lumber 11, dairy companies 10, and dozens of other industries including the rapidly growing motion picture foreign investment. Narrow distribution in ownership is indicated by the fact that “17 American corporations operating in foreign countries floated bond and stock issues totaling \$147 million in 1928” out of a total of \$845 million, according to the Department of Commerce.<sup>5</sup>

Of the two general types, financial and industrial credits, the effects of the former are less direct and therefore more difficult to trace. As indicated, the general effect of financial credits is to increase purchasing power, either through furthering the rehabilitation of old countries or development of new countries. Such increased world purchasing power tends to benefit all exporting nations. Thus this type of American loan has benefited British trade as well as our own. In order to get as much direct benefit in trade as possible from her foreign financing, Britain has

long resorted to “earmarking” and other discriminatory practices. Largely through this hook-up between her foreign banking and export trade she was able to maintain the latter at such a high point and against severe world competition that its proceeds be expended by the borrower on British goods she built up a compulsory trade. Much of her investment field has been consciously chosen with an eye to its adaptability as a direct market for the surplus of British heavy industry. Thus the predominant position of railway loans in her total foreign investments; first in the United States, later in China and in Latin America. In his *The Export Capital*, 1914, Mr. C.K. Hobson estimated that of Britain’s total foreign investments about 60 per cent, that is, \$10,500 million, was in foreign railways and their construction.

Besides the unofficial earmarking method Britain has certain official credit schemes for stimulating exports. The Empire Marketing Board and its appropriation of more than \$48 million, already discussed, is one. The East African Loan Act, extending a \$48 million revolving credit for railroad, highway, and harbour materials and construction, is another. The Export Credit plan is another. This was initiated in 1919 with a fund not to exceed \$125 million to finance merchandise exports. At first limited to trading with America and certain Eastern European and Balkan countries, it was changed in 1921 to more of an export insurance plan and extended to all countries except Russia and certain products, chiefly textiles, for India and the Far East. Its credit and insurance facilities were changed again in 1926 and 1928. The Government now at a loss to the state of about \$100,000 is guaranteeing export credits of more than \$15 million annually. Its adherents claim it has materially increased British exports and to that extent reduced unemployment, and has been especially helpful to small and medium sized companies. The United States Government has no such financial and insurance machinery to increase manufactured exports. In this country private sources are apparently adequate without the governmental aid required by the unhealthy British economic conditions. Our bankers and acceptance companies, judging by results, are efficient in extending credits in such a manner that the foreign buyer will be “encouraged” to continue favouring Yankee goods. One typical American method is to extend to the foreign market the plan of instalments selling and instalment financing, so successful in the last decade in multiplying consumer demands and buying power in the domestic market. The “advantage” of this is that it mortgages the domestic or foreign buyer’s future, and at the same time insures “follow through” marketing and financing operations on the part of the seller.<sup>6</sup>

Though the Washington Government, unlike the British, has not entered directly into the practice of obtaining export markets for manufactured products through credit influence or control, American firms have in many cases tried to ape the British “earmarking” method of compulsory trade. In general, however, such crude methods are frowned upon both by the American Government and American business in favour of subtler methods. The Government’s attitude is described as follows by Assistant Secretary of Commerce Klein: “Our American investment bankers have been warned that unless they proceed warily in this field, with every precaution against the stimulation of undue foreign competition through such loans, they may destroy the American industries which, so to speak, are producing the very funds that are being used in the

given loan or investment. Governmental control over such loans is obviously out of the question ...; the perils of such bureaucratic paternalism are too evident to require discussion. There are, however, other devices which are being suggested. In various European countries considerable use is being made of interlocking directorates; that is, the same executives sit both on the investment bank board and on that of the given industrial enterprise; consequently, the bank will be careful not to finance a foreign enterprise competing with the native industry controlled by the bank's officials. This was a conspicuous feature of Germany's oversea activities just before the War, and there are occasional evidences of the practice in our recent experience in one or two South American countries.”<sup>7</sup>

To say that there are “occasional evidences” that Americans practice this indirect method of “earmarking” puts it very mildly. But it is doubtless true that American business on the whole realises that the cruder forms of compulsory trading create resentment on the part of the foreigner and to that extent are not “good business” in the end, especially in highly competitive markets.

These strong-arm credit-trade methods are believed to be one factor among many responsible for Britain's recent losses in competition with the United States in the export of credit and of goods. Obviously Britain can still succeed with such methods in markets where she has a virtual monopoly, such as British East Africa. But even in her preferential Dominion markets, such practices often increase her unpopularity and turn the Dominion borrower toward New York. In quasi-open and in free markets Britain fares worse by such methods. There was a striking case in 1929 in Greece, which has long had close political relations with Britain amounting to a virtual alliance. Britain always has attempted to exploit that relationship for her own economic ends. The British firm of Hambros has been the Greek Government's banker for a century. When the Greek Government in 1929 sought a large loan from Hambros, the latter tried to force the Government to enter an agreement giving the bank a monopoly on all future state loans. Premier Venizelos replied by introducing a bill in the Chamber for obtaining the money from the American house of Seligman. “We have a moral as well as a material interest in seeing that we are as free to turn to New York as to London when we need money,” the Premier told the Chamber. But Seligman, no more than Hambros, was able to control absolutely the expenditure of the loan, which was for reconstruction of most of the country's public service works. British firms were later said to have obtained contracts up to \$50 million in sharing the material and construction expenditures with American companies. British papers reported that the Americans as well as the British had attempted “earmarking” methods.<sup>8</sup>

Even in the case of railway loans, in which “earmarking” has been more successful than in other types of loans, it has not always worked. After a special study of the trade in railway materials to Asiatic and South American countries, Dr. A.P. Winston, University of Texas, concluded: “This class of merchandise has not been purchased with a prevailing regard for the nationalities of manufacturers. For each nation trade has followed investment somewhat in proportion to each nation's industrial capacity. French manufacturers have not found a market even when large

amounts of French capital have been placed. Manufacturers of the United States and Germany have sold in large amounts where substantially no American capital has been employed. Even railways financed from Great Britain—great in manufacturing as well as in foreign investments—have drawn in some degree upon the markets of other nationalities.”

But the fact that crude credit methods to obtain compulsory trade cannot be depended upon by Britain in the future as in the past, except in a few of her monopoly colonial markets, does not minimise the importance of foreign loans in obtaining a market for foreign manufactured exports provided the methods used are not too direct and too offensive to the borrower. That the United States has been somewhat more effective than Britain in turning loans into orders is clear from comparative loan and trade statistics. Mr. Thomas W. Lamont, a partner of the House of Morgan, in addressing the 1927 meeting of the Academy of Political Science used the South American example to support the familiar dictum that “Trade follows loans.” He concluded: “It is not unreasonable to assume that our enlarged share of South American trade will be sustained, if we continue to invest at the rate of \$300 million a year or more in that continent.”<sup>9</sup>

Probably, however, all such generalisations need to be qualified. Such a qualification, difficult to escape in view of the figure cited, was provided by the Department of Commerce in its *The Balance of International Payments of the United States in 1928*: “It is generally believed that trade (meaning the export of merchandise) follows the loan. There is better reason to expect that, at least, the visible trade balance will follow the net export (or import) of capital, though even this more direct relationship failed completely in the case of the United States during the 35-year period ended in 1910. It is, therefore, noteworthy that, while our aggregate favourable trade balance (unadjusted) was \$4,855 million during the seven years ended on December 31, 1928, our net export of capital was only \$3,253 million. We may infer from these approximate facts that, had we neither exported nor imported capital, there still would have been favourable trade balances averaging about \$229 million a year. To some such extent has our visible trade followed not the loan but the invisible items—plus (or minus) gold and silver shipments.”<sup>10</sup>

There is a limit therefore to the influence which foreign credit can have, directly and indirectly, in increasing the commodity trade of Britain or the United States. To the extent that Britain in the past has depended upon credit to maintain an artificial commodity export trade, she is now finding her industrial problem increased. With increasing credit and trade competition, paralleled by the crumbling Empire monopolies and quasi-monopolies in foreign markets, production and marketing efficiency as well as credit facilities are the determining factors in obtaining export orders. America is better able to succeed under such competitive conditions. This is not only because of our natural production advantages and larger home market, but because the British compulsory foreign market schemes in part have maintained, through virtual subsidy, inefficient British industries which are now unable to compete equally in open markets.

#### BUYING FOREIGN INDUSTRIES

In contrast to such financing loans are direct investments abroad, either through establishment of



branch factories or acquisition of foreign industries. Such industrial investments enable the investor to cut under tariff and preference walls and other trade barriers, to lower costs of production and distribution to foreign markets, and to establish a peculiar and close relationship between the creditor and debtor nations, sometimes helpful and at other times harmful.

This type of investment abroad tends to destroy the purpose and effect of tariff. A national tariff under such circumstances not only fails to protect domestic industry against a foreign competitor, but actually aids the foreign competitor—with his usually superior producing, marketing, and credit organisation—to conquer the domestic market. The tariff subsidy, which is justifiable, if at all, on the ground that it robs the domestic consumer to protect an essential national industry, becomes a subsidy to the American trust or Continental cartel. These ramifications are wide. They often involve, as in the case of France, access to a monopoly colonial market; or in other cases involve access to national raw material monopolies. Moreover, profits of the enterprise do not remain in the country, much returning to the American, or other foreign, headquarters of the trust. President Hoover often uses the phrase “polyangular” trade to describe the indirect exchange of goods, raw materials, and services between nations, which enables debtor nations to “pay” the United States despite its high tariff walls shutting out many of their goods. But here is a new kind of polyangularity which, if developed, will make the entire protective tariff principle absurd.

So far, however, this process has worked to the advantage of the United States, because there are so many more American companies working behind foreign tariff walls than foreign companies operating in the United States. Britain suffers. For this has become one more of the many advantages seized by Yankees in the Anglo-American economic warfare. Britain, with fewer factories in Europe, is less able to compete in those markets against the American trusts and Continental cartels. The situation is even worse for Britain in the Dominions, where the American interloper—for instance, the American controlled automobile industry in Canada—obtains not only the normal advantages of a tariff protected industry but in addition nullifies all the carefully built up British advantages under the Empire Preference scheme.

Second, the American factory abroad is able to cut distribution and marketing costs, and in many cases labour production costs. That is the most difficult form of competition for Britain to meet. We come back again to the basic British problem, which is not foreign trade alone but foreign trade to provide work for an over-industrialised and over-populated home country. In the case of automobiles, for instance, it will not solve Britain’s problem to establish factories as the United States has done in Canada and Europe. Her primary interest in automobiles is a new home industry to provide work for her army of unemployed, who can never again be absorbed by the older heavy industries, who apparently cannot be forced to migrate, and who cannot make a living unless new industries are established in Britain on a large scale. But Britain cannot have a large scale automobile industry without export trade. And how can she meet superior American competition in the export field, which meant originally higher American production efficiency and larger home market as the basis for a cheap export product, and which has now, come to mean also the advantage of American factories located in the foreign markets themselves? The

difference is wide. America is able to utilise the most economic adjustment of production to market, in the domestic and foreign fields. Britain is unable to do so because of her task of maintaining an uneconomic industrial system at home.

A third effect, or series of effects, have to do with the general relation between the creditor and debtor nations created by American industrial penetration of other countries. On the one hand, this tends to "Americanise" the invaded country, and to that extent improves the market for all other American products. Conversely, it has created in many cases an anti-Yankee reaction, inspired by fear that the home land is becoming an "American colony." To determine how much of this reaction is spontaneous and general in the population; how much is inspired by domestic business interests naturally resenting such intrusion by their American competitor; or how much the nationalistic governments are directly responsible, is difficult. Apparently the foreign business interests and governments are more resentful than the consumers, who in foreign countries as in the United States are apt to worry more about the price and value of a product than the ownership or nationality of the factory which produced it.

In any event, several foreign countries have taken precautions, and others are on the point of doing so, to protect themselves against Yankee investment invasion. The nature of those discriminations varies in different industries and different countries.

American automobile manufacturers have been least affected by foreign retaliation. This is because of the unusual popularity of their product, and their wisdom in co-operating with local credit, raw material, and manufacturing interests, and in offering their stock for local subscription. A large part of our automobile export business is operated through assembling plants abroad. Export of automobiles and accessories in the first half of 1929 increased 36.4 per cent over the same period in 1928, reaching a total of \$339 million and displacing raw cotton as our leading export. It was an easy step from assembling plants to establishment of production branches in foreign countries. As in this country, local conditions determined whether the large American corporations bought out or bought into a foreign competitor, or started a new competing plant.

General Motors, which has 24 overseas plants and 6000 foreign distributing centres, several years ago acquired the Vauxhall Company in England. In 1929 it acquired controlling interest in the Opel Company of Germany and is said to be conducting negotiations for control of the Citroen Company of France. The Opel transaction, amounting to \$30 million, brought to General Motors the largest automobile manufacturer in Central Europe. Citroen has 40 per cent of France's total production. Ford has established large manufacturing plants in Ireland and England, and is negotiating for properties in Germany, France, Poland, Russia, and elsewhere. Ford, to prevent a "Yankee peril" cry, sold the public shares of his British company and its Belgium subsidiary to Britons and Belgians. But they succumbed to higher Wall Street bids, and within a few weeks most of the stock was reported in American hands. The British and Belgians can hardly blame the Ford Company, whose products probably will be enhanced in popularity by this gesture of nationalistic sentiment. General Motors, and other American factories in Germany, such as Ford, Graham-Paige, Willys-Overland, Chrysler, and Hudson, are now using or

planning to use German steel and other materials, partly to minimise the hostility of German industry toward the “invader.”

## ELECTRIC POWER

The largest American industrial investments abroad are in the public utilities field—accounting for more than \$1,000 million of our total \$4,500 million of foreign corporate security acquisitions since 1914. Penetration of utilities and electrical industries has stimulated the anti-American “protective” movement.

Any one doubting the bitter and unscrupulous nature of the Anglo-American economic struggle should study the recent case of the British General Electric. To prevent American control that company took two revolutionary steps destroying the sanctity of property rights upon which the capitalist system itself is based. One step was the complete denial of voting rights to Americans, who now own more than 60 per cent of the stock. The other step was to confiscate property rights of the American majority stockholders by excluding them completely from participation in a new stock issue limited to Britons. The latter action was later withdrawn under the pressure of British capitalism, which feared this would be used as a precedent for destruction of British investments in foreign countries.

The fear which drove the British General Electric to this—from the capitalist point of view—madness was reported by Mr. Norman Crump of the London *Financial Times* to be the following: “The view put to me broadly is this: ‘American electrical interests have already acquired complete control of the industry in many European countries. They also have their footing already in Great Britain. It is virtually only the General Electric Company of Great Britain that stands between us and American control. If once America gained control, she would have a virtual world monopoly. ...’”<sup>11</sup> According to the financial editor of the London *Standard*, March 20, 1929: “It is no secret of course that the real basis of objection to American control of our General Electric Company is the fear that it may become a subsidiary of American General Electric.”

An extraordinary meeting of the British company called by its chairman, Sir Hugo Hirst, in August 1928 deprived foreign stockholders of all voting rights. Concerning the revolutionary implications of this “financial Bolshevism,” an article in the London *Chronicle*, March 15, 1929, said: “It seems extraordinary that American shareholders did not object strongly against this revolutionary act of disfranchisement. It is a common enough practice to limit the voting rights of foreign shareholders. For example, to comply with Swedish law the great Swedish match company in issuing shares in London and other international centres has always limited voting rights to one-thousandth of a vote per share, while Swedish owned shares receive one vote per share. No objection ever has been raised to this practice. To deprive foreign shareholders of the right to vote at all is revolutionary. It is a step which British holders of foreign securities would describe as financial Bolshevism.”

But American stockholders did not then or later formally protest that astounding abolition of the

right of franchise. Instead they went on buying, increasing their holdings in six months from 40,000 shares when the disfranchisement occurred to 1,500,000 shares. That was too much for Sir Hugo. At a company meeting in March 1929, he announced that Americans had acquired 60 per cent of the stock. He proposed that the British character of the company be re-established by issuing and selling only to Britons 1,500,000 shares of new stock. Though the old stock was selling at \$14, the new was to be sold for \$10—which involved an added element of confiscation. The meeting enthusiastically passed the resolution, to the tune of anti-American speeches, with less than a dozen negative votes. This action was taken over the protest of a vote-less representative of the American majority stockholders.

But the British press objected almost unanimously. More effective was the protest by representatives of the Bank of England and the London Stock Exchange. British objections were of three kinds: 1—The plan, by destroying the right of stockholders to participate in new stock issues, would tend to jeopardise rights of all Britons in all British companies. 2—Britain's existence depends upon her foreign investments, returning an annual income of \$1,140 million, which might be wiped out by retaliation of other countries following the British General Electric example. 3—The plan threatened to provoke an American capital boycott of Britain “at a time when it is in the supreme national interest that nothing stop the flow of money from New York to London, which is helping the Bank of England in its desperate struggle to protect its gold reserves and to maintain the pound against the dollar.”

A typical statement regarding the larger British interests, which would be sacrificed for the smaller gain of the British General Electric, was given in the London *Chronicle* article quoted above: “The decision of the General Electric Company to restrict its new issue of shares to British subjects only strikes a blow at the position of London as the world's financial centre. There are no two opinions about this matter among responsible authorities in London. Unfortunately, the General Electric directors seem to have insulated their minds against the shock of City opinion. The consequences of this discrimination may be serious if foreign companies in which British investors are interested retaliate or follow General Electric's example. The extent of our foreign holdings is enormous. The Board of Trade has just estimated that the net income from overseas investment is \$285 million a year. If British shareholders were to be deprived of voting rights and subscription rights in foreign companies it would bring heavy loss to the national income and wealth. It is quite true that General Electric occupies an important position in the British electrical industry and that that industry contributes to the national wealth. But the City of London is also contributing to the national income and its earnings depend upon the extent to which its financial machinery is used as an international centre for investment business. The London Stock Exchange is one of the most important parts in that financial mechanism and if it cannot guarantee the foreign capitalist free dealings in British securities because of restrictions which British companies impose, the London Stock Exchange will lose its position as an international market and business will flow to other centres. It is these broad national considerations which seem lost on Sir Hugo Hirst and his colleagues in their desire to be 100 per cent British.”



Representatives of the majority American stockholders hurried from New York to London after having induced the State Department to instruct the American ambassador to watch the situation and render any proper aid. While they were at sea, Sir Hugo as a sop to British objections recast his plan so that the Americans would have an equal right to buy the new shares provided they were sold back to Britons within ten weeks. This revised plan won the support of part of the British press, including the London *Times*. But the American representatives objected as much to it as to the original plan. They threatened a virtual American capital boycott of Britain: "May we not suggest that should the action proposed by your company be consummated, it will not only react most unfavourably on American sentiment with respect to your shares, but also as to other English shares traded in by the American public?" The statement of Mr. Swope and Mr. Chadbourne, the American representatives, on arriving in England was reported by the New York *Times* as "virtually an ultimatum in this financial war." <sup>12</sup>

The London *Herald*, Labour organ, under a headline across its front page, "Growing Grip of U.S. A. on World Business," stated: "Every one knows that since the War New York has become the arbiter of world finance; but not every one knows that the United States is becoming also the centre of world capitalism. The power that Britain's capitalists wielded prior to the War through their hold on foreign investments and developments is passing into the hands of their American confreres. And it is realisation of this that has led Sir Hugo Hirst to try to condition the nationality of his shareholders." <sup>13</sup>

Threat of an American capital boycott and pressure by the London Stock Exchange, which amounted to a reported refusal to deal in the proposed discriminatory shares, forced the company to withdraw its plan. But Sir Hugo at the company's annual meeting in July 1929, after boasting that many other British companies and industries by various methods were fighting the American invasion, announced that his more extreme plan had been withdrawn only "to wait until public opinion was better informed on the subject." He said: "During the recent controversy in connexion with the creation of our British ordinary shares I ventured to predict that we should have plenty of imitators. This prediction has justified itself, and the numerous examples in which action has been taken to secure British control, be it in the rubber industry, railways, cable, or motor-car industries, convince me that the stand we then made has drawn attention to this very important problem, and public opinion is beginning to see that our aims were right. I think that this justifies our action in preferring to withdraw from that controversy and to wait until public opinion was better informed on the subject. The main lesson that I learnt abroad was the profound patriotism of the people in our overseas Dominions, and their desire to remain British and to the fullest extent to support British industries." <sup>14</sup>

It is interesting to note that the two most extreme leaders of the "100 per cent British" movement against American capital, Sir Hugo Hirst and Sir Henri Deterding, are not men of British origin. Sir Henri, who is the British general in the oil war, is a Hollander by birth. Sir Hugo at the height of the General Electric controversy was denounced by a Labourite in Parliament as "a super-patriot of German origin."

Sir Hugo's pledge to revive his plan of confiscation of American capital's property rights probably cannot be carried out. There is no reason to suppose that British capital as a whole will be any more willing in the future than it was in 1929 to permit him to jeopardise all British foreign investments. Doubtless he will have to be content with that large measure of "financial Bolshevism" involved in his complete disfranchisement of American stockholders, which still stands.

Meanwhile the American General Electric stockholders, besides large holdings in British General Electric, have become the largest stockholders in a giant merger of other British electrical companies which dwarfs British General Electric. American General Electric (through the International General Electric Company) for many years had controlled British Thomson-Houston. Then it bought large holdings in Metropolitan-Vickers Electrical, Edison Swan Electric, and Ferguson Pailin. Early in 1929 those four were fused in a holding company, Associated Electrical Industries, representing "the largest combination of undertakings engaged in electrical manufacture in Great Britain." At the time of the fusion American General Electric was the largest individual shareholder, though lacking a majority of the shares in value or in voting power.

Negotiations are under way to merge Associated Electrical Industries and British General Electric into one complete British manufacturing monopoly, in which American General Electric interests would be the chief and perhaps the majority stockholders.

American General Electric interests which invaded Britain represent one of the largest, if not the most powerful, international trusts and combinations of international trusts in the world. At its head is Mr. Owen D. Young, whom the European governments twice called in to adjust international finances through the German reparation settlements. It dominates the electrical manufacturing industry of the United States and the world export trade. Its offspring, Electric Bond and Share, directly controls companies in 29 states producing 15 per cent of the power used in the United States, and has connexions with the other four of the "big five" holding companies, which together control 52 per cent of the United States power production, according to the 1929 report of the Committee on Coal and Giant Power. General Electric capital interlocks with Electric Bond and Share, the identity of stock holdings being 79 per cent, according to the Federal Trade Commission (1927).

The Electric Bond and Share Company subsidiary, American and Foreign Power, controls the public utilities of eleven foreign countries and has large holdings in six other countries. Its large interests are in Cuba, Argentina, Mexico, Brazil, Chile, Colombia, Venezuela, Ecuador, Panama, Costa Rica, Guatemala, China. In 1928 it more than doubled its investments, from \$108 million to \$285 million. Part of this expansion meant the sacrifice of foreign utilities control by British interests.

American General Electric also has holdings in or owns 14 electrical distributors including Canadian General Electric. It is also reported to have "substantial" interest in Italian Super-Power, whose ramifications extend to virtually every electric company of size in Italy and which is

making that country independent of British coal exports. It helped to organise the Société Générale Constructions Electriques et Mécaniques, the largest French electrical manufacturing combine. It has a \$26 million equipment contract and 10-year “technical assistance” agreements with the Russian Government.

More important, the German General Electric or famous “A.E.G.” (Allgemeine Elektrizitäts Gesellschaft) has come under partial control of American General Electric, which in 1929 increased its stock holdings to approximately one-third interest in the German trust. A.E.G. was made the most powerful corporation in its line in Europe by the late Dr. Walter Rathenau, the statesman of the German Republic. The 1929 agreement between A.E.G. and American General Electric provided for co-operation in every country in the world and placed Mr. Young and four other directors of the American trust on the A.E.G. board. American General Electric promised not to seek absolute control. But the Berlin *Vossische Zeitung* observed: “The American electrical industry has conquered the world, and only a few of the remaining opposing nations have been able to withstand its onslaughts.”<sup>15</sup> Dr. Karl Friedrich von Siemens, head of the largest competitor of A.E.G., called upon Germany to save the Fatherland from falling into the hands of “foreign pilots who would use German captains [of industry] as cabin boys to do the will of the foreigner.”<sup>16</sup> The American-German combine in the electrical field was all the more alarming to certain Germans because similar American penetration was taking place in several other key industries, such as shipping, chemicals, oil, and automobiles.

Nor do ramifications of American General Electric stop with the countries and industries described above. It interlocks with the Radio Corporation of America, which in turn is a many-headed international trust embracing several industries. And there is perfected an agreement, subject to removal of American legal restrictions, for merger of R.C.A. with that remarkable world combine of communications trusts, International Telephone and Telegraph. (The R.C.A.—I.T.T. struggle against the British for international domination of cable, radio, telegraph and telephone systems is the subject of Chapter XIV.)

In addition to American General Electric and I.T.T. other American corporations and banks have heavy holdings in foreign electric and public utility companies. Wall Street since the War has loaned German electric and power companies \$210 million and Italy \$115 million. In 1928 alone foreign public utility offerings in the United States amounted to more than \$382 million, including one bond issue of \$70 million to Tokio Electric Light. As stated above, American investments in foreign public utilities in the period 1914-28 reached a total exceeding \$1,000 million.

Two of the independent American groups active abroad are Westinghouse Electric and Manufacturing and the Harriman interests. The latter have large electrical holdings in Poland. The former in 1929 joined with the great French Schneider trust (iron, coke, steel, locomotives, machinery, electrical industries) to form the Westinghouse-Schneider Company. Though the new company will compete in part with the American General Electric combine in France, as Westinghouse competes in part with General Electric in the United States, nevertheless American

General Electric and Westinghouse have a contact through Radio Corporation of America. American banks and American General Electric interests have substantial hold on the international utilities combine, Trust Financière de Transports et d'Entreprises Industrielles. This was organised in 1928 by Mr. Dannie Heineman, an American living in Belgium. He was an associate of the mysterious magnate Alfred Loewenstein, who, a few months before organisation of the Trust, disappeared while crossing the English Channel in a plane. The Trust represents—besides American—German, French, British, Spanish, Swiss, Belgian, Dutch and Italian interests. Many of the leading banks of the world are connected with it, including: American—Guaranty, Bankers Trust, Dillon Read, Kuhn Loeb, Lee Higginson, International Acceptance; British—Midland, Baring, Rothschild; German—the four Big “D” banks; Belgium—Cassel, Banque de Bruxelles, Allard; Swiss—Credit Suisse; Dutch—Mendelssohn, Handel Maatschappij, Hope; French—Financière Electrique. The Trust constitutes a reorganisation and extension of the earlier Heineman combine, Société Financière de Transports et d'Entreprises Industrielles (“Sofina”), the Compania Hispano Americana de Electricidad (“Chade”—which had previously acquired the Dutch Overseas Electric or “Dueg”). The new Trust is of unusual character, combining qualities of a holding company, a cartel, and an operating company; it will operate and co-ordinate a vast group of public utility companies all over the world, in many of which it will have only a minority stock interest.

Utilities Power and Light Corporation (an American concern with assets now approaching \$475 million) in 1929 acquired the entire common stock of Greater London Counties Trust, one of the largest British utility corporations. This London corporation controls the seven chief British power companies, which operate on a monopoly basis in 95 cities in England and Scotland, and also controls the Edmundson Electrical Corporation, which owns 12 electrical supply companies. The deal whereby American capital acquired the entire common stock of this super-trust, dominating such a large portion of the British utilities industry and so many British cities, was investigated by the British Government. The Minister of Transport, Colonel Ashley, on Feb. 18, 1929, told the House of Commons the Government had decided that efficient operation was of more consequence than “whether the capital happens to be British or American.”<sup>17</sup>

Under the new American owners the Earl of Birkenhead, former Secretary for India and Lord High Chancellor in the Conservative Government, became chairman of the board of directors. His “explanation” of the transaction, which is as unsatisfactory to many Britons as it is unclear to Americans, follows: “The organisation with which I have decided to associate myself is British, although it is associated with the Clarke interests in the United States. Its board of directors is and will remain British. ... It is not interested in any respect in the purchase of American or other foreign materials or machinery, and its purchases will result in the employment of British material and labour, and its entire staff will remain British. So far as finance is concerned this has been found up to the present almost entirely through Clarke interests in America, but the broad policy of the trust is to obtain money in the cheapest market, and it is within its province to obtain funds in Britain if it is possible to do so at a cheaper rate than elsewhere.”

That language of a great legalist cannot obscure the fact that the Americans own this huge semi-



monopoly, but it apparently indicates that the owners have agreed to use British materials and labour and retain, nominally at least, a British “board of directors.” Obviously such an arrangement is a happy one for the Americans, who own and control the trust—especially if such an arrangement will quiet British opposition to American financial and industrial penetration. This episode is enlightening because it reveals the desire and the ability of Yankee capital to bid higher than London bankers to obtain control of a British key industry upon which the modernisation of Britain depends. Why? The Manchester Guardian Commercial has stated the question and the answer: “Is it owing to some lack of enterprise on the part of British investors? Or is it owing to the overpowering wealth of America which enables her to sink capital in undertakings which promise a smaller return than could attract British capital at the existing level of interest rates? Probably both reasons play a part in the matter. Thanks to close co-operation between technique and finance, the American electrical interests have been very successful in developing and extending electrical service throughout their continent and that of South America, where they have recently added considerably to their spheres of influences by the purchase of undertakings previously controlled by British capital. It is probable that they have discerned the potentialities of the electric field with a more vivid imagination than have their British rivals.”<sup>18</sup>

Efforts of British General Electric to prevent control by American stockholders are in line with similar action by other industries. The Burma Corporation has deprived foreign shareholders of all voting rights, on the ground that its large mining leases from the Indian Government make British control essential. British companies restricting foreign stockholdings to a minority, usually not more than 20 or 25 per cent, or in other ways preventing American control, include: Imperial Chemical Industries, Rolls-Royce, Imperial Airways, Buenos Aires Great Southern Railway, Buenos Aires Western Railway, Entre Rios Railway, and Marconi International Marine Communications. Similar steps are being taken in such industries as oil (Dutch-Shell, Venezuelan Consolidated Oilfields) and rubber (Rubber Plantations Investment Trust).

In France the system of plural voting shares is employed against foreign control. That system was originated at the time of the fall of the franc in 1926. It prevented American interests, and Germans acting for Americans, from capturing such important banks as the Crédit Lyonnais and such corporations as the Etablissements Kuhlmann, the French chemical trust. Since then many other large French companies have adopted the plural voting plan, including the Pechiney aluminum trust, Pennarroya lead company, Les Acieries du Nord et l'Est, Les Acieries de la Marine, Compagnie Française de Metaux, Electro-Metallurgie de Dives, Compagnie des Travaux Metalliques, Moteurs Gnome, Les Mines et Fonderies de Zinc de la Vieille Montagne. Under the plan company control falls into the hands of a special class of small shares, distributed to nationals and withheld from American and other foreign holders of regular stock. A national minority owning, say, only five per cent of the total capital is thereby enabled to control the company. To prevent possible future misuse of this weapon against nationals instead of against foreigners, there is a demand that the system be under government regulation and permitted only when the national interest requires.

This plural voting system is perhaps best known in the case of the Svenska Tandstick, which gives certain Swedish stockholders a thousand-to-one voting strength in that perhaps most complete of all world industrial monopolies, the International Match Corporation. Other countries using this device against American stockholders are Germany, Italy, and Switzerland. Other methods are used in several countries against American capital, notably the system of discriminatory taxes. For instance, in 1929 the State Department protested to the French Government against the official proposal of an additional 18 per cent levy on profits of American companies operating there, which would make their total profit tax 51 per cent. Appeals are pending in the French supreme court, though several American companies already have transferred their plants and offices to neighbouring countries.

No retaliation has been attempted in the United States against British and other foreign investors in American industrial stocks. For several reasons: Until the War the United States was a debtor nation being developed in part by foreign capital, and so is not unaccustomed to foreign holdings here. Our present economic and financial strength is so great there is no fear that foreigners will obtain a "dangerous" hold upon American industry. Although the pre-War foreign investment in the United States of about \$6,000 million was almost wiped out during the War, it has since climbed to about \$3,700 million, according to Department of Commerce estimates. Some recent developments, however, have caused a little uneasiness, especially the British and German invasion of the rayon manufacturing field. (The more important Anglo-American rivalries over chemical, shipping and communications companies, and over nickel, tin, and other raw materials and oil in this country and abroad are the subject of later chapters.)

#### BRITAIN LACKS CAPITAL

In credit competition with the United States, Britain is handicapped by a diminishing capital surplus available for foreign investment. An adequate export surplus capital has been provided here, not only by domestic savings from increased industrial efficiency much of which has gone back into domestic investment, but also from interest and dividends on our foreign investments which could be reinvested in foreign fields. In addition there has been an inflow of foreign money which we are able to lend back to foreigners at higher interest rates.

In Britain the problem of apportioning capital between domestic and foreign investments is more difficult. She is caught between two opposing forces; her need for capital is greater and her supply of capital is less. The demand is greater because she must deflate and rationalise old industries and float new ones. But over against these domestic needs is the necessity of maintaining her foreign investments as a source of direct income and a stimulant to production and foreign trade. And she has not enough money to meet both demands adequately.

All agree that there has been a sharp decline in British savings, that is, in the amount of surplus capital available for investment. The real value of savings has declined about one-quarter, compared with pre-War, according to the Colwyn Committee; it estimated the national savings in 1924 as about \$2,500 million, which on the pre-War scale should have been (at adjusted values)

\$3,250 million. The loss in that period is also put at \$750 million by the *Balfour Committee Report*.<sup>19</sup>

What to do? While recognising the need of continuing to export capital the *Report of the Liberal Industrial Inquiry* recommended “restricting our foreign investments, the high total of which was formerly a reflection of our large favourable balance of trade, to a scale commensurate with our present diminished balance. ... Moreover, a greater employment of labour in home trade can only take place if there is a greater investment of our savings at home. ... It is a fallacy to assume that the national wealth is more truly increased if the fruits of British savings embodied in British labour are used to embellish the city of Rio de Janeiro than if they are employed to demolish the slums of South London or to build motor-roads through the Midlands.”<sup>20</sup> Mr. John Maynard Keynes also urges reduction of unemployment through cutting foreign investments and increasing investments at home.

But the *Balfour Committee Report* recommended an increase in capital exports, using the activity of American capital abroad as one reason: “We think it would be dangerous, even if on other grounds it were practicable or desirable, for Great Britain to abdicate its function as an investing country, and to rely, for example, upon American capital for the pioneer work which is necessary in many parts of the world if our future supplies are to be ensured. ... It seems clear to us that full employment in our exporting industries, having regard to their character and extent, can only be attained in the near future if there is a substantial increase in the export of capital.”<sup>21</sup>

Actually the domestic need for capital to rationalise industry has been so great as to produce an inevitable decrease in the proportionate share of capital flowing outward. Whereas new capital issues floated in the United Kingdom in 1913 were divided, 82 per cent foreign and 18 per cent for domestic purposes, in 1928 foreign issues represented 40 per cent and domestic 60 per cent.<sup>22</sup> In the last five years home industry has absorbed twice as much new capital as in the five years before the War. The pre-War average was \$166 million, compared with the present annual average of \$342 million (adjusted values).<sup>23</sup>

Despite this increase, absolute and relative, in domestic investments there is still the domestic credit shortage of which Mr. Keynes and so many others complain. The basic problem, however, is not financial but industrial, and no amount of extended credit could entirely solve it. British heavy industry cannot obtain “enough” new capital because it is not a good investment. Hence some British heavy industrialists themselves send their money abroad rather than turn it back into their own uneconomic business. As the *Balfour Committee Report* states: “The weight of the evidence of representative traders and trade associations was to the effect that there is no lack of loan capital available for the use of British industry, at moderate rates of interest, *provided that reasonable security is forthcoming* [Italics mine]. ... It is clear, therefore, that, particularly in the case of the great basic industries of cotton, steel, and coal, failure in dividend-earning power has made it impossible for them to get additional capital from the general investing public, while their capacity to furnish security for advances which a bank would consider adequate has been seriously impaired.”<sup>24</sup>

All of which comes down to the point that some British basic industries, relatively speaking, are

hardly worth owning, and that the newer British industries such as electric power and public utilities which have an investment future are being bought by Americans. This can happen, of course, only because British capitalists prefer to put their money in the colonies where “slave” labour in mines and on plantations will earn them fat profits. *Thus the nice question arises as to which is the better British “patriot,” the British capitalist who leaves British labour in the lurch so he can make bigger profits in backward countries, or the American “invader” who provides capital to electrify British homes and industries?* Even in the United States, where the capital surplus is so much larger, there is some opposition to foreign industrial investments. Here the reasons are not so much financial, except in the case of the farmer who has difficulty in obtaining credit, as a matter of trade competition. Thus President John E. Edgerton of the National Association of Manufacturers: “Our American banks have undertaken to finance our competitors abroad and certain industries in Germany have been entirely rehabilitated by American finance. ... I don’t want to attack the Golden Rule, but I believe it is best for America to maintain the integrity of its own institutions first.”<sup>25</sup> Also the American Federation of Labour officially expresses its fear that American foreign loans and investments are financing foreign competition which will cause more unemployment and lower wages in this country. But American Government officials, bankers, economists, and manufacturers drawn into export trade, are agreed that foreign loans and direct foreign business investments are necessary to American prosperity. Of course, no American manufacturer or worker who faces direct competition from an American low-cost factory abroad can be expected to approve that particular aspect of America’s role as a creditor nation. But considering that less than \$750 million out of almost \$7,000 million of American investments in foreign securities in the last five years have gone into enterprises which compete directly with American industry, this factor has not as yet become an important one for the United States.<sup>26</sup>

It is a very serious issue, however, for British labour; for instance, the unemployed textile worker whose job has been taken by the coolie workers in British mills in India and China. The Briton who cannot find work because the home factories and mines are running only part time, does not want to see the rich sending their money out of the country for foreign investment—it is like taking bread out of his mouth.

### THE WHITE MAN’S BURDEN

To strike a balance of the effect of that form of economic imperialism known as “the white man’s burden” or the exploitation of colonial regions is not easy. The natives usually are exploited without stint and receive few of the benefits of that “civilisation” in the name of which they are made to sweat and suffer. To the people of tropical Africa, British and American investments mean the loss of their land and their personal freedom. It means some form of disguised slavery, forced labour of one kind or another. Conditions vary, being worst perhaps in certain Portuguese areas and under the British in Kenya. But as Mr. Raymond Leslie Buell has revealed in his authoritative study of *The Native Problem in Africa*, conditions are bad enough under the Americans in Liberia. It is charged that the notorious African plantation system, in which the black man



must work for the foreign capitalist whether he wants to or not, is being adopted in modified form under the Firestone rubber concession—and with the tacit consent of the United States Government.<sup>27</sup>

Our Government is no more interested than Britain is interested in protecting rights of foreign labour of American capitalists in its own colonial possessions and protectorates, or in any other foreign countries. It is as interested as the British Government—or even more than a British Labour Government—in protecting the property rights of capital. In some cases in the past, as in Mexico, the State Department has been interested in protecting property rights which Americans did not possess and in defending titles which would not stand either in a native or in an American court.

The Washington Government, however, has had neither the opportunity nor urge to undertake such large scale colonial exploitation as the British achieved in Asia in the last century and upon which they are now embarking in Africa. To the United States in the present stage of its development there is no occasion for that type of African adventure which the British consider essential. Nevertheless the United States to counter British moves in the Panama Canal region has recently taken a new interest in the Suez and road-to-India area. Thus an American minister has been sent to Abyssinia, where the British formerly acted for us. An American engineering firm has obtained the contract for the Lake Tsana dam, which will control the Nile waters upon which depend the Soudan and Britain's plan to escape from the American cotton monopoly.

Built as a colonial political Empire, Britain now turns to find in Africa what she is losing in the transformed Dominions. The Cairo-to-the-Cape railroad is almost a reality. The Prince of Wales has toured Africa. Things are moving. That this will profit British capitalists is obvious. But that it will benefit the British people is not so clear. If the British people are still intent upon world empire perhaps such a new venture in imperialist expansion is justified, though it is unlikely that the whole of Africa slaving for Britain could make her supreme again. Certainly Britain, like any industrial nation, must have raw materials now locked in undeveloped countries. But in view of nationalist revolt in the East in recent years, it would seem that the "white man's burden" method is apt to be the most expensive way in the end for Britain or for the United States to get at the natural riches of those territories.

In this the United States has the advantage. When America came of age other Powers already had divided most of the colonial areas among themselves in spheres of economic and political influence. A more enlightened policy for the United States was dictated not only by humanitarianism but by commercial expediency. Hence the Open Door policy of the United States, by which we demand for ourselves in other lands that equality of economic opportunity which we sometimes neglect to grant to foreigners within our own colonial areas. And we do have a territorial empire and colonial problem, though smaller than Britain's.

The programme of the British Labour party out of office, and presumably also to some extent in office, would indicate that the British people are more concerned than Americans in finding a better solution of the colonial problem. They at least are thinking in economic terms, and we are

not. About all we can see is that politically our foreign subjects are treated fairly well--“better than the British do,” as we say. But we have no understanding of the economic consequences of American imperialism to the worker in the Hawaiian or Cuban sugar fields, or to the Porto Rican and Philippine peon, much less to the Mexican in Yankee mines or the Venezuelan driving the American oil wells of Maracaibo.

The average American has profited somewhat by economic imperialism of the American investing class--profited, of course, at the expense of the colonial victim. The “newer capitalism” of post-War America has operated somewhat differently than the old British system. The following description by Mr. H.N. Brailsford, in *Olives of Endless Age*, of what has been happening in Britain does not fit the American situation: “The internal market was starved, because the industrial system, in its struggle for profits, limited the purchasing power of the masses, so that the wages which they had to spend could never keep pace with the growing output of the machines. Since, by this policy of low wages, the industrial system limited its own internal market, it was driven to enlarge it by conquest. Toward the middle of the last century, it began to export capital as well as consumable goods. By this expedient it kept capital relatively scarce, in spite of its rapid accumulation. The rate of interest was thus preserved against a natural fall, and the passive owners kept their rewards high by comparison with those of the active workers. The leisured and privileged class was all the while erecting, in Asia and Africa, buttresses and bulwarks for the social and political privileges which it retained at home.”<sup>28</sup> Britain has not yet emerged from that low-wage starved domestic market system.

But in the United States, first under War necessity and labour shortage, and then under the **Ford-Hoover high-wage philosophy**, the efficiency of the capitalist system has been increased to the point where the masses receive somewhat more real wages--though not a larger share of the total increase in industrial profits. This system, unlike the British, instead of starving the home market has stimulated it. The size of the middle class has been extended. This middle class has become an investing group. It has bought foreign bonds, and stocks in American companies operating abroad.

Thus a much larger proportion of the American population than of the British has a direct stake in foreign financial penetration. The popular support of British imperialism arises from the geographical factor of insularity and insufficient food and raw materials. In America the popular base of economic imperialism is the greed of large numbers of petty investors and speculators or would-be investors and speculators.

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1. Press release, May 16, 1929.
  2. *Report of the Liberal Industrial Inquiry*, *supra*, p. 28.
  3. *Commerce Reports*, May 13, 1929.
  4. *New York Current History*, December 1928.
  5. Commerce Department, *American Underwriting of Foreign Securities in 1928*, p. 12.

6. Cf., address on "Installment Selling for Export," by E.G. Simons, American Foreign Credit Corporation, New York, at the National Foreign Trade Convention, Baltimore; press release, April 17, 1929.
7. *Frontiers of Trade*, *supra*, pp. 172-173.
8. *New York Times*, Feb. 15, 1929.
9. *New York Wall Street Journal*, Nov. 19, 1927.
10. P. 58. Cf., also p. 64.
11. *New York Herald Tribune*, April 7, 1929.
12. *New York Times*, March 31, 1929.
13. Quoted by *New York World*, April 2, 1929.
14. *New York Times*, July 17, 1929.
15. —, Aug. 6, 1929.
16. *New York Herald Tribune*, Oct. 27, 1929.
17. This Ashley quotation, and the following from Birkenhead, are taken from Washington *Editorial Research Reports*, April 1, 1929, "American Investments in European Industry," pp. 263-264.
18. Feb. 21, 1929.
19. P. 50.
20. Pp. 44-45.
21. P. 44.
22. *Commerce Reports*, Feb. 18, 1929, p. 394.
23. McKenna estimates, Midland Bank report for 1928, as quoted by *London Times Weekly*, Jan. 31, 1929.
24. Pp. 47, 51.
25. *New York Times*, Dec. 10, 1927.
26. Cf., study on this subject by Stone and Webster, quoted in the *New York Wall Street Journal*, Dec. 12, 1928.
27. Cf., Chapter IX.
28. Pp. 282-283.

## America conquers Britain

*Chapter Seven**THE WORLD IS CHAINED TO WALL STREET*

THE LONDON AND Washington governments are closely identified, even to the extent of interchangeable personnel, with the private interests representing export capital.

Mr. Brailsford, in his book on imperialism quoted above, describes this identity of export capital and government in Britain: “When once the government of a great Power has habitually, in its thinking and in its actions, identified the national interests with the interest of exported capital ... it becomes **the mouthpiece of the *rentier* class which lives upon these profits, and of the bankers, promoters, entrepreneurs, contractors, and merchants who direct the stream of its investments.**

The ruling class in England is as completely identified with these groups which guide the flow of Imperial capital, as it was once with the landed interests. The late Lord Milner, who once controlled the public finance of Egypt, became, some years later, the chairman of the Anglo-Egyptian bank. The younger brother of a duke served as a high official in the Foreign Office, quitted it to become a director of an oil company, and thereafter sat in the Tory Cabinet. Imperial policy is decided in a little social world in which men pass alternately from official to commercial positions, and spend their lives with guests, and hosts and clubmates, whose incomes depend on the yield of the holdings in Indian mills, Chinese banks, and Soudanese irrigation schemes.” [1]

Here are ten high British Government officials most of whom have more or less left political life to become leaders in British Empire key industries, and are fighting, as we shall see in later chapters, American penetration in England and American rivalry abroad.

Lord Birkenhead was Solicitor General, Attorney General, Lord Chancellor, Secretary of State for India. Now he is on the boards of Imperial Chemical Industries, Johannesburg Consolidated Investment, Tate and Lyle (sugar-refining), Greater London and Counties Trust (public utilities).

Lord Reading was Solicitor General, Attorney General, Lord Chief Justice, President of the Anglo-French Loan Mission to the United States, Special Ambassador to Washington, Viceroy of India. He is now director of several newspaper corporations and chains, Palestine Electric, London and Lancashire Insurance, National Provincial Bank, Financial Company of Great Britain and America, Imperial Chemical Industries.

Mr. Reginald McKenna was Financial Secretary to the Treasury, President of the Board of Education, First Lord of the Admiralty, Home Secretary, Chancellor of the Exchequer. He is now chairman of the great Midland Bank, and director of Canadian Pacific Railway, Clydesdale North, Yorkshire Penny Banks, Sun Life Assurance of Canada, Council of the Corporation of Foreign Bondholders.

Sir Robert S. Horne was Assistant Inspector General of Transportation, Admiralty Director of



Materials, Admiralty Director of Labour, Civil Lord of the Admiralty, Minister of Labour, President of the Board of Trade, Chancellor of the Exchequer. He is now chairman of the Burmah Corporation, Zinc Corporation, National Smelting, and director of Suez Canal Company, Great Western Railway, the Underground, Commercial Union Assurance, Lloyds Bank.

Mr. F.G. Kellaway was Parliamentary Secretary to the Ministry of Munitions, Secretary to the Department of Overseas Trade, Postmaster General. He is now director of A.D.C. Aircraft, and managing director of Marconi's Wireless Telegraph, Marconi International Marine Communications and the moving genius in the new empire merger and monopoly, Cables and Wireless- Imperial and International Communications.

Sir A.S.T. Griffith-Boscawen was private secretary to the Chancellor of the Exchequer, Parliamentary Charity Commissioner, Parliamentary Secretary to the Ministry of Pensions and to the Board of Agriculture, Minister of Agriculture, Minister of Health. He is now director of Johannesburg Consolidated Investment, General Co-operative Investment Trust, Rhodesia Broken Hill Development, Manx Electric Railway, Loangwa Concessions.

Sir Auckland Geddes was Director of Recruiting, Minister of Reconstruction, President of the Board of Trade, Ambassador to Washington. He is now chairman of Rio Tinto Mines, and director of Friars Investment Trust, Pyrites Company.

Sir Eric Geddes was Director General of Munitions Supply, Director General of Transportation, Director of Military Railways, Minister of Transport, First Lord of the Admiralty, Chairman of the Committee on National Expenditure. He has since been chairman of the Federation of British Industries, and Imperial Airways, and is now chairman of Dunlop Rubber and allied companies.[2]

When the Tory Government fell in 1929, several of its members went over to commerce and finance, including the Foreign Minister, Sir Austen Chamberlain, and the War Minister, Sir Laming Worthington-Evans, both of whom joined Lord Birkenhead on the public utilities board of Greater London and Counties Trust. Former Prime Minister Baldwin heads one of Britain's great industrial families.

#### THEY CALL THEM "ADVISORS"

Interchange of personnel between government and big business is even more characteristic of the United States than of Britain. Headed by Secretary of the Treasury Mellon (magnate in oil, aluminum, steel, coal, banks, and one of the three or four richest men in the country), half of the members of the Coolidge Cabinets represented large commercial interests, as do two-thirds of the Hoover Cabinet. Mr. Hoover has long been a man of world-wide business interests and great wealth. Mr. Charles Evans Hughes, after fighting the diplomatic battles of the oil companies and other export capital as Secretary of State, resigned to become an attorney for such interests, including Standard Oil. Perhaps most of our Cabinet members and assistant secretaries, who are not too old, become active business directors on leaving office.

Mr. Dwight Morrow, partner in the House of Morgan, became ambassador to Mexico to

negotiate settlement of the land, oil and debt disputes with which his bank is associated. There is a gentleman who has served in a high capacity at the State Department handling Latin American affairs, who for several years has changed back and forth from diplomatic to commercial employment; one month he would be handling a case with a foreign government as a State Department official, some months later he would be in that foreign country representing the American business interests, later he would bob up again at the State Department. It is not unusual for American diplomatic officers in the field to leave the Government service for employment with bankers interested in the foreign country to which they have been officially accredited—as happened recently in Nicaragua. The dominant group in our professional diplomatic service are men of great wealth. There is a smaller group of unusually brilliant and scholarly men, usually not rich, who are rapidly drawn away from the State Department by Wall Street interests with large foreign business. These men also, after leaving Washington for New York, sometimes return on leave of absence from a bank to serve for two or three months at the Department, after which they return to the bank. As Secretary of Commerce, Mr. Hoover considered it his function not only to train an effective corps of commercial attaches for foreign service but made that service in part a training school from which government agents graduated to the foreign service of American banks and corporations.

So to-day, from the banker, Mr. Dawes, in the premier diplomatic post at the Court of St. James, on down to the smaller countries, our diplomatic and commercial foreign service has a very close relationship with the interests of export capital. Of course this hook-up is natural, considering that we are a commercial nation and that our empire is not so much territorial as economic.

Both the London and Washington governments take direct and open interest, sometimes even control, as we have seen, in the business of private loans and investments abroad. British private loans to the Dominions are properly considered by the London Government as of political consequence. They tie the Dominions closer to the homeland. Thus they are to be encouraged, and American loans to the Dominions are to be discouraged. Not that London is very successful with this policy. Canada has long since fallen out of line, and Australia more and more is going to New York for her funds despite London's displeasure. The United States Government pursues the same policy in regard to our foreign possessions, and is successful—though the analogy in this case is with the British colonies rather than with the Dominions. Similarly the two governments apply this policy in the case of protectorates and quasi-protectorates, such as Egypt, Nicaragua, Panama, Cuba.

There is also an indirect type of political control exercised by the United States through financial arrangements, treaty officials, customs receiverships and the like, in Caribbean countries. In 14 of the 20 Latin American republics, there is some form of fiscal, political, or military power wielded by the United States, which in virtually every case is based on American loans and investments.

Then there is the system of financial “advisors,” under which foreign governments call in American experts to reorganise national finances. Nominally the United States Government has no connexion with this system; but actually it has great influence, for in all such cases the action of the foreign government is mixed with political motives. American experts are appointed not

because they are better than any other, say, than British experts, but because the foreign government which reorganises its finances on the plan of an American mission thereby achieves a higher credit and political position in the eyes of New York and Washington. If the great Powers in handing the reparations settlement over to experts found it expedient both times to pick an American chairman, how much more natural that smaller nations standing alone should symbolise their present and future dependence upon the favour of New York and Washington by picking American financial advisors. Ecuador, for instance, in 1928 obtained United States diplomatic recognition after carrying out recommendations of an American financial advisor. These American advisors have served in about 25 foreign countries. Some, like Dr. Edwin W. Kemmerer, Dr. W.W. Cumberland, Dr. A.C. Millspaugh, have made this almost a separate profession. Dr. Kemmerer in 1929 headed the financial mission employed by the Chinese Government, a mission whose work will be of undoubted political and diplomatic as well as financial significance.

This system is perhaps best described by Dr. Kemmerer who says that in eight of the 10 countries served by him “questions of foreign loans and of foreign loan policy were involved.”<sup>[3]</sup> He gives the following reasons why foreign governments choose American rather than native or other foreign advisors: “the belief that the United States is comparatively free from ambitions of political aggrandisement, particularly in Europe and in the Orient; the economic and financial prosperity of the United States in recent years; and the desire to attract American capital. ... The unjustified popular belief so widely found in Latin American countries that the United States is seeking by every means in its power to extend its sovereignty over the entire Western Hemisphere has on more than one occasion been responsible for the appointment of European advisors by Latin American countries.” Despite this fear, however, a dozen Latin American countries have chosen American missions in the last decade, Kemmerer himself heading six of them.

These American advisors naturally are close to the State Department. Some of them indeed change back and forth between service at the State Department and such service with foreign governments. Mr. Arthur Nicholls Young, who was financial advisor to Honduras, later became chief economic officer of the State Department, from which he resigned to become a member of the 1929 financial mission to China, and from which he may return to the State Department. Dr. Cumberland was an economic expert with President Wilson at the Paris Peace Conference, economic officer of the State Department, fiscal dictator of Peru, customs receiver and financial advisor in Haiti. Mr. Charles S. Dewey resigned as Assistant Secretary of the Treasury of the United States to become American advisor to the Polish Government to carry out the reforms outlined by an earlier American mission. Mr. S. Parker Gilbert left the United States Treasury Department to become agent-general for German reparations. America’s financial and political world power, responsible for the choice of these Americans by foreign governments, is in turn multiplied by their positions and services.

Britain for the most part has given up trying to interfere with this system of American advisors, which has extended to almost half of the countries of the world. The London Government by

intrigue was able before the War to get Mr. W. Morgan Shuster, American financial advisor to Persia, out of that country. More recently certain British officials helped to make impossible the position of Dr. Millspaugh, as administrator-general of Persian finances. British officials tried to prevent Persia from appointing an American oil advisor. Elsewhere the British apparently take the appointment of American advisors with somewhat better grace, especially in places where London's opposition would be unsuccessful.

### THE CHINESE PUZZLE

That an American, rather than a British or international, commission is outlining the economic and financial reorganisation of Nationalist China is significant. China is one of the richest remaining major fields for foreign financial exploitation. Chinese financial history in the last 50 years has been a series of battles and armistices among foreign capitalists for control. America has had the disadvantage of getting into the scramble late, and the advantage of having gained thereby somewhat less Chinese ill will. Before China can obtain the large loan desired by the Nationalist Government for purposes of reconstruction and modernisation, she must come to terms with the Powers regarding old debts. That may involve co-operative action on the part of the Powers leading to some kind of joint agreement. But behind that front of international co-operation, Anglo-American financial conflict for supremacy in China continues. This conflict is magnified because the bulk of old British loans are secured by the railways, salt tax revenue, and other resources, while the American loans are not secured. There is also a lesser internal American conflict between financial and industrial capital, the former representing outright loans and the latter credits for materials, chiefly railway.

As in the past, much of the Anglo-American manoeuvring for position now turns on the railways with 500 miles of construction as the prize. The Nationalist Government desires \$600 million of railway reconstruction and extension loans to run for a period of 10 years or longer. It wants to give this business to American bankers and companies. As a first move Nanking in 1929 appointed an American, M. J.J. Mantell, as consulting manager of the government railways. But so long as the old international Consortium stands as the official medium of the United States Government, American bankers must permit participation by the British (and by the French and Japanese in lesser degree) in any such Chinese financing.

In Manchuria and Japan the situation is different. There political aspects of foreign financing are even more a determining factor than in the case of China south of the Wall. Hundreds of millions of dollars will be required for the development of Manchuria. The railroads of Manchuria caused one war, and in 1929 threatened to cause another. The United States has a financial claim against the Chinese Eastern Railway, the road over which Russia and China are disputing. Under the "international" operation of the road in 1919-22, an American was operating manager and the United States extended loans, still unpaid. For several years political complications have held up a \$30 million South Manchuria Railway loan. That road is the key to Japan's economic and military domination of the province. Hitherto the United States, despite its



treaties with China and its nominal Open Door policy, has in fact recognised Japan's "special interest" in that nominally Chinese territory.

American hands-off policy toward Japanese imperialism in Manchuria is the price of the growing Japanese-American accord, which American diplomatic and naval officials have developed as America's "ace in the hole" in event of war with Britain. To break the Anglo-Japanese alliance in fact as well as in name, the United States at the Washington Arms Conference agreed to give up the right to build naval bases at the Philippines and Guam. At that time the United States granted Japan a capital ship ratio making her superior to the United States in any battle in Japanese waters (due to the distance from bases the American ratio of 5-to-3 would be reduced in fact by one-half as compared with the Japanese navy, if the latter were fighting close to its own bases). With the exception of one period of a few months, since the Washington Arms Conference the Japanese-American accord has grown, until now the United States has a tacit understanding with Tokio under which the latter in the proposed naval agreement on cruisers and other auxiliary ships will be given a larger ratio.

No real cause of friction remains between Washington and Tokio. Artificial friction between the two peoples is created by the insult of our immigration laws. Tokio, however, is willing for the United States to exclude Japanese under the quota system applying to European nations, which if applied to Japan under the law would admit only about 200 Japanese annually. Both governments (though not Congress) are in agreement as to the solution of this problem, which is a popular issue in both countries but which in no way restricts the close accord of the two governments themselves.

To make that accord doubly sure Japan would create a situation in which the United States would underwrite her imperialistic Manchurian policy. For, though Washington has caused Tokio no embarrassment hitherto, Manchurian conditions are unsettled and the future in doubt. The traditional Russian-Chinese-Japanese struggle there has been resumed. The 1929 flare-up is a standing warning of sudden and general war in that region. Meanwhile the Chinese are undermining Japanese dominance there in the only manner possible to a people weaker in military strength; that is, by peaceful penetration. By sheer numbers Chinese immigrants from south of the Wall are slowly regaining for China its richest province. Thus the time may come soon when Japan will need not only the negative but also the positive diplomatic support of Washington in Manchuria. Hence the proposed South Manchuria railway loan. Japan reasons, and rightly, that American public sentiment, by tradition vehemently insistent on the rights of China against foreign aggression, will be somewhat less intent on "making the world safe for democracy" in Manchuria if American money is in that Japanese railway and its subsidiary industries.

Here, then, is a striking example of the inter-connexion between loans and foreign policy, upon which hang issues of diplomatic and naval alliances, of foreign imperialism, and of peace and war. When this loan was first arranged between the Japanese Government and the House of Morgan, Secretary of State Kellogg gave his approval. Thanks to the press, the American public came to a quick realisation of the issues involved. As a result of popular protest, the State

Department's approval was withdrawn, in form at least. Since then the loan agreement has waited in a pigeon-hole until there is a more auspicious moment for its reappearance. New York and London bankers divided equally the 1929 yen stabilisation credit of \$50 million to the Tokio Government.

#### THE STATE DEPARTMENT HOLDS THE MONEY BAG

The State Department is very sensitive over the part it plays in foreign financing operations of private American interests. On several occasions responsible Washington officials have defined that relationship. American bankers are required by the State Department to submit to it in advance all of their proposed foreign loan contracts. This requirement was explained by Secretary of State Kellogg in his address before the Council of Foreign Relations, December 14, 1925, as follows: "The object of this was that the Government might state whether it believed certain loans were, or were not, in the public interest, such as loans for armament, loans to countries not making debt settlements with the United States, or loans for monopolistic purposes. The Department has received notice of a great many loans to foreign governments, municipalities, and industries. It has objected to loans to countries which have not settled their debts with the United States, as it believed that it was not in the public interest to continue to make such loans, and it has objected to certain loans for armament and the monopolisation of products consumed in the United States. The Department has not assumed and could not assume to pass upon the validity of loans or the security."

Dr. Young, then economic advisor of the State Department, in an address on January 15, 1925, denied the charge that State Department approval of such loans implied their protection by American military force—a charge made in connexion with American military intervention in such countries as Nicaragua receiving American loans: "Nothing is further from the truth. No such promise has ever been made nor can any one cite an instance in which the American Government has used armed force for the purpose of collecting unpaid bonds held by American citizens."

There is, of course, no way to ascertain the relative importance of financial, political, and naval strategy as motives impelling American marine intervention in Nicaragua, Haiti, and other Caribbean countries. Doubtless naval strategy, and the fundamental foreign policy of all Washington administrations that the Caribbean is and must always remain an American lake, have been more important factors in determining Washington policy than Wall Street's interests in those countries, which are so small compared with our total foreign investments. But after all, our Caribbean-Panama political and naval policy itself arises from larger economic motives conditioning our expansion as a commercial empire. Thus the endless argument between American liberals and imperialists as to whether foreign loans are directly responsible for our frequent adventures in marine intervention in that region is beside the point. The fact that we do intervene in those countries is tremendously significant; the official excuse given, or indeed the actual immediate cause, is inconsequential compared with the basic and permanent economic

cause.

But the Washington Government's attempt to use private loans as a club to force foreign governments and industries to conform to its desires is restricted except in the case of weak countries or weak foreign industrialists. The reason in part is British or other foreign credit competition. Just as Britain cannot use her financial power now as in the days when she had a virtual monopoly as world banker, so the United States has to use its credit club with discretion. The American club is effective if at all only in two types of cases: in Caribbean countries, where Britain does not dare interfere, and in outlawed countries such as Russia, where Washington and the London Tory Government joined temporarily in a virtual credit boycott for the protection of their common capitalist interests.<sup>[4]</sup> While the Washington Government has not been able to recognise the Communist dictatorship in Russia, it has not been so squeamish about dictatorships elsewhere. To mention only a few, American bankers have underwritten with State Department approval such dictators as Machado in Cuba, Leguia in Peru, Pilsudski in Poland, Horthy in Hungary, Mussolini in Italy, and Borno in Haiti. Only when dictators have refused to reach satisfactory agreements with American capital, as in the case of Roumania, the State Department has not been friendly to such loans.

The Hungarian case is interesting because the State Department braved public wrath in barring from this country former President Károlyi upon unofficial representations of his enemies of the Horthy dictatorship. The *New York World*, October 21, 1928, published an interview with a "spokesman" of financial interests to the effect that the Hungarian monarchy would not be restored as announced by Premier Bethlen because "Count Bethlen knows the bulk of the money put up by the financiers was placed conditionally upon the continuation of the [Horthy] regency, and that any violation of the agreement would not only halt any future investments or loans, but cause the recall of the bulk of that already in the country [estimated at upward of \$200 million]." The *World* story continues: "That there will not be any change in the Hungarian Government also is the view of Ralph Beaver Strassburger, financier, number 60 Broadway, who is a member of the American group of Hungarian investors. He is in close touch with Budapest and goes there every year." Mr. Strassburger, a former member of Congress, is a power in the Republican Party.

Mussolini was granted by the Washington Government a cancellation of 80.2 per cent of Italy's debt and then was given a New York loan as a reward for accepting the cancellation or so-called friendly agreement—this by the same Washington Government which refused to grant similar terms to the British Government. "The Fascists have managed to survive thus far by contracting more than \$450 million of debts in America which are guaranteed by the best of Italian industries," as former Premier Nitti, now an exile, points out.<sup>[5]</sup>

The relation of the State Department to such private loans having direct international political consequence is not covered by that explanation of former Secretary Kellogg, quoted above. But he raises other interesting questions.

Take his statement that the Department "has objected to loans to countries which have not

settled their debts to the United States, as it believed it was not in the public interest to continue to make such loans, and it has objected to certain loans for armament and the monopolisation of products consumed in the United States.” Referring to the ban on private American loans to foreign monopolies, the Secretary doubtless had in mind, among others, the Department’s refusal to approve the proposed New York credits to the Franco-German potash cartel and to the Brazilian coffee monopoly. At about the same time Chile, which has a monopoly in natural nitrates, had difficulty in obtaining a Wall Street credit.

But in none of these cases was the Department able to enforce its private credit boycott. In every instance the money was obtained elsewhere.

Especial interest attaches to the potash case, because Washington’s ban was prompted by political expedience with an eye to the farm vote, and was in conflict with the financial interests of Wall Street. The Franco-German potash deposits are not a world monopoly.<sup>[6]</sup> Germany in negotiating for the loan was prepared to regulate prices on a margin of so-called reasonable profit. She argued that the cost of financing potash credits in Europe would be so high that it would inflate prices which the American farmer would have to pay for fertilisers. If long-term low interest New York credits could be obtained, the German industry could then afford to stabilise export prices at a relatively low figure, it was argued. Germany also pointed out that she was importing more than \$300 million worth of American agricultural products annually, but in return was selling the United States less than \$8 million worth of potash. With elections coming on, however, in which the farm vote might be a determining factor, and with its general policy against the British rubber monopoly to be vindicated, Washington could not afford to listen to the pleas of Wall Street, which desired through the potash loan to extend its penetration of one of the most powerful industrial units in Europe.

Assistant Secretary of Commerce Klein in his *Frontiers of Trade* points out that Congress may pass retaliatory laws against foreign raw material monopolies if American bankers fail to execute the Department’s boycott, as some American bankers did defy the Department through their indirect participation with European bankers in the potash and coffee loans: “The bankers have alleged that this position did not prevent the potash and coffee interests securing adequate funds in Europe in which it was reported, indeed, that some American participation was actually arranged. Thus, they allege, the intentions of our Government were completely frustrated, and only ill will toward us was engendered in Brazil, Germany, and France. Regardless of whether that was or was not the case, or whether enterprises operated with such loans would encounter our anti-trust laws (as happened in the Sielcken coffee case shortly before the War), it has been clearly demonstrated during the debates in Congress, and in the discussions in trade circles and among large consumer groups, that any direct American financing of such oversea monopolies would immediately arouse the bitterest resentment here and would be certain to stimulate legislation which might become most regrettably extreme in its reactions upon all of our oversea financing.”

[7]

Mr. Kellogg’s second reference was to the ban on loans to nations refusing to fund their War debts to the United States. This boycott also has been ineffective. Wall Street, unwilling to be



thus handicapped in its credit competition with London, has forced the State Department to give what is called a "broad interpretation" of the rule. Mussolini, as we have seen, entered into a three-cornered deal which saved the Department's face, gave Wall Street the business it wanted, and buttressed the Fascist regime. (The large private loan obtained by Mussolini in connexion with his signature to the government debt-funding agreement, was unloaded by New York on the American public only with the greatest difficulty.)

France and Greece, which refused to fund their War debts, though shut out of the New York money market for a while by Washington, in the end obtained American credits directly and indirectly through Europe.

Behind these cases of Wall Street's indirect sabotage of the Washington embargo policy is the sharp conflict between the interests of the United States Government as a creditor of European governments, which say they cannot pay, and the interests of the House of Morgan and other New York bankers, who are also creditors of those same European governments and who intend to be paid in full, as we shall see in examining the general War debt question.

The third specification by Secretary Kellogg was that the Department "has objected to certain loans for armament." Nor has this objection been effective. The rub again is that it interferes with Wall Street business. All governments are spending money for armament, and in the eyes of other nations those expenditures are excessive. It is easy enough, of course, for Washington as a gesture to ban direct munitions loans-though in the case of a foreign government which it wishes to support, it will encourage the sale of American munitions as it did to Nicaragua and Mexico (if necessary selling such foreign governments old U.S. army stocks which the War Department wants to get rid of). But to ban direct armament loans means nothing. A foreign government requests a private American loan nominally for some other purpose, and transfers its own money from that fund to its armament budget. Certainly the American Government embargo has not prevented foreign nations from obtaining money in New York with one hand and increasing their armies and navies with the other hand.

Bolivia is a case in point. After receiving in September 1928 a New York loan of \$23 million for refunding, for railway construction and "for other purposes," in December she began a frontier "war" with Paraguay. Suddenly she was revealed to be surprisingly well armed. An American investigation revealed the arms came from Vickers of England. She was so well armed, indeed, that she threatened to withdraw her delegates to the Pan-American Conference on Conciliation and Arbitration, which luckily happened to be meeting in Washington at that time. American control was effective, but not in the matter of credit embargo. Bolivia had obtained her loan and her arms. That had displeased Paraguay. Reporting a statement by the Paraguayan Charge d'Affaires, the *Washington Post*, December 17, 1928, said: "Loans floated in the United States by Bolivia, Dr. Ramirez declared, have been used in large part to purchase armaments with which to make preparations for war with Paraguay." A war, however, was contrary to interests of the United States Government and its Pan-American Conference. It was also detrimental to American tin and other business and banking interests which have investments there of \$110 million. They have loan contracts with Bolivia, giving them first lien upon "all import duties, all

export duties, the tax upon mining claims or concessions, the revenues received by the Republic from the alcohol monopoly, the tax on corporations other than mining and banking, the tax on interest on mortgage credits, the tax on the net profits of mining companies, surcharges on import duties and majority control of the Banco de la Nacion Boliviana.” Their financial control is exercised through a fiscal commission, the majority of which is named by them. As we shall see later, the United States’s primary interest in Bolivia is her wealth of tin, which is America’s weapon against Britain’s attempted tin monopoly. So when the very belligerent and nominally sovereign state of Bolivia decided to go to war, the United States Government and business interests decided that Bolivia would not go to war. The American minister in La Paz received a curt message instructing him to use his “influence”—and Bolivia did not go to war. Instead she submitted her dispute, as the United States insisted she do, to the Pan-American commission presided over by the American General McCoy, who had just returned from “pacifying” Nicaraguan objectors to Yankee military occupation.

So Bolivia got her loan, part of which she used for munitions, despite a State Department ban on armament loans; the New York bankers got the credit business they desired; and Bolivia got deeper into the control of Americans. But Bolivia did not get her war because it would have been against the larger political and commercial interests of the United States. [8]

This attempt to determine the policies and destinies of other nations, even though it happens to be in the interests of peace, does not make the United States or its use of foreign credits popular. It is one thing to interfere with a country like Bolivia. It is quite another for our Government to set itself up as a moral judge of how France or another Power shall spend money. Quite naturally the European Powers, as well as the smaller Latin American states, see in such use by the United States of its tremendous financial strength a menace to their freedom as sovereign nations. And the fact that the United States Government has not been very successful in enforcing its credit embargo policy has in no way mitigated foreign hostility to its efforts.

Are such fears justified? This raises the question of the extent of America’s present financial world control and the related question of that interdependence of nations which places automatic restrictions and responsibilities upon such a Power as the United States in its use of foreign credits.

The post-War period is filled with instances in which apparently stronger nations have had to forego selfish demands on a weaker state because an injury to one turned out to be an injury to all. Such was the slow lesson learned by the Allies in exacting reparations from Germany. Such was the lesson learned by the United States when it was forced in self-protection to assist European nations back upon a gold basis. So in most major international financial operations, such as a Dawes or Young reparations agreement or in the stabilisation of international exchange, there is no choice other than to co-operate. In a large sense whatever affects the economic conditions of one affects the other. And, as we have seen, it was this necessity laid upon the United States which was chiefly responsible for most of our foreign loans in the early post-War period.

## THE FEDERAL RESERVE RULES LONDON

The great financial power of the United States is not to be measured so much by our ability to enforce a specific loan embargo as by the direct and immediate effect upon the rest of the world of our domestic credit policy, bank rate, and gold supply. Many nations may laugh at our State Department. But all must tremble before our Federal Reserve Board.

High money rates in the United States early in 1929, for instance, forced an increase in the official discount rates almost at once in England, in 10 European countries, in two Latin American countries, and two in the Far East. And in almost every case that action restricted business and brought suffering to millions of foreign workers.

That blow hit Britain hardest of all. It checked her trade revival. As the *Manchester Guardian Commercial* March 7, 1929, commented: "The U.S.A. hold the trump cards, and the plain fact remains that 'Brother Jonathan' is in the position to dominate European markets, whether in stocks and shares or in metals and produce, while controlling the destinies of impecunious nations in regard to necessitous loans." Or as one British critic said: "It proves our bank [the Bank of England] is harnessed to Wall Street." Berlin bankers, as reported by the *New York Times*, February 8, 1929, "declare that it signifies defeat of England's purpose of restoring London to primacy as the world money centre. This wish is considered to have been largely responsible for the altogether too long retention of the 4½ per cent bank rate." Nevertheless the Bank of England, in the face of the most bitter criticism, was forced to raise the money rate to the highest level since the autumn of 1921 to prevent its gold reserve from disappearing—chiefly because there was a speculation orgy in Wall Street. As a result, the British Board of Trade index soon showed a decline in commodity prices, which the British correctly attributed "to the rise in European money rates owing to the necessity which devolves upon central banks to withstand the pull of high call-money rates in America." [9]

The London *Herald*, organ of the Labour Party, had correctly forecast that "more unemployment, a slump in trade and dearer living will follow inevitably the increase in the Bank of England discount rate from 4½, to 5½ per cent."

To prevent this, which was especially embarrassing on the eve of a British general election, Mr. Montagu Norman, governor of the Bank of England, hurried to the United States to obtain a large American credit to safeguard British gold reserves. He conferred with Secretary of the Treasury Mellon, with Federal Reserve Board officials, with Wall Street. But he failed to get the credit. There was nothing left to do but return to London and raise the bank rate to the disadvantage of British industry and British workers. Later in 1929 the British bank rate under Wall Street pressure had to be raised again, to 6½ per cent or the highest point in eight years.

At that time Mr. Snowden, Chancellor of the Exchequer, was explaining and lamenting to the Labour Party conference at Brighton: "Rise in the bank rate under existing conditions was the only means we had of restoring unstable exchanges and regulating the basis of credit. ... There has been, as you know, a perfect orgy of speculation in New York in the last 12 months. There must

be something wrong, calling for attention, when speculation 3,000 miles away can dislocate the financial situation here and inflict grave suffering on the workers of practically every country in the world.” When the New York bank rate was lowered, but not until then, London was able to reduce hers.

“The well-being of all of us, not only in England, but in all civilised countries, is affected by the good or bad management of the Federal Reserve system,” says the Hon. R.H. Brand, director of Lloyd’s Bank, London. “As a power for good or evil, there is no doubt that, owing to America’s superior economic strength, the Federal Reserve system stands alone.” [10]

“The problem of maintaining a stable world value of gold (in its effect on prices) is an international one. No one European country can do it by itself, although the United States is approximating to the position of being able to do it alone, because it is rich enough to stand the racket, when it is necessary to hold a mass of idle gold off the world market and treat it as non-existent,” according to Sir Josiah Stamp, director of the Bank of England. [11]

Sir George Paish put it more bluntly in his Mansion House speech March 30, 1926: “London no longer holds the great position it held before the War. We have to accept that London no longer holds that position; in pre-War days we could control the rate of interest practically throughout the world, we had our money in every country; it was only necessary for us to call money in to cause the rate of interest to rise everywhere, and the Bank of England rate controlled the rate of interest everywhere. That position is largely true, but not so true, to-day. It is true as regards the whole world, leaving the United States out. The United States to-day is the great creditor nation, lending to the world; and, if it calls its money in, it raises the rate of interest not merely on the Continent but in London.” [12]

London is thus harnessed to Wall Street, instead of having Wall Street and the rest of the world dragging at her heels as in pre-War days. Britain chose after the War to return to a gold basis. It was a question of being damned if she did, and damned if she didn’t. She chose the lesser of two evils. She chose, rather than abdicate entirely in favour of dollar supremacy, to put the pound on a basis where it could at least compete with the dollar. Settlement of the debt to the United States was thus necessary. “If we had postponed indefinitely either paying the 50 million pounds sterling or repudiating in the hope of getting a better bargain, we should never either on the one hand have made any progress in the restoration of the currencies of Europe, or on the other hand restored the credit of the City of London to where it stands to-day,” was former Prime Minister Baldwin’s justification of the settlement he made. [13]

To this day there is a wide divergence of opinion in England as to the wisdom of the return to a gold basis. Even the London *Economist* has intimated that the Bank of England and European Central Banks should liberate themselves from this bondage to American gold by reducing their present ratio of gold stocks to liabilities. But, having made its decision, it seems highly improbable that the Bank of England will reverse the policy which at such great cost is Britain’s only chance to compete with the United States for financial supremacy.



## SHYLOCK'S WAR DEBTS

One reason the United States has gone up in the scale of financial power and Britain and others have gone down is the Allied War debts to the United States. Those debts prior to funding mounted to somewhat more than \$12,000 million, of which the British was \$4,715 million. They represent in the first place Allied purchases on credit, before we entered the War, of foodstuffs, cotton, munitions, ships, and machinery. After the United States entered the War our Government took over the financing of such Allied purchases here. Allied goods were paid for by our Government with money obtained by taxation and the flotation of Liberty Loans. The debts were covered by notes of the foreign governments. The present value of the funded foreign debts on the basis of a five per cent interest rate is \$5,873 million, of which the British share is \$3,296 million, or at a 4.25 per cent rate, \$6,862 million, British share \$3,788 million.[14]

From every angle the problem of War debts is a difficult and disagreeable one. To the American people they represent obligations entered into in good faith by the foreign governments, which should be paid. To the citizens of the Allied countries they represent an inadequate compensation to the Allied cause for our belated entry into the War, and therefore should be cancelled by the United States with a feeling of shame that we are unable to do more to equalise our contribution with the larger sacrifice in lives and treasure made by the Allies. They think we got rich out of the War, and that collection of these debts is only added blood money. Hence they call us "Shylock."

These charges provoke similar recriminations by Americans. We deny that we grew rich from the War. President Coolidge computed that the War cost us more than \$36,000 million, or half the pre-War wealth of the country. He counted in such items as pensions for the future and debt carrying charges, as well as capital expenditures. Mr. Robert H. Brand, director of Lloyd's Bank, challenges these figures; he places the cost at nearer 27 than 50 per cent of our pre-War wealth. Americans say with truth that the way for this country to grow rich from the War was to stay out of it, that American profits were made during the years of neutrality.[15]

At any rate, the British and others reply, once you were in the War you should have been willing to do your share; you could not equal our contribution in men, or in devastated areas in France and crippled industries in Britain, so any amount of money America put in would have been too little.

But, Americans answer, you profited from the War by taking territories and ships and in many ways reducing the strength of your German competitor; we took nothing and want nothing, except what you owe us.

But, the British and others reply, surely the capacity to pay must enter in. You Americans are rich, the richest people in the world, and we are poor; our people are over-taxed, our financial and economic systems have been seriously impaired, and we cannot afford to pay.

If you are so poor, how can you afford to keep up the trappings of royalty, and how can you afford to spend more money on your military-naval establishments than before the War? the

Americans ask.

What, you Americans dare criticise our right to tax ourselves to provide the necessary defence of our country and of our Empire ? the Britons demand in wrath.

And so the argument goes round and round, getting nowhere. Getting nowhere, that is, except to produce ever more misunderstanding and hatred. Neither side understands the point of view of the other, or probably ever will. Because the argument on each side is bogged in emotion and is barbed by the taxes which each must pay. When the Briton pays his tax, he says to himself it is the bloated American turning the screw. When the American pays his tax, he says he is paying part of the British debt so that the British can go on maintaining a navy large enough to beat the American navy.

The worst of it, from the American's point of view, is that Britain, which he thinks profited most from the War, has by the "cunning" of the Balfour note policy succeeded in making the rest of the world blame only us. The Balfour note, August 1, 1922, stated: "The policy favoured by His Majesty's Government is that of surrendering their share of German reparations, and writing off, through one great transaction, the whole body of inter-allied indebtedness. But, if this be found impossible of accomplishment, we wish it to be understood that we do not in any event desire to make a profit out of any less satisfactory arrangement. ... In no circumstances do we propose to ask more from our debtors than is necessary to pay to our creditors, and, while we do not ask for more, all will admit that we can hardly be contented with less."

American resentment is typified by the following statement of Mr. Frank H. Simonds, the dean of American writers on foreign affairs, who is perhaps more friendly to Britain than most of his colleagues: "The Balfour doctrine was enunciated for the express purpose of setting up a contrast between British generosity and American Shylockery. The British announced that, unlike the United States, they would never think of collecting money from their Allies, or even their poverty-stricken enemy, simply for themselves. They would only take enough to satisfy the exigent creditor across the ocean. This little gesture made Britain popular and America still more unpopular in Europe, but to us it seemed 'a bit thick.' On the surface the proposal, which the British still keep presenting as the height of statesmanship and humanity, was engaging. But what it actually amounted to was an invitation to us to hold the bag. Britain had lent money and borrowed money and while she had lent more than she had borrowed, her chances of recovery were not of the best. If she could come out even, she would do well. But we had borrowed nothing in the way of money from any one. We owed no one. Cancellation for us was one-sided—we gave up everything, no one forgave us any debt. Naturally this device appealed to the British, the French, the Italians. Even the Germans, who saw that if our claims were reduced the claim against them must sink, applauded." [16]

But Britain in fact is not yet "even." According to official British figures on April 26, 1929, she had paid out over \$1,000 million more than she had received on War debts, or about \$750 million more than received on debts and German reparations. In 1929, according to Mr. Churchill, Britain for the first time received a small favourable balance, which probably will never be enough

to make good the earlier deficit. According to Mr. Snowden, in an article in the *Manchester Guardian Weekly*, May 24, 1929, explaining his famous Parliamentary “repudiation” of the Balfour note (later explained away): “The amount which Britain has to pay to America reaches 38 million pounds sterling a year. Under Britain’s agreements with her debtors they have to pay about 20 million pounds sterling a year, so that if all the debt agreements stand Britain will be burdened for 60 years with an excess payment on her internal debt of 30 million pounds sterling a year.”

In all these foreign discussions of “America, the Shylock,” there is rarely any mention of the fact that the United States by the funding agreements already has cancelled the War debts on an average of 51.2 per cent, if values are figured at five per cent, or 43 per cent cancellation if 4.25 per cent interest is used. Most of the American people themselves do not realise that such cancellations have been made. Knowing the popular hostility toward any cancellation, the fact of what was done was not stressed by the Washington politicians.

But the conflict of attitudes goes deeper than indicated above. Britain and the others insist that German reparations and Allied debts must be dealt with as one problem, that they cannot be separated either as a matter of justice or of finance. Our Government officially denies that there is any connexion whatever between the two. Hence Washington’s refusal to be represented on the Bank of International Settlements, which, however, will be under the influence of American financial power. To admit the connexion would, of course, open the door for further debt reduction in conformity with the Young Plan reduction of reparations to a total of about \$8,879 million. In effect 65 per cent of Young Plan reparation receipts from Germany would cover Allied War debt payments to the United States, leaving 35 per cent to repair War damages.

Apart from the emotional arguments already outlined, strong economic arguments are advanced for further American debt cancellation. It is stated that debts can only be paid in goods, that our tariff wall prevents debtors from paying in goods, that such payment in goods over a lower tariff wall would interfere with American production, and that therefore cancellation is economically expedient. The Administration denies these premises.

“There has been much loose reasoning as to the influence of the War debt receipts upon our merchandise trade,” according to the official statement in *The Balance of International Payments of the United States in 1928*: “It is a serious error to say that the debtor nations can pay us only by shipping us merchandise. Our War debt receipts are an invisible export. As such, they tend (1) to detract from all our other exports-including not only merchandise export but invisibles and (2) to promote every import, whether visible or invisible. The numerous invisibles will absorb a large part of the influence of the debt receipts, and reduction in our merchandise exports may absorb even more. No great increase in merchandise imports is thus to be expected as the result of debt receipts, and a part of such increase would be in noncompetitive goods on the free list, The reduction in our merchandise exports through War debt receipts will injure us precisely as a labour saving device would injure us; imports, visible and invisible, will come to us without future efforts; that is, without our being compelled to produce again a corresponding value of visible and invisible exports to exchange for them.”

This doubtless is an extreme and one-sided statement of the case, but it must be weighed against the more orthodox statement of the transfer problem. It is true that there are large invisible items in our international balance of payments, which make our transfer problem different from that of other countries. In 1928, when we received \$210 million on War debt accounts, our net tourist expenditures abroad were \$525 million and our immigrant remittances abroad \$189 million. Those two unusual items, then, supplied to Europe almost three and one-half times as much as was paid back to us on War debts. Granted that our transfer problem would be much simplified and the way of our debtors made much smoother by further debt reduction, the fact remains that we have so far continued, and probably can for some time continue, to receive debt payments without suffering the dire consequences predicted by the orthodox theory of transfer. Other things being equal, our Government will continue to do what Britain and the Allies have done in the case of Germany, get as large an amount as possible and expedient.

To be sure other things are not equal. This normal, if grasping, attitude on the part of Washington cannot exist as in a vacuum. Three forces bear down upon it. Two of those forces have been suggested above. One is the heavy price we are paying in the form of British and European hatred toward us by continuing debt collection. This has reached such proportions that it can no longer be ignored by Washington, for it poisons much of our international relations and makes more difficult the execution of other policies. A second force tends to balance the first. It is the popular opposition to further reduction, an opposition which had been expected gradually to disappear but which in the last five years apparently has not diminished in the least. The third force is Wall Street pressure for cancellation. The explanation of this bit of humanitarianism on the part of the bankers is obvious. They too have loaned money to the same foreign governments. There is question regarding the ability or willingness of those governments to pay both the debts to Wall Street and to Washington. Wall Street, of course, will not reduce the obligations due it by a penny. It is not satisfied with Washington's present 51.2 per cent cancellation, it wants more. For the greater the government debt cancellation, the better the chances of private debt collection. This factor in the already confused debt situation probably in the end will do more to prevent cancellation than anything else.

Ordinarily Washington is controlled by Wall Street pressure in such matters. But the bankers' selfish interest in the matter is so patent in this instance that no Washington Government within the next few years would dare face the displeasure of the voters by thus allegedly "selling out to Wall Street." As in other countries, this is precisely the sort of issue which any opposition party would pounce upon immediately to discredit the Government, with a large chance of success. Especially because the farmers, who are most hostile to debt cancellation on general principles, are those who are suffering most from high taxes and who are most indignant toward Wall Street for the credit shortage and high money rates.

Apart from those general considerations, however, there are certain factors in the British debt settlement which make it different from the rest. These factors have nothing to do with the British arguments about their high taxes and the claim that the money they pay us is needed for



such humanitarian work as cleaning up the London slums. We can hardly be expected to concern ourselves about British taxes—unless indeed we were given the right to cut British naval and other expenditures, the very suggestion of which is ludicrous. Nor can we as a nation concern ourselves with the industrial slums of England. The capitalist system of England which created those slums is quite capable of eradicating them; and surely it is the business of the British rather than the American people to insist on that reform. Anyway that portion of the British debt cancelled by us was not used for such humanitarian purposes. Whatever else may be said of Americans as a nation, their record for post-War relief and philanthropy is perhaps as good as that of any others. There were large voluntary American contributions to the miners' relief fund raised by the Prince of Wales, but no similar British contributions for the starving and homeless Pennsylvania miners and their families.

All of which is beside the point. Such discussions can only increase the misunderstanding and confusion, and thus solidify America's anti-British attitude on this question.<sup>[17]</sup> The only hope for a change in American public opinion—without which this cause of friction between the two peoples cannot be eliminated—is to put the British case on a basis of justice and fair play. As a matter of fact, that is all that the British want; probably those who are using the "Shylock" and "slums" arguments are not representative of the British people as a whole. Britain has a legitimate case. It can be presented by the British and by their American friends without resorting to the usual lies that are used and without the loss of dignity inherent in the conventional British appeal.

The honest British case is simply this a Britain funded her debt to the United States without pressure and before any other of our debtors. She did this not because she was more honourable than the others or more honest, but because it was more to her own advantage to do so. That was the only way to re-establish her world credit—as stated by Mr. Baldwin in the quotation above. This was more important to Britain than any other one thing she could do to re-establish, or rather approximate as a competitor with the United States, her former world position. In funding her debt she received from us a cancellation of 30.1 per cent. We, in turn, received certain benefits. Her debt was well over one-third of the total War debts to us, and therefore its settlement was more important to us than any other. Moreover, by settling she established a precedent which made it easier for us to force others to do likewise. Finally, her settlement with us was a legitimate one in the sense that it provided for relatively high annuities in the first years, rather than postponing appreciable payments to the doubtful closing period of those 62 years which may never come for debt collection. During the five-year period 1926-30 in which we receive \$1,000 million in foreign debt receipts, about four-fifths is being paid by Britain. That is, though the funded debt of our dozen Continental debtors is 150 per cent larger than the British debt, their combined payments in this period are only about 25 per cent as much as the British payments. And in the period 1931-35, Britain will supply 65 per cent of our total receipts. Besides the disparity of cash payments within the next few years, there is a difference in the amount of cancellation. When we finally cajoled France in 1926 into signing a funding agreement, which she did not ratify until 1929, we gave her a 60.3 per cent cancellation, and the

same to Belgium. When we bribed Mussolini with a large private loan to fund Italy's debt, we not only postponed all the appreciable payments until the hypothetical later years, but gave Italy a 75.4 to 80.2 per cent cancellation. Britain, who settled first and has been making large payments ever since, got only a 30.1 cancellation.

That is discrimination against Britain. It is unjust. Historically, it may be explained by the fact that, when Britain settled with us, our Government had not yet admitted, as it later admitted, that "capacity to pay" should in part determine the settlement. This "capacity to pay" principle obviously is relative. In no case in which it has been used, either in reparation or debt negotiations, have the debtor and creditor presented the same figures. But if the same American approach had been used in the case of Britain-whether the principle be called "capacity to pay," economic realism, political expediency, or one or all of these somewhat vague principles-as was used with France and Italy, Britain would have been given a much larger reduction. That discrimination should be wiped out. It is the sort of unfairness that the American people, if they understood the facts, would not approve.

But it is the kind of unfairness which Washington is not unwilling to continue in view of the larger economic conflict with Britain.

Meanwhile Anglo-American financial competition continues. Thanks to her savings of a century and her long experience Britain has not yet been entirely unseated as world banker. But the United States grows more and more important as a creditor nation. Already the dollar exerts more influence on world exchanges than the pound. The London money rate, and thus British production and employment, is chained to Wall Street. The United States has far greater wealth and natural resources, far larger savings than Britain; and, while our capital surplus available for export tends to increase, hers is falling. She needs her money at home. It would appear only a question of a short time until the United States plunges far ahead of Britain in foreign loans and investments, which determine financial world hegemony.

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1. Pp. 291-292.
  2. The foregoing list is from Manchester *Guardian Commercial*, Nov. 22, 1928.
  3. This and the following Kemmerer quotations are from the *American Economic Review*, March 1927.
  4. Cf., Chapter X for discussion of Russian relations.
  5. New York *Times*, April 28, 1929.
  6. Cf., Chapter XI.
  7. P. 163.
  8. The best reports of this episode were those of Drew Pearson in the Baltimore *Sun*, especially his article, Dec. 13, 1928.
  9. Manchester *Guardian Commercial*, May 30, 1929.
  10. Quoted by New York *Information* (issued by Ivy Lee), Oct. 20, 1928.

11. —, Jan. 11, 1929.
12. Quoted by George Pell, *The Economic Impact of America*, pp. 195-196. 1928.
13. British Bankers' Association address, *London Times Weekly* May 9, 1929.
14. Cf., Moulton and Pasvolsky, *World War Debt Settlement*, p. 95 ff. 1926.
15. Cf., Chapter II.
16. *Washington Star*, April 28, 1929.
17. Cf., Chapter I.

## America conquers Britain

*Chapter Ten*  
*OIL DIPLOMACY*<sup>1</sup>

THE LONDON GOVERNMENT is directly involved in the fight for oil. It owns controlling stock in the most aggressive company. That company is manoeuvring far strategic position dangerously near the Panama Canal. While British companies help drain diminishing reserves of the United States, Britain excludes American companies from petroleum lands of the Empire.

To meet this emergency the Washington Government exerts a “strong” policy. It formally challenges British oil imperialism. It supports Yankee companies in penetrating reserves abroad. It protests nationalisation in Latin America and other foreign fields and markets. Directly and indirectly much of its world diplomacy is written in oil. It is driven by fear. Threatened with a domestic shortage, Washington wants foreign reserves essential to the nation in peace and war. Oil is “as necessary as blood in the battles of to-morrow.” That was Premier Clemenceau’s appeal to President Wilson for American petroleum in the winter of 1917. “The safety of the Allied nations is in the balance.”<sup>2</sup> After the war was won, Lord Curzon told the story: “The Allies floated to victory on a wave of oil.”<sup>3</sup> Then the peace conferences—and the fight of the victors over the oil spoils. When Britain and France in 1919 were getting ready to divide the Near East between themselves in mandate form, M. Henri Berenger warned his Government: “He who owns the oil will own the world, for he will rule the sea by means of the heavy oils, the air by means of the ultra refined oils, and the land by means of petrol and the illuminating oils. And in addition to these he will rule his fellow men in an economic sense, by reason of the fantastic wealth he will derive from oil—the wonderful substance which is more sought after and more precious to-day than gold itself.”<sup>4</sup>

Every large nation must look outside its own territories for an essential reserve. The United States has less than 12 per cent of world reserves. Britain within the Empire has six per cent. Others have less. About 70 per cent is in countries whose weakness invites economic and political encroachment by the major Powers. This applies especially to the Mexican Gulf-Caribbean region, the Near and Middle East, and Russia.

In self-defence many of these oil-bearing countries have passed laws vesting subsoil rights in the native governments, and laid down restrictive regulations, royalties, and duties. This defiance of claimed property rights of foreign nationals is used by the Powers to justify diplomatic pressure and, in extreme cases, military intervention. Large capital investment, often such as only American or British companies can provide, is necessary for successful exploration and production. Unusually large expenditure is required in most of these countries. Their resources can be tapped only by long pipe-lines across mountain, desert, or jungle to the sea. That is the situation in Persia, Mosul, Colombia, and less important fields. Often a second weak country or



territory is the only practicable outlet for otherwise inaccessible deposits; as the outlet for the south Persian field through the Baktiari tribe region, the Russian Caucasus gateway for the north Persian field, the projected pipe-lines across Syria or Palestine to tap Mosul in Iraq, and the Venezuelan passage out of the east Colombian pool. Thus the battle of foreigners for one field may extend from the producing territory to the transit country.

There is a larger international issue. An approximate balance among several Powers in an oil war might result in an armistice, so the strong could divide the riches of the weak. But two Powers have gained control of most of the world reserves. Britain and the United States are fighting for supremacy. Britain has grabbed three-quarters of the earth's known supply. "America has recklessly and in 60 years run through a legacy that, properly conserved, should have lasted her for at least a century and a half," according to Sir Edward Mackay Edgar, British petroleum banker, writing in 1919. "The British position is impregnable. All the known oil fields, all the likely or probable oil fields, outside of the United States itself, are in British hands or under British management or control, or financed by British capital."<sup>5</sup>

The struggle is not alone between American and British capital. It is between American capital and the London Government. Of the two dominant British companies, the London Government has close unofficial relations with one and has direct controlling ownership of the other. That makes oil an international explosive. To equalise the contending forces American petroleum princes have sought State Department support. "The only thing needed now is an aggressive foreign policy on the part of the United States," was the plea of Mr. A.C. Bedford, late chairman of Standard Oil of New Jersey. "All proper diplomatic support in obtaining and operating oil-producing property" abroad was recommended by the Federal Trade Commission in 1923.<sup>6</sup>

Such prodding was not needed by the State Department. Since 1902 its consuls had been active in behalf of Standard and other American companies abroad.<sup>7</sup> As the Anglo-American competition intensified, the Department from time to time reminded its foreign representatives of their duties in this connexion. Specific instructions were sent by the Department to all United States diplomatic and consular officers on August 16, 1919, as follows: "You are also instructed to lend all legitimate aid to reliable and responsible United States citizens or interests which are seeking mineral oil concessions or rights. Care should be taken, however, to distinguish between United States citizens representing United States capital and United States citizens representing foreign capital; also between companies incorporated in the United States and actually controlled by United States capital and those companies which are merely incorporated under United States laws but dominated by foreign capital."<sup>8</sup>

Mr. Charles Evans Hughes testified before the Coolidge Federal Oil Conservation Board: "The foreign policy of the Government, which is expressed in the phrase 'Open Door,' consistently prosecuted by the Department of State, has made it possible for our American interests abroad to be intelligently fostered and the needs of our people, to no slight extent, to be appropriately safeguarded."<sup>9</sup> The former Secretary of State and present counsel of the American Petroleum

Institute and Standard Oil speaks with the authority of experience.

If the British Government by company ownership and direct participation in the struggle for foreign reserves has transformed oil into an international explosive, the Washington Government in challenging British supremacy may touch off that explosive. The most provocative activities of the State Department since the Great War have been in the service of oil.

#### MELODRAMA: THE PROLOGUE

The prologue of the international oil melodrama begins in that part of the world better known as the birthplace of Christianity. There in the Near East at the turn of the century appeared two gentlemen from afar. One was an American, Rear-Admiral Colby M. Chester. The other was a Briton of the more adventurous sort, an Australian, Mr. William K. D'Arcy. While on a diplomatic mission to Turkey in 1899 to obtain redress for American losses in Armenian massacres, the Admiral scented oil. He hurried home, resigned his naval commission, and returned to the Sublime Porte.

American Indians in western Pennsylvania almost three centuries earlier had led Father Joseph de la Roche D'Allion, a French Franciscan missionary, to a pool of black waters. Since then this miracleworking fluid had been used increasingly, first as a medicament and later as an illuminant. Out in Cleveland a Mr. Rockefeller had the happy idea of dominating the growing industry by pipe-line control, railroad rebates, legislative manipulation and unscrupulous competition.<sup>10</sup> Control of American production gave Mr. Rockefeller the premier position as world distributor. British and Dutch companies were springing up in the Far East, French and Russian capital was beginning to develop the Caucasus, but America was the largest producer and Standard the chief seller in foreign markets. Then in 1898 new gushers in the Caucasus sent Russian production upward till it surpassed American output for a time. In other countries a few industrial dreamers were becoming oil conscious.

Hence the presence in the Near East of Admiral Chester and of Mr. D'Arcy. The latter obtained in 1901 from the Shah a 60-year monopoly oil concession covering five-sixths of the Persian Empire, all except five northern Caspian provinces beyond the mountains. For these half-million square miles and their petroleum riches he paid \$20 thousand cash, pledged the same amount and 16 per cent royalty.

Sultan Abdul Hamid of Turkey was less obliging than the Persian Shah. Admiral Chester got only promises from the Turk. Mr. D'Arcy had gone to London, organised what was later the Anglo-Persian Company to exploit his new concession, and was soon back in the Near East with his eyes on the Mesopotamian vilayets of Bagdad and Mosul. These were the areas sought by the Admiral. Then Germans appeared. They obtained the Anatolian Railway Company concession, with an option to drill the Bagdad-Mosul fields on shares with Abdul. Then the Sultan changed his mind. Enter Mr. D'Arcy and Anglo-Persian. But before the British could close their deal, Abdul was swept out by revolution and the Young Turks were in power.

Again the American got concession promises in writing. But before his contract could be ratified

the British and Germans had combined against him. They formed in 1912 the Turkish Petroleum Company, consisting of the British Dutch-Shell oil group, the Deutsche Bank of Berlin, and the Turkish National Bank in which there was much British capital.<sup>11</sup> The new organisation revived the 1904 German claim. Within a year the Turkish Bank's 50 per cent stock interest in the joint company was transferred to Anglo-Persian. Then it was apparent that no less a power than the British Government had played and won—from the American holder of the concession.

The London Government now came into the open. With the aid of the Berlin Foreign Office it forced Turkey in 1914 to confirm the old German claim in the form of a Turkish Petroleum Company concession to the Bagdad-Mosul fields. Intervention by the British Government to form the new company was opposed by some British oil men. This opposition was explained at the time by Sir Robert Waley Cohen, Shell Oil Company director: "These arrangements were entered into at the instance of the British Government. We do not believe in mixing up politics with business: it leads sometimes to corruption, always to inefficiency, and tends to convert what should be mere commercial rivalries into national animosities—a very serious disadvantage."<sup>12</sup>

But the London Ministry apparently was less concerned with preventing national animosities than with preparedness to win any war provoked by such animosities. Consciously and deliberately London had made a momentous decision. The British Government was going into the oil business as a direct participant in the struggle for foreign concessions and markets. This decision had been maturing since 1905. In that year Mr. D'Arcy, after unsuccessful efforts to interest British capital in his Persian concession, was on the point of selling to foreigners. To prevent this Mr. E.G. Pretyman, Civil Lord of the Admiralty, and other officials secretly arranged for British private capital to operate the Anglo-Persian Company until it could be taken over openly by the British Government.

Why? Where had the British Government picked up so early the lesson of international oil power, which the rest of the world did not learn until the Great War? The London Government learned from that rare type of genius, a professional military man with imagination and without fear of bureaucratic superiors. "The use of fuel oil adds 50 per cent to the value of any fleet that uses it." That is orthodox doctrine now. It was revolutionary heresy when Admiral Lord Fisher began to preach it to the British Government in 1882. "The use of oil fuel (would) increase the strength of the British navy 33 per cent because it can re-fuel at sea off the enemy's harbours," the Admiral reported later. "Coal necessitates about one-third of the fleet being absent refueling at a base. ... With two similar dreadnoughts oil gives three knots more speed—and speed is everything. Oil for steam-raising reduces the (coal) engine and boiler-room personnel over 60 per cent. [Engineers now say an equal amount of oil will produce twice as much steam-power as coal.] ... At any moment during refueling the oil-engine ship can fight—the coal-burning ship cannot. ... Oil does not deteriorate by keeping. Coal does. ... It is a criminal folly to allow another pound of coal on board a fighting ship."<sup>13</sup>

Lord Fisher not only discovered the method. He found the man. The man was a Holland clerk. He was rising as an official in the Royal Dutch Petroleum Company. The Admiral described this

gentleman to the British Government as “Napoleonic in his audacity and Cromwellian in his thoroughness.”

Henri W.A. Deterding was the name of this new Napoleon. He lived up to Lord Fisher’s description. He extended the oil holdings of Royal Dutch into a dozen countries. He arranged for increased British capital control of this international trust. He merged the British Shell oil group with it, making of the two largest European organisations a Dutch-Shell combine, the strongest in the world. He became a British citizen.<sup>14</sup> The British Government made him Sir Henri. And then he began to make British foreign policy. By 1913, according to Lord Fisher’s Memorandum at the time, Sir Henri was “confessing” to the British Royal Commission on oil that: “He possesses in Roumania, in Russia, in California, in Trinidad, in the Dutch Indies, and shortly in Mexico, the controlling interest in oil. The Anglo-Persian Company also says he is getting Mesopotamia and squeezing Persia, which are practically untouched areas of immense size reeking with oil. ... Sir Thomas Browning says in his evidence that the Royal Dutch-Shell combination is more powerful and aggressive than ever was the great Standard Oil Trust of America. Let us therefore listen with deep attention to the words of a man [Deterding] who has the sole executive control of the most powerful organisation on earth for the production of a source of power which almost doubles the power of our navy whilst our potential enemies remain normal in the strength of their fleets.”<sup>15</sup> This British Commission, “listening with deep attention” to the Oil Napoleon, was getting ready for the war which Lord Fisher a decade before had predicted to the very year.

To the Fisher-Deterding team was added the political power of Mr. Winston Churchill, then First Lord of the Admiralty. Just a year before the outbreak of the Great War, the First Lord revealed to the House of Commons the policy which has since made history. “Our ultimate policy is that the Admiralty should become the independent owner and producer of its own supplies of liquid fuel,” he explained.<sup>16</sup>

To carry out this policy the London Government moved rapidly. It reached for Mosul. The British had one-quarter interest with Germans and Turks in the Turkish Petroleum Company’s unrecognised German claim. Within a few months the London Cabinet had increased British ownership in that company to three-quarters, left the Germans with only one-quarter interest in their own claim, shut out completely the Turks who controlled the territory and the Kurds who owned the oil land, and taken the concession from the American who held it. The British Government then bought for \$11 million controlling interest in the Anglo-Persian Company. With this contract went 48 years of monopoly over most of the Persian Empire, with the then richest oil fields of the Eastern Hemisphere.

Then August 1914. Mr. Churchill’s preparedness was “vindicated”—at least there was war. Lord Fisher was vindicated—oil was the decisive weapon on sea, land, air. But out of the war strode a larger figure. It was he who had quietly guided them both in driving forward this British policy, Sir Henri.

The War, however, made demands which even this great Napoleon could not meet. “With the



commencement of the War, oil and its products began to rank as among the principal agents by which they [the Allies] would conduct it and by which they could win it," Foreign Minister Curzon said.<sup>17</sup> Governments appointed Oil Ministers with Cabinet rank, and finally the Inter-Allied Petroleum Council was organised to ration the precious fluid. A famine was soon in sight. The Fisher British navy had 45 per cent of its ships burning oil. On the land fronts motor trucks and the new tanks and planes were consuming gasoline at an accelerating rate.

Germany, cut off from adequate oil supplies and forced to seek substitutes, was trying to reduce her enemies to the same crippled condition. She directed her submarine campaign especially against the Allies' sea train of tankers. As a result Great Britain was close to a naval oil shortage and capitulation by the end of 1917. Premier Clemenceau sent his famous appeal to President Wilson. "A failure in the supply of petrol would cause the immediate paralysis of our armies, and might compel us to a peace unfavourable to the Allies," the old Tiger wrote.<sup>18</sup> America answered the Allies' call for help. Standard and other companies, with tanker convoys of the United States navy, succeeded where Napoleon Deterding had failed. When the War was over, Foreign Minister Curzon said the United States had furnished "over 80 per cent of the Allied requirements of petroleum products."<sup>19</sup>

Oil was more than a major weapon of the military and naval campaigns. Often it was the objective of those campaigns. This is apparent in most of the war memoirs, especially those of Admirals Fisher and Jellicoe, Mr. Churchill, and General Ludendorff. Effort to obtain oil reserves for the successful prosecution of hostilities and for commercial strength after the War explained to a large extent British military operations in Iraq, the Turkish drive toward Baku, and the German campaigns in Galicia, Roumania, and the Caucasus. The London Government after the Armistice set out to get British control of the world's oil sources. A Cabinet Petroleum Imperial Policy Commission was organised. During the War the Government temporarily had taken over Dutch-Shell stock of British citizens. The new Petroleum Commission and Sir Henri now arranged for British private control of Dutch-Shell in peacetime and for quick transfer to direct governmental control on threat of war. Lord Long, war-time Petroleum Minister, was named First Lord of the Admiralty. Completion of the process of converting the coal-burning remnant of the navy into oil-burning ships was ordered. Similar conversion of the merchant marine was encouraged. A permanent oil reserve, sufficient for one year of war operations, was stored in England.

The Foreign Office strengthened its diplomatic lines to defend and extend claims to concessions in the Near East and elsewhere. British companies were encouraged to become more aggressive in seeking and obtaining lands and rights in foreign countries. In addition to Dutch-Shell activities in this direction, two organisations were chosen to furnish scouts and shock troops for the new foreign concession drive. These were the D'Arcy Exploration Company, an Anglo-Persian subsidiary which the London Government owned directly, and British Controlled Oilfields, having a specially organised board of trustees with two Government representatives.<sup>20</sup> One of the latter was Mr. Pretyman, former Civil Lord of the Admiralty and author of the earlier

secret arrangement whereby Anglo-Persian had been kept from foreign hands and saved for the British Government. As a final touch to the campaign, Britain tightened her Empire exclusion policy preventing Americans from acquiring petroleum lands or stock in British companies.

The plan worked well. There was much exulting in informed quarters in London. By May 1919, the London *Times* was quoting Mr. Pretymann, M.P., in this vein: "When the War came, the position was that the British Government, with its vast interests in the whole world, controlled about two per cent of the world's petroleum supplies. ... (Now) he thought that when adjustments were completed the British Empire would not be very far from controlling one-half of the available supplies of petroleum in the world." These "adjustments," to which Mr. Pretymann referred, brought Great Britain increasingly into conflict with the State Department and American companies, and resulted in an American awakening.

Americans had been thinking about the oil lessons of the War. News of the British drive for world oil hegemony began to come across the Atlantic. Then there was that 1919 article by Sir Edward Mackay Edgar. It was widely reprinted in the United States. These repeated British jibes that America was rapidly exhausting her supply and would soon be dependent upon Britain, who dominated the world's oil future, produced an American reaction which was a mixture of oil consciousness and of anti-British nationalism.

The American oil king 25 years earlier had a near-monopoly hold on European and Far East markets. After 1900 heavy Russian production of the Nobel-Rothschild interests, and rise of Royal Dutch and the Shell group had challenged Standard's sway. King John D. tried to dispose of his most dangerous European rival, Royal Dutch, by the same tactics which had defeated his many American competitors. He planned to buy out Royal Dutch, or failing in this, start a price-war to force Royal Dutch into his hands by the bankruptcy route. When Standard in 1898 had forced Royal Dutch close to surrender, it was the then obscure Mr. Deterding who saved the day. He got a loan from the Paris Rothschilds. Since then the French have held a minority non-controlling interest in Royal Dutch.<sup>21</sup> Having obtained financial reinforcements for continuing the price-war with Standard, Mr. Deterding in 1902 made a working agreement with Shell for joint action against the American Trust. This led in 1907 to the Dutch-Shell merger.<sup>22</sup> The former Dutch clerk began to earn the title of oil emperor. He took some of the European territory from Standard. After another long and costly battle, the two agreed in 1911 to divide equally the Chinese and Japanese markets.

Soon Dutch-Shell renewed the attack, this time invading the United States. Beginning in 1912, Mr. Deterding's agents started to organise or purchase in this country producing companies such as California Oilfields, and Roxana Petroleum Company. He also was reaching southward into Mexico, and the Caribbean area through such companies as La Corona, Mexican Eagle.

Standard met Dutch-Shell expansion into the United States by stirring up the Washington Government and by loosing "British peril" propaganda. Mr. Deterding countered the Rockefeller propaganda by permitting American investors to buy minority shares in the Dutch-Shell American companies. He thereby incidentally let Americans furnish most of the actual capital for

the British penetration of this country. So rapid was British development that over half of Dutch-Shell's world production was soon coming from American fields. Standard charged the alien trust with pushing production here and holding back its non-American fields, deliberately to exhaust United States reserves.

This situation was reaching a critical point in 1917. But then the United States entered the Great War. On Washington's orders anti-British propaganda was suddenly turned into pro-British propaganda. The Kaiser was elevated into Mr. Deterding's place as arch-fiend. There followed an Anglo-American oil truce, with Yankee wells and tankers furnishing 80 per cent of the "blood of battles which won the War."

After the signing of the Armistice, however, the new British oil drive was centred especially in the United States. After acquiring in 1919-20 the Union Oil Company of Delaware, Dutch-Shell grabbed for the Union Oil Company of California.<sup>23</sup> With the avowed purpose of checking British penetration, an American syndicate rescued the latter organisation by restricting Dutch-Shell to 26 per cent of the capital stock. In the midst of these manoeuvres and counter-manoevres, the London *Financial News* on February 24, 1920, announced as "a modest estimate" that Great Britain's "present command of the world's oil resources runs to no less than 75 per cent of their entirety, compared with two per cent when that country entered the war." But a greater one was to describe the situation in which the British had obtained world oil power and the Americans had awakened "too late."

"As regards competition, the fight for new production deserves our special attention," Sir Henri said in his 1920 annual report. "The advantage of having production not concentrated in only one country, but scattered all over the whole world, so that it may be distributed under favourable geographical conditions, has been clearly proven. It needs hardly be mentioned that the American petroleum companies also realised, although too late, that it was not sufficient to have a large production in their own country. It goes without saying that we are now reaping the benefits resulting from this advantageous position. Our interests are therefore being considerably extended; our geologists are everywhere where any chance of success exists."<sup>24</sup>

The Americans might be "too late," as Sir Henri and others claimed, but they were prepared at least to make a lot of noise about it. The Senate in March 1920 asked the State Department what were the foreign government restrictions against American acquisition of oil fields abroad. Also the Senate wanted to know what the United States Government was doing to defend the sacred American foreign policy of the Open Door. The State Department's answer damned its late ally in the crusade for liberty, the British Government.

"The policy of the British Empire is reported to be to bring about the exclusion of aliens from the control of the petroleum supplies of the Empire and to endeavour to secure some measure of control over oil properties in foreign countries," the Department charged.<sup>25</sup> "This policy appears to be developing along the following lines, which are directly or indirectly restrictive on citizens of the United States: 1. By debarring foreigners and foreign nationals from owning or operating oil-producing properties in the British Isles, colonies, and protectorates. 2. By direct

participation in ownership and control of petroleum companies. 3. By arrangements to prevent British oil companies from selling their properties to foreign-owned or controlled companies. 4. By Orders In Council that prohibit the transfer of shares in British oil companies to other than British subjects or nationals. It is understood that the British Government has a controlling interest in the Anglo-Persian Oil Company and that it has also assisted in the development of the Papuan oil fields by bearing one-half of the expense and contributing experts.”

Congress promptly passed a mineral leasing law prohibiting acquisition of public lands by nationals of countries denying such rights to Americans.<sup>26</sup> The law, however, did not apply to private lands and therefore could not stop Dutch-Shell penetration here as British regulations excluded American producers from most of the Empire. A bill for that purpose failed. While the State Department and Congress were indicting British policy, the London Government was negotiating secretly with France to get virtual British control in most of the major fields of the Eastern Hemisphere. The natural riches disposed of by the two Powers in that agreement belonged neither to Britain nor to France, but to Russia and the peoples of the Near East who had been “freed from the menace of German enslavement” by “the war to make the world safe for democracy.”

The San Remo agreement of April 24, 1920, in addition to pledging mutual support in Roumanian and minor fields, provided in written or unwritten form for the following: A British controlled company to take over the Mosul and Iraq fields, France receiving the 25 per cent share of the Turkish Petroleum Company sequestered from Germany and agreeing to construct outlet pipe-lines across Syria; France to support the British drive for monopoly concessions in Russia; Britain to get distribution and sales contracts with the French Government and French private consumers, and, in payment, to hand over Syria to France as a League of Nations mandate. As it worked out France got Syria but Great Britain did not get all the oil—or, at least, has not yet. Great Britain was blocked partly by the Bolshevik régime in Moscow and from another angle by the Washington Government.

American public opinion was aroused by statements of Secretary of the Interior Lane and other officials.<sup>27</sup> Politicians on the Senate floor competed in denouncing Great Britain. A movement was started to beat London at its own game by putting the United States Government directly into the business of obtaining foreign concessions in competition with the British Government companies. Senator Phelan of California introduced an unsuccessful resolution in May 1920 proposing organisation of a Federal company—“The United States Oil Corporation”—to direct a general American oil drive overseas and itself acquire foreign concessions.<sup>28</sup>

The State Department, under pressure of the public, Congress, and Standard, struck hard and fast. Diplomatic notes shot back and forth between Washington and London filled with charges and countercharges. Washington’s notes emphasised the American “impression” that Great Britain as a general policy was “preparing quietly” to monopolise the Mosul and Iraq fields.<sup>29</sup> London replied with denials. The State Department answered with a quotation from the San Remo agreement that the company (Turkish Petroleum Company) exploiting the Mosul-Iraq



fields “shall be under permanent British control.”<sup>30</sup> Downing Street countered with the charge that the United States Government had used its power in Costa Rica and Haiti “to secure the cancellation of oil concessions previously and legitimately obtained by British persons or companies.”<sup>31</sup> In contrast to this, Great Britain had not driven Standard out of Canada.

The State Department finally challenged the British-French division of Near East spoils on the ground that the United States as one of the Allied victors should not “be disassociated in the rights of peace from the usual consequences of association in war.” The British press screamed: “Hypocrites.” “One observes that the [American] high-sounding note of the principle of economic equality [Open Door] has now sunk into the lower note of the principle of ‘sharing the swag,’” was the way Davenport and Cooke put it.<sup>32</sup> American protests served to delay League of Nations ratification of the mandate. Standard continued to stir up the American public. Senator Frank B. Kellogg, before his defeat by the voters of Minnesota and subsequent party promotion as Ambassador to London and Secretary of State, kept up the agitation in Congress. The State Department went on writing provocative notes.<sup>33</sup>

While the Americans talked and wrote, the British acted. Sir Henri pushed on into new foreign fields. He arranged with the Netherlands Government for Dutch-Shell to receive a monopoly concession in the new oil fields of Djambi, then believed to be the only resources in that area not already controlled by the British company. Standard and Sinclair interests, both angling for the concession, learned of the Deterding deal. The State Department wrote another note on the sanctity of the Open Door, this time to The Hague, threatening retaliation by excluding Dutch companies from American private, as well as public, lands, if the Government of The Hague persisted in its discriminatory policy.<sup>34</sup> An unsatisfactory reply from the Dutch Government brought from Washington the intimation of a possible boycott of Dutch industries by American capital generally.<sup>35</sup> But these protests to The Hague were as ineffective as the Washington notes to London. Dutch-Shell got the Djambi concession. Nor did Washington carry out its threatened retaliation by excluding Dutch-Shell from the United States or imposing a general capital boycott on Dutch industry. Loss of the Djambi field was a serious defeat for the Rockefeller firm. When that concession went to Mr. Deterding, there disappeared one of the few remaining opportunities for Standard to get what it had sought so long, a major producing field in the Far East.

Despite Standard’s propaganda, the State Department’s report to the Senate in 1920, the diplomatic controversies over Mosul and Djambi, and sporadic gusts of anti-British sentiment, apparently the American public did not realise the full significance of the oil war until publication of the long-awaited Report of the Federal Trade Commission, on Lincoln’s Birthday 1923. The commission’s summary, which Was a sensation at the time, said:

“The more important facts developed in this report may be concisely stated as follows: 1. The Royal Dutch-Shell group, a combination of the Royal Dutch Company and the Shell Transport and Trading Company of London, has world-wide oil investments, including numerous refineries, an immense fleet of tank ships, and petroleum production in many lands, which, in 1921, was no

less than 11 per cent of the world output. 2. The Royal Dutch-Shell group in February 1922 consummated a merger of the principal properties and investments of the Union Oil Company (Delaware) with its chief American subsidiaries in a new company, the Shell Union Oil Corporation. 3. The Shell Union Oil Corporation now controls over 240 thousand acres of oil lands in the United States; has about 3.5 per cent of the total output of crude petroleum; owns extensive properties in refineries, pipe-lines, tank-cars, and marketing equipment; and is one of the larger companies in the domestic petroleum industry. 4. The Union Oil Company (Delaware) owned about 26 per cent of the stock of the Union Oil Company of California, but, to prevent the Royal Dutch-Shell group from gaining control, certain stockholders of the Union of California organised an American-controlled holding company, which now owns more than half of its issued stock.

“5. The most important instances of discrimination by foreign governments against citizens of this country are the exclusive policies of the Governments of Great Britain and the Netherlands in respect to the oil fields of India and the Dutch East Indies, and the 1920 San Remo agreement of Great Britain and France covering the undeveloped oil fields of Mesopotamia and of the British and French colonies. 6. Denial of reciprocity of treatment to citizens of this country appears to exist with respect to the petroleum industry of Australia, British Borneo, certain African colonies, British Honduras, British Guiana, and Trinidad; France and French possessions; Italy, and the Netherlands and its dependencies. 7. Thus forced to modify its historic policy, Congress in 1920 enacted a mineral leasing law for public lands which forbids the acquisition of properties by the nationals of any foreign country that denies reciprocity to Americans, in consequence of which certain applications for petroleum leaseholds have been denied to the Royal Dutch-Shell group. What further efforts may be made by this combination to acquire privately-owned petroleum lands or competing oil companies, it is, of course, impossible to predict, or how far antitrust laws may be effective to prevent them.

“The supply of crude petroleum in this country is being rapidly depleted to meet the requirements of a growing domestic consumption and foreign trade. The sources of supply of the domestic industry are concentrated within its own borders and in Mexico, while those of its principal competitor are widely distributed throughout the whole world. It appears obvious that a nation having widely distributed supply and storage facilities and owning the means of distribution will have certain advantages in world trade against one having concentrated supply.”<sup>36</sup>

The British, not content with excluding Standard and other American companies from the Near East and Far East and with penetrating the United States, began another successful flank attack on American entrenchments in Mexico and the Caribbean countries. This was a tactical error. The Washington Government had special interests in that area.

An oil Administration was in power in Washington. President Harding was an avowed friend of the big business interests which contributed liberally to his campaign fund. In Mr. Harding's Cabinet were several men with close oil connexions. The most notorious was Albert B. Fall, Secretary of the Interior. Mr. Fall was an associate of Mr. Harry F. Sinclair and Mr. Edward L. Doheny, next to the Rockefellers the then largest American oil magnates. He accompanied the

Sinclair party to Moscow seeking oil concessions. He had Mexican oil holdings in the Doheny companies. This was the patriot who sold out the United States naval oil reserves to Mr. Doheny and Mr. Sinclair. After years of legal red-tape, Mr. Fall in 1929 was convicted of accepting a bribe from Mr. Doheny and sentenced to prison. The United States Supreme Court found in the Teapot Dome case: “He was a faithless public officer. There is nothing in the record that tends to mitigate the sinister significance attaching to that enrichment ... Fall had been willing to conspire [with Sinclair] to defraud the United States.” Of the Fall-Doheny deal in the Elk Hills reserve lease, that high court said: “The whole transaction was tainted with corruption.”<sup>37</sup> But before these things were known, he became a power in the international oil war. In Mexico City, in Moscow, in many capitals, policies were being shifted, concessions lost and won, because Mr. Fall was the Washington Government—or was supposed to be.

Open Door—Monroe Doctrine—Standard Oil—Doheny and Sinclair—Fall in the Harding Cabinet. Here were ingredients of an international explosion. An American payment of \$25 million had been arranged to settle Colombia’s Panama Canal claims, partly to stop the British oil drive in Colombia. Now an American naval vessel was sent to the Tampico oil fields of Mexico. An American note was sent to London. The note was so strong, the diplomats decided it was “not fit to print.” Members of the London Government, who considered its function of maintaining friendly relations with the United States more important than its functions as an oil company, insisted on a general oil compromise.

“For the betterment of Anglo-American relations the British Government fell to bribing Standard Oil; the bribes were to be paid in the oil of Persia and Mesopotamia,” say the Britons, Davenport and Cooke. But, they lament: “Did any one suppose that Standard Oil could be silenced by sops from two of the world’s oil fields as long as it did not control the rest?”<sup>38</sup> The British Government chose Sir John Cadman to make the deal with New York and Washington. Sir John had been the British negotiator and signer of the San Remo agreement. He was now an official of Anglo-Persian. He came to the United States with the British compromise offer. Standard was promised permission to continue its Palestine exploration, which had been blocked by the British. There was bigger bait. Standard was to get an equal share with Anglo-Persian in the north Persian concession<sup>39</sup> (not to be confused with the Anglo-Persian monopoly concession over the remaining central and southern Persia) and a minor share in the Turkish Petroleum Company which was to control the Mosul field. These terms were acceptable to Standard and Washington, at least as a basis for later negotiations. The threatening State Department notes ceased. The much-stressed issues of Non-discrimination and the Open Door disappeared for a moment.

In the end this plan for an Anglo-American petroleum entente failed. Secretary Fall’s ally, Mr. Sinclair, had been neglected. While the British and Standard were agreeing to share the north Persia fields, Sinclair representatives were negotiating with the Shah for the same concession. Franco-British conflict in the Near East and Turkey’s claim to Mosul sovereignty caused some doubt as to whether Britain in any case would have this field to divide with Standard as

promised. Sir Henri tried to exclude Standard and Sinclair from Russia. Emergence of Venezuela and Colombia as major fields of the future, and revival of the long Mexican dispute, set the British and Americans to fighting again in the dangerous Monroe Doctrine region.

### MEXICO REVOLTS

Secretary Fall's friend, Mr. Edward L. Doheny, was the original oil tsar of Mexico. He had gone to the southern Republic with small capital and in 1900 acquired the Hacienda del Tullillo of 280 thousand acres for \$325 thousand. Soon he was buying cheaply or seizing other lands, after providing financially for friendship of the dictator, President Diaz. Doheny production at times was worth more than \$1 million a week. President Diaz, watching the American "wild-catter" grow rich, decided to check Doheny domination by bringing in the British. So he granted favoured concessions to Lord Cowdray. Mexican Eagle, the Cowdray company, had 58 per cent of the total Mexican production in 1910.

Mr. Doheny and Standard fought the Cowdray interests with every conceivable weapon. "It was Mr. Pearson [Lord Cowdray] who, in spite of all difficulties and all Standard Oil's intrigues—the Americans even hired bands of Mexican brigands, who destroyed Pearson's oil-pipes and set his wells on fire—held on in Mexico, and thus prevented that country from altogether turning into an economic province of the United States," Dr. Anton Mohr, the Norwegian geographer, wrote in his book *The Oil War*.<sup>40</sup>

The Americans had reason to believe that the overthrow of Diaz after 35 years' reign was necessary to prevent British ascendancy in Mexican oil. According to the British, Doheny and Standard agents directly caused the 1911 Madero Revolution which unseated Diaz. Testimony of several witnesses at the U.S. Senate Foreign Relations Committee hearings in 1913 tended to show that American oil interests subsidised that revolution.<sup>41</sup> The Washington Government, by speedy diplomatic recognition and an arms embargo against Mexican counter-revolutionists, tried to keep President Madero in power. But within two years he was deposed and executed by General Huerta—the British favourite. Huerta was openly opposed to the Yankee oil men and generous to Lord Cowdray. The latter confessed he was a subscriber to the Huerta counter-revolutionary "loan."

Mr. Wilson became President in Washington. He was as anxious to block British oil expansion in Mexico as was his Republican predecessor, Mr. Taft. President Wilson's attitude, as reported by his *alter ego*, Colonel E.M. House, was: "We do not love him, for we think that between Cowdray and Carden [British Minister in Mexico] a large part of our troubles in Mexico has been made."<sup>42</sup> a Minister Carden was trying to get supplies for the British navy, which was being converted rapidly to oil-fuel power under the Fisher program for war with Germany. Colonel House charged that General Huerta rewarded Lord Cowdray with concessions.<sup>43</sup> Britain and other nations recognised the Huerta Government, but President Wilson refused.

When the British Foreign Office sent Sir William Tyrrell to Secretary of State Bryan to lessen the tension over Mexico, the latter told Sir William: "The Foreign Office has simply handed its



Mexican policy over to the oil barons for predatory purposes.” The British diplomat replied: “Mr. Secretary, you are talking just like a Standard Oil man ... you are pursuing the policy which they have decided on.”<sup>44</sup>

While the British Foreign Office was uncovering the Standard pipelines leading into the White House and State Department, the American “Independents” were openly drilling in Congress and the press. Mr. Doheny told the Senate Foreign Relations Committee in 1913: “Inasmuch as both Germany and Great Britain are seeking and acquiring sources of supply for large quantities of petroleum it seems to me that there can be no question but that the United States must avail itself of the enterprise and ability and pioneer spirit of its citizens to acquire and to have and to hold a reasonable portion of the world’s petroleum supplies.”<sup>45</sup>

At this point a new factor emerged which has since continued to influence United States-Mexican relations. Washington began to worry about the effect on Central America of Mexico’s example of nationalist revolution and defiance of Yankee interference. Here was a “menace” to the much-expanded and reinterpreted Monroe Doctrine. What of the safety of the Panama Canal?

President Wilson presented the Mexican problem to Congress from this angle.<sup>46</sup> In November 1912 orders were despatched by Mr. Wilson to “cut him [Huerta] off from foreign sympathy and aid and from domestic credit, whether moral or material, and to force him out. ... If General Huerta does not retire by force of circumstances it will become the duty of the United States to use less peaceful means to put him out.”<sup>47</sup>

Realising belatedly that Washington would use military force if necessary to unseat the alleged British puppet, London tried to have a hand in picking the next dictator of Mexican concessions. London proposed that European Powers join in requesting President Huerta to resign, enabling him to get out but to “save his face.” Washington had no intention of sharing with Britain its “duty” of pacifying Mexico. Such a precedent might jeopardise the Monroe Doctrine, not to think of the American oil wells there desired by British Government companies. The British proposal was rejected. The President instead intended to dispose of Huerta by giving American aid to the rebel chiefs.<sup>48</sup>

Huerta asserted: “Mexico is defending not only her national sovereignty but that of all Latin America as well.” When Argentina, Brazil, and Chile, the three strongest South American governments, were moved by Mexican sympathy and a spirit of Latin American solidarity to offer to conciliate the Huerta-Wilson dispute, the American Executive found it expedient to accept—and equally expedient to block the A B C conference at Niagara Falls when it met. The Washington Government unaided was thus successful in putting out President Huerta through direct intervention, and at the same time was able effectively to disrupt South America’s effort to check growing Yankee control in the Caribbean countries.

When the Panama Canal tolls issue came to the fore, Washington was able to force Downing Street, though not the British oil men, to withdraw active support from General Huerta. Mr. Wilson then isolated the Huerta regime by a financial and munitions blockade, later permitting the rebel chiefs Carranza and Villa to get American arms. He used the Tampico flag incident as

one excuse for American naval and military occupation of Vera Cruz, although General Huerta had apologised and offered to submit the dispute to The Hague tribunal for arbitration.<sup>49</sup>

American oil companies, to get rid of the pro-British Huerta, refused to pay taxes to his Government, and gave financial support to General Carranza. At the U.S. Senate Committee hearings in 1919 Mr. Doheny expressed the opinion that “every American corporation doing business in Mexico extended sympathy or aid or both—and we extended both—to Carranza. ... It was a well-known fact that the British assisted in the sale of a large amount of Huerta bonds and they were distinctly favourable to the Huerta Government at that time.”<sup>50</sup>

But when President Carranza assumed office he did not reward his American oil friends. Instead he endeavoured to “vindicate” the 1911 revolution. The Carranza Constitution of 1917 attempted to regain for the Mexican people some of the country’s natural riches which had been parcelled out for a price by the dictator Diaz to foreign companies.

After 1917 the American-Mexican conflict centred around the Washington contention that Article 27 of the Constitution, and the laws and decrees putting that Article into effect, were retroactive and confiscatory. The Mexican Government from the beginning denied these charges and defended its sovereign right to enact the disputed measures. Article 27 provides: “The ownership of lands and waters comprised within the limits of the national territory is vested originally in the nation which has had, and has, the right to transmit title thereof to private persons, thereby constituting private property. ... In the nation is vested the legal ownership [*dominio directo*] of all minerals ... petroleum, and all hydrocarbons—solid, liquid, or gaseous. ... Legal capacity to acquire ownership of lands and waters of the nation shall be governed by the following provisions: 1. Only Mexicans by birth or naturalisation and Mexican companies have the right to acquire ownership in lands, water and their appurtenances, or to obtain concessions to develop mines, waters, or mineral fuels, in the Republic of Mexico. The nation may grant the same right to foreigners, provided they agree before the Department of Foreign Affairs, to be considered Mexicans in respect to such property, and accordingly not to invoke the protection of their governments in respect to the same, under penalty in case of breach, of forfeiture to the nation of property so acquired. Within a zone of 100 kilometres from the frontiers and of 50 kilometres from the seacoast, no foreigner shall under any conditions acquire direct ownership of lands and waters.”<sup>51</sup>

The State Department’s note of protest of April 2, 1918, against the first regulatory decree, stressed the argument that excessive taxation is a form of confiscation.<sup>52</sup> Carranza informed Washington that the question of taxation was one of internal affairs inherent in its right as a sovereign state. Some American oil interests which had helped to place Carranza in power were now trying as vigorously to overthrow him. The notorious General Pelaez, a local power in the Tampico district, who had been used by the oil men previously, was again brought forward as the “American hope.” Within the period 1917-1919, American companies paid thousands of dollars for his “protection.”<sup>53</sup>

Article 27 had brought American and British oil men into a temporary entente for defence of

their capitalist rights against the common menace of “nationalisation.” President Carranza’s pro-German tendency completed his damnation so far as Anglo-Americans were concerned. The Great War made it inexpedient for Britain to continue the Mexican oil dispute with the United States. Hence the Carranza Constitution and the War created a temporary Anglo-American truce. The British broke the Mexican oil truce immediately after the Armistice in France. Lord Cowdray had tired of operating oil properties suffering constant depredation by outlaw bands, allegedly hired by American oil men. But when he tried to sell part of his holdings to American competitors, the London Government intervened and forced the sale to Dutch-Shell and other British interests.<sup>54</sup>

In the spring and summer of 1920 the State Department protested new petroleum decrees of President Carranza, saying they threatened confiscation of properties legally acquired before enactment of the objectionable Constitution.

When General Obregon came into power, Washington was determined as the price of diplomatic recognition to restrict application of the disputed constitution to limits acceptable to the American oil men. To fill the empty national treasury by reclaiming a share of the Mexican wealth flowing out through foreign pipe-lines and tankers, he put down a 60 per cent export tax. This initial act, and the apparent determination of the new Government to make effective the paper constitution, seemed to leave no opportunity for Washington to support the new Government.

Here was a chance for the British. They had visions of displacing the Americans as the dominant factor in Mexican oil. To this end they dealt secretly with Senor Obregon. All the protests of Secretary Fall could not stop them. They were playing for big stakes. Mexican Government estimates place the total oil investments including lands at \$618 million. United States capital in 1923, with more than 58 per cent of total investments, had about 70 per cent of total production.<sup>55</sup> The British had only about 40 per cent of the investments and 27 per cent of production. There were other reasons for the British to deal separately with the Government. They were in a less vulnerable position under Article 27 than the Americans because of the early shrewdness of Lord Cowdray and other British companies in incorporating subsidiaries as Mexican companies.

President Obregon, instead of making separate terms with the British, played the foreign companies and governments against each other.

Paralleling these developments there was an oil “awakening” north of the Rio Grande. Talk in the United States of the menace of the British oil invasion in the Americas and the British exclusion policy abroad had resulted in the Federal Trade Commission investigation.

Washington in 1923 sought a settlement with Mexico, to check growing British power in the southern Republic, and eliminate the Article 27 issue. It counted upon the Mexican financial stringency to put President Obregon in receptive mood. Such was the setting of the Warren-Payne negotiations in Mexico City which led to the agreement of September 1923. The two governments agreed to submit claims arising during the revolutionary and pre-revolutionary

periods to special and general mixed claims commissions.<sup>56</sup> United States diplomatic recognition was accorded on the basis of a Mexican pledge not to apply retroactively the alleged confiscatory provisions of Article 27. That pledge was given in the negotiations at Mexico City, August 2, 1923.<sup>57</sup>

As a result of the claims conventions, a foreign debt-funding agreement, and the Warren-Payne oil-land settlement, the Washington Government supported the Obregon regime when Adolfo de la Huerta started a counter-revolution. Some American oil interests backed the rebellion. But with the consent of New York bankers and some of the larger American oil interests, the State Department placed an embargo on shipments of arms and munitions to the rebels, and sold military supplies to Obregon. Washington despatched the cruiser *Richmond* and broke the rebel blockade. The counter-revolutionists, lacking American monetary and military support, were soon defeated by the Obregon forces. The Washington Administration had to explain to the American public and to the world its intervention in the civil war of a neighbouring state.

Decisive aid given the Obregon regime at a time of peril, and Secretary Hughes's moral defence of such action, must be understood to appreciate the bitterness of Washington's reaction later, when President Obregon allegedly "bit the hand that fed him." In payment for American services received, the Mexican President was expected to put Article 27 in cold storage and keep it there. There was a brief reassertion of Mexican "rights" in the case of American oil interests which had willingly or unwillingly subsidised the counter-revolution by paying taxes to the rebels. But the State Department quickly forced President Obregon to back down.

This Mexican-American accord was short-lived. Mr. Hughes left the State Department in March 1925 to become counsel for the American Petroleum Institute, Standard Oil, and other corporations. General Obregon was succeeded by his friend, President Calles. Senor Calles was elected with the militant support of the CROM, or Mexican Federation of Labour. The CROM demanded that Article 27 be made effective. To handle this delicate situation, the United States had Ambassador Sheffield in its Mexico City Embassy and Mr. Frank B. Kellogg in the State Department. On June 12, 1925, Secretary Kellogg issued an astounding statement. It precipitated two and a half years of strained relations, during which the United States repeatedly was on the point of breaking diplomatic relations or of intervening directly against the Calles regime. It placed the Mexican Government "on trial before the world."<sup>58</sup> It gave encouragement to a counter-revolutionary movement being planned by certain American oil companies. It is one of the few insults of its kind in diplomatic history which was not followed by diplomatic rupture or by war. It probably will be in the future, as in the past, an incentive to anti-Americanism in Mexico and in other Latin American countries where Yankee oil men operate. President Calles, of course, replied in kind. A group in each country pressed for an immediate break in diplomatic relations. But a majority group of American oil interests and New York bankers decided "anything might happen to American property" if the United States withdrew its diplomatic representatives. So Mr. Sheffield returned to his post and the battle of oil notes began. Ten notes and memoranda were exchanged from November 1925 to March 1926<sup>59</sup> concerning



the petroleum law, which was passed on December 18 in the midst of the diplomatic barrage. These exchanges cover from many angles the basic dispute between the United States and Mexico, which will probably reappear at intervals to threaten peaceful relations until Mexican wells cease to flow. But the final Mexican note gave a pledge that the laws regarded by the United States as confiscatory of American property would not be applied retroactively, that renewable concessions would be given to American owners confirming their old ownership titles. There was a lull in the controversy.

Suddenly, however, a new issue arose. That issue was the Nicaraguan revolution in which Washington supported its puppet, President Diaz, and Mexico supported the Liberal claimant to the presidency, Dr. Sacasa.<sup>60</sup> The Nicaraguan dispute created an atmosphere in which settlement of the oil controversy was impossible. In the eyes of Washington the issue had become one of prestige in Latin America. The Administration was determined that the world should know that no foreign Power could challenge United States supremacy in the Caribbean. Washington was prepared at any cost to demonstrate its strength. If a Nicaraguan revolutionary party with the aid of Mexico could defy Washington's will, anti-Yankee forces in the other Central American countries would be encouraged to do likewise. Thus strengthened, Mexico would be less ready to retreat from its "radical" oil legislation. The example of radical Mexican laws might spread southward to all Latin America. So at least Washington officials believed.

The Administration policy was successful from the State Department's point of view. The Nicaraguan revolutionists, on the verge of military victory at the gates of the Diaz capital, Managua, were forced by the United States to make terms. Col. Henry L. Stimson, former Secretary of War and later Governor General of the Philippines and Secretary of State, went to the war zone as President Coolidge's special representative. He divided the revolutionists. Sacasa and Sandino refused to accept his terms, but General Moncada and most of the Liberal forces surrendered their arms to the marines. Col. Stimson's "pacification program" provided for disarming of both sides, the United States to police the country and guarantee a free and fair election in 1928, President Diaz remaining in power in the interim. By that election Moncada was made president. American marines remained.

When the Senate, at the height of the Nicaraguan controversy, unanimously passed a resolution favouring arbitration of issues between this country and Mexico, the State Department shelved the proposal in accord with the President's policy.

Washington's hostility to Calles during the Nicaraguan dispute encouraged certain American officials and oil interests to support the 1927 counter-revolution in Mexico.<sup>61</sup> The State Department applied its arms embargo against the Mexican Government. General Gomez, the rebel, promised American oil men to modify objectionable oil laws and regulations in line with State Department demands.<sup>62</sup> But the revolt failed.

Though the Calles-Obregon party had won on the military field, it was losing on the economic front. Restrictive legislation and consequent sabotage by American companies reduced oil production and Mexican revenues. A fall in the price of silver, Mexico's second most valued

export, increased the Government's financial stress. Mexico needed American capital.<sup>63</sup> Why continue the struggle against the stronger Power of the north ?

As this conciliatory mood grew in the Presidential Palace in Mexico City, important changes were occurring in Washington. A national political campaign was coming on. The Senate had passed its arbitration resolution. The Catholic campaign against Mexico's religious laws had developed a strong Protestant opinion suspicious of anti-Mexican policy. The New York bankers wanted payment on the funded Mexican foreign debt under the Lamont agreement, but saw little prospect of getting their money unless Mexico was helped along the road to economic recovery. The oil men themselves were restive. A minority had supported the Gomez-Serrano revolt, and failed to dislodge the Calles-Obregon combination. The majority group wanted a State Department policy that would produce results. A theoretic victory in a diplomatic argument would not produce oil. Their capital was tied up in the Mexican field. No profits were coming in. So far as the White House was concerned its Nicaraguan victory had saved United States prestige, and Mexican gun-running had ceased.

Out of these political and economic factors sprang a new "policy." Ambassador Sheffield was "allowed" to resign. Mr. Dwight W. Morrow, friend of the President and a Morgan partner, was chosen as the new ambassador.

Immediately the Mexican Supreme Court handed down a long-awaited decision favourable to American oil interest, restraining the Mexican Government from enforcing its denial of drilling permits to companies not complying with the disputed petroleum law. Companies representing about 75 per cent of Mexican oil production had failed to comply. Article 14 of the law required all foreign companies within one year to exchange titles for 50-year "confirmatory concessions." Article 15 provided that companies should lose their rights for non-compliance with Article 14. The Supreme Court by a nine to two decision in the case held Articles 14 and 15 unconstitutional. This decision was hailed in Washington as "a step in the right direction." American oil men were divided in their attitude toward the Court's decision. Some argued that the decision did not declare the petroleum law as such unconstitutional; that the "positive acts" provision of the law, under which companies might lose undeveloped lands, still stood; that companies must still prove titles. But Ambassador Morrow advised that the Court decision be taken as evidence of Mexico's intention to deal justly with American property rights.

In December 1927, President Calles proposed sweeping amendments to Articles 14 and 15, which were passed by Congress.<sup>64</sup> Shares of the Mexican Petroleum Company, following the announcement of President Calles's amendments, advanced in Wall Street 60 points within one day on a comparatively small turnover. Additional court and administrative rulings soon indicated the speed with which Mexico was approaching the American idea of oil rights. On January 7, 1928, a decision by the Third Supernumerary District Judge of the Federal District granted *amparos* [injunctions] to the Huasteca, Mexican, Tuxpan and Tamiahua Petroleum companies, and declared Articles 2, 4, 14, and 15 of the Petroleum Law of December 26, 1925, unconstitutional. President Calles on March 27, 1928 signed an executive decree regulating and

making effective the December 1927 amendments to the law. The decree stated, in part: “Article 155. The confirmatory concessions shall be issued in accordance with the provisions of Article 14 of the law, without limitations of time when they be issued in favour of surface owners, and for the term stipulated in the contracts when they be issued in favour of lessees or concessionaires. ...”<sup>65</sup>

As a result of the Calles decree, the State Department next day announced that the long dispute was practically over: “The Department feels, as does Ambassador Morrow, that such questions, if any, as may hereafter arise can be settled through the due operation of the Mexican administrative department and the Mexican courts.”<sup>66</sup> Ambassador Morrow was somewhat franker: “There remains, of course, the determination of what rights the oil companies held on May 1, 1917, the date the constitution became effective.”<sup>67</sup> The settlement, unfortunately, is not so complete as the official statements implied and the press believed. The United States Government desires a clarification of the meaning of the word “concession” as used in Mexican legislation and decrees. Though the Calles Administration removed the 50 to 80-year duration of concessions, it is still necessary for companies to exchange titles for these concessions. It is not sufficient, in the view of Washington, that such confirmatory concession be valid for the duration of the original title, as provided in the amended law. The State Department, when it is expedient to do so, may reaffirm its contention that the only acceptable exchange, if any, for a fee simple title acquired by an American prior to the constitution of 1917, is a confirmatory title, rather than a confirmatory “concession.” Future Mexican governments may be less liberal in interpreting the legal rights of concession holders.

A second dispute involves the allied question of the validity of original titles, many of which were acquired in the early days by fraud or force. An equitable title decision can be derived, in Washington’s judgment, only by properly constituted courts.

Under the amended law, the Mexican executive through the Ministry of Industry, Commerce, and Labour, is empowered to pass upon validity of titles in the wholesale re-proving process required by the law. Standard and some other companies charge that any system placing such essentially juridical powers in the hands of political officials is conducive to favouritism and graft, and therefore equally undesirable from the standpoint of the nation itself and of foreign producers. They also dislike the “positive acts” provision of the law preventing them from holding land without an earnest of development.

Meanwhile they had gained major advantages. The time limit on confirmatory concessions was extended to the length of the original title. The forfeiture penalty of the original law, for non-compliance with the concession-application provision, affected foreign companies controlling 90 per cent of the petroleum-producing lands and 70 per cent of the output was postponed.

The trend toward temporary *rapprochement* between the United States and Mexican governments for the time being has thwarted British efforts to obtain a favoured position at the expense of American producers. During the Kellogg-Sheffield provocative tactics of 1926-27, the British tried to capitalise anti-Yankee sentiment in Mexico City. These efforts failed for several reasons.

Dutch-Shell was beginning to expand in the new field of Venezuela, though as the largest single producer in Mexico (*i.e.*, through its subsidiary Mexican Eagle) it continued reduced operations in that country rather than take the heavy loss incident to withdrawal. Venezuela lacked the Mexican restrictive legislation, invited British exploitation, and geographically was in a better position for serving world markets than were the Tampico fields. If British oil capital was to expand in South America, it could not at the same time challenge successfully the entrenched American position in Mexico. This applied with greater force in the case of British Controlled Oilfields, which was close to bankruptcy because British Imperial policy rather than business judgment had determined its investments and activities. Anglo-Persian was preparing to capture a monopoly concession on Colombian national lands. Most British companies were coming to question whether the Mexican game was worth the price. Unwillingness of the Calles Government to treat with them on satisfactory terms confirmed their pessimistic attitude toward Mexico's petroleum future. President Gil continued the Calles policy.

The British therefore tend to accept the opinion of those geologists who believe Mexican resources which may be profitably exploited are almost exhausted. The accuracy of this opinion, which is shared by some American producers, is difficult to determine. Many geologists think present Mexican fields will be practically exhausted, at a reasonable rate of production, within a relatively short time, say a decade. But Mr. Doheny, whose judgment on Mexican oil in the past has been better than that of his competitors, points out that the interior of that country has hardly been scratched. Even if Mexican contentions are substantiated by future exploration, the problem of transporting oil to the coast will make such interior fields less attractive than the present wells.

Production fell from 193 million barrels in 1921 to 45 million in 1929. After ranking for many years as second only to the United States in world output, Mexico in 1928 dropped to fourth place (below Venezuela and Russia), and is now falling behind Persia.

In negotiating with Britons and Americans under the new conciliation tactics, the Government has been aware of the reduced importance of Mexico in the petroleum world. Revival of the Russian industry, initial drilling in Mosul, new gushers in the United States Seminole, west Texas, and California fields, and particularly the emergence of Venezuela and Colombia within the last three years as direct competitors of the Tampico fields, lessen the bargaining power of the Mexican Government in dealing with foreign interests. The time is approaching, or has arrived, when foreign oil capital is more necessary to Mexico than Mexico is necessary to it. Gulf Oil (Mellon), displeased with the Morrow agreement and looking to fairer Venezuelan fields, was reported withdrawing from Mexico in 1929.

But Standard and other American companies have considered their present heavy investments there. Even though some share in part the pessimistic point of view regarding future supplies and governmental restrictions, these American companies feel obliged to make the best of a bad matter and continue operations, at least for a while. This interdependence of American companies and the Mexican Government explains in part the failure of the British to obtain a favoured position and the ability of Ambassador Morrow to make a temporary agreement.



Mexico's dependence on American oil producers for taxes, industrial development, and employment of native labour is only part of her dependence on American capital as a whole. Mexico's economic crisis, caused by reduced oil revenues, fall of the silver market, and attempted counter-revolutions, coincided with increased financial demands. The moratorium on foreign debt service expired on December 31, 1927, leaving the Government with \$59 million to pay in interest and amortisation in 1928. To meet these obligations, 42 per cent of her estimated budget income would be required. This led President Calles in December to ask and receive from Congress extraordinary powers to deal with this problem. The situation was equally disconcerting to Mexico City and New York. The Mexican Government did not want to ruin its international credit, and the American bankers would lose if their debtor were forced toward bankruptcy. The bankers prepared to extend easier terms. In the interest of both parties a period of productive peace, based on Mexican-American co-operation, was essential. This thought was uppermost, perhaps, in the minds of the American banker-Ambassador and Senor Calles in their efforts to get the oil dispute temporarily out of the way. Moreover, new American capital is needed for reconstruction and industrialisation of the country. Mexico can exist without American financial participation in the development of natural resources, but the process would be a very slow one. But this increasing financial dependence of Mexico upon the United States is accepted with regret. While both countries were rejoicing over the "final settlement" of the oil dispute as embodied in the Calles decree of March 27, 1928, the Mexico City *Excelsior* was lamenting that European capital, formerly so strong there, was now afraid to challenge the United States's policy of financial and political "domination." *Excelsior* concluded: "We find ourselves, then, at the mercy—Mexico the same as other continent Republics—of American capitalists, reigned over by bankers." <sup>68</sup>

Recognition by Ambassador Morrow and Calles's successor, President Gil, of the advantages which can accrue both to American capital and to the Mexican Government from a co-operation policy was chiefly responsible for the conciliatory attitude in both capitals. Thus Washington directly and indirectly helped Gil and Calles to defeat the 1929 military rebellion.

But, in weighing the present situation and the probabilities of continued co-operation between the two governments in handling the oil question, one factor is usually overlooked in the United States. Mexico has paid almost the entire price for the present temporary *rapprochement*. She has retreated from her revolutionary principles of 1917. Granting that the Calles-Gil "strategic retreat"—to use the phrase made famous by Lenin—is necessary for the final victory of the revolution, the Mexican masses may soon be of different mind. There is little, if any, similarity between the Russian revolution and the Mexican revolutions which preceded it, except the agrarian problems common to each. But just because the semi-socialistic Mexican Government has less immediate and direct control over the masses than has the Communist Moscow dictatorship, the former may be unable to force the Mexican workers and peons to accept the retreat tactics which the Russian dictators imposed with such difficulty. As the Mexican Government swings more and more to the Right to team with American capital, increased protests are anticipated from labour and agrarian organisations. If this radical movement does

not succeed in dominating Mexican politics, presumably it at least will check somewhat the Calles-Gil conservative policy.<sup>69</sup> Protests of radical groups in Mexico against too complete compromise with American capital are apt to become acute over the land law issue. The Washington Government opposes the land law as confiscatory. The land and petroleum laws are so closely allied, any failure to reach a final settlement on the former will react unfavourably on the present partial and unstable settlement of the oil dispute. The crux of American-Mexican relations now, as in the past, is Washington's unwillingness to make major compromises on this general property rights dispute of which oil is a part. The much-lauded Morrow policy represents an important change in method, but no change whatever in aim. It has involved sacrifice of none of the principles asserted so belligerently by Washington since the enactment of the revolutionary 1917 constitution. The Morrow method has been successful temporarily because it permits Mexico to retreat without losing face. When Mexicans stop retreating and begin again to defend the nationalisation principles of the 1917 Revolution, the conflict between Washington and Mexico City probably will be renewed.

And if, when that time comes, Mexican oil has not altogether lost its international importance, Britain may resume the anti-Yankee intrigue to which she has resorted in every other American-Mexican crisis.

#### BRITAIN PENETRATES THE CARIBBEAN

Washington looks with suspicion and hostility on British penetration in the Caribbean. In that region the United States claims a special sphere of influence. British oil activities there are prompted "as a precaution in case war should break out between Britain and the United States; for, even with the help of the Japanese fleet, the British navy might not be able to seize the Panama Canal," according to M. Pierre l'Espagnol de la Tramerye, in a chapter on "An American Balkanism" in his *World Struggle for Oil*. There were British efforts as early as 1914 to obtain concessions in Central American republics. Immediately after its organisation in 1918 to make Caribbean oil safe for the Union Jack, British Controlled Oilfields obtained a seven million acre concession from the revolutionary Tinoco Government of Costa Rica. General Tinoco seized power with British help, according to Americans. His oil grant to the British company conflicted with earlier American concessions. London recognised the Tinoco regime. Washington refused to do so. "The attitude of the United States encouraged a successful rebellion against Tinoco in 1919," according to Parker Thomas Moon. Dr. Moon adds: "Costa Rica is 'independent,' but her Government must respect the new Monroe Doctrine, the doctrine that the United States has a veto on concessions."<sup>70</sup> The new Costa Rican Ministry cancelled the British concession. Washington bided its time until 1921, then permitted Panama to push a frontier dispute against Costa Rica. As soon as the boundary war got under way, Washington intervened and an American arbitrator drew a frontier which satisfied the Costa Rican Government. The latter having revoked the British concessions, later gave a nine million acre concession to the American Doheny interests and another to the Sinclair company.

Downing Street, in the exchange of notes on the San Remo-Mosul controversy, defended its Near East exclusion policy in part on the ground that the United States was guilty of the same practice in influencing the Costa Rican and Haitian governments to revoke legally acquired British concessions.<sup>71</sup> Costa Rican dissatisfaction over Washington's refusal to accept the Pan-American Court's ruling in the Nicaraguan dispute, later jeopardised United States prestige there and the Doheny-Sinclair concessions.

Despite repeated London denials, British Controlled Oilfields has been controlled by trustees, some of whom were nominated by the British Government. From the standpoint of naval strategy this company has been most successful, especially in acquiring lands in the Panama Canal region. As a commercial organisation, it has practically failed—though this is of less importance to the British Government. At the latter's suggestion the company was organised in a unique way, stockholders renouncing control in favour of seven "Voting Trustees." Following incorporation of the concern in Canada by Mr. Alves, the control system was established by a "Trust" on January 20, 1920. Trustees representing the London Government directly were Mr. E. G. Pretyman and Sir Edward Mackay Edgar, whose boasts of British oil supremacy are quoted above. The Trustees were empowered to appoint directors. Company shares were distributed throughout the Empire but carried on the books in the name of Messrs. Sperling, a bank of which Sir Edward is an official.

A revolt of these disfranchised stockholders led in 1925 to forced appointment of new directors. This board revealed that \$30 million, two-thirds of the company's capital, had been lost under the system and policy of political management. The struggle between the nonvoting shareholders and the British Government, represented by the Trustees, continued until it was carried into the courts in the winter of 1926-27. Belatedly the Trustees agreed to abolition of the Voting Trust and to financial reorganisation. But in the process of forcing this reorganisation certain details of British Government policy in the western hemisphere inadvertently were shown to the world. Mr. E.A. Harney, M.P., in addressing a protest meeting of stockholders was quoted by the *London Times*, January 27, 1927, as follows: "When their own company started it was the suggestion of the British Government that things should be arranged in such a way that neither the Standard Oil Company nor any foreign company should get the oil which it was hoped would come out of the property, and two nominees of the British Government were placed upon the Trust."

While stockholders were insisting on reorganisation, the Voting Trustees issued on October 11, 1926, the following statement defending political control of the company on the ground that it served British Imperial interest: "As was publicly stated at the inception of the company the dominant object for the creation of the Voting Trust was to secure the control of the company for all time by British subjects in order in times of need to be in a position to direct the output of the fields into channels best calculated to serve Imperial interest, and for this object, and this object alone, the Trustees accepted the Trust. Sir William Mercer, who held the office of Chief of the Crown Agents, obtained the sanction of the Colonial Office to his appointment, and Mr. Pretyman became a Voting Trustee at the request of Lord Long, who was the Cabinet minister at

the head of the Petroleum Department.”<sup>72</sup>

It operates in Venezuela and other Latin American countries in part through Dutch-Shell. In Trinidad much of its land is worked by Anglo-Persian. Though the Alves organisation under British Government influence succeeded in being first on the field and in acquiring more lands in Latin America than any other company, its actual production has never been large.

Why British Government control in the case of the Alves company should have been so disastrous financially, in contrast to the commercial success of the British Government-owned Anglo-Persian Company, is not altogether clear. Americans believe that much of the Alves land was acquired and is retained, for strategic purposes, with the knowledge that oil is not present. Anglo-Persian in some Latin American fields has made big money. In others it has followed the Alves example of spending large sums for what is apparently strategic territory of little actual petroleum value. Anglo-Persian profits from Persian wells and some Latin American pools are sufficient, however, to conceal “losses” incurred in political ventures. Within 10 years after its purchase of Anglo-Persian control for \$11 million, the British Government had profited to the extent of 9200 million, according to Mr. Winston Churchill’s estimate in his *The World Crisis*. The political exploration activities of the company through subsidiaries in the Caribbean-South American region and elsewhere are shown by the company’s balance sheet to be expanding rapidly. Though no details were given, the budget of expenditures submitted to the annual meeting for 1926-27 included an item of \$124 million as “purchase price of concession, shares in, and advances to associated companies.”

Activities of Dutch-Shell, Anglo-Persian, and British Controlled Oilfields challenged commercial interests of Standard and other American companies and endangered the United States claim to special political interests in the Caribbean. Though the eyes of the Americans were opened late, to use the British phrase, the Yankees fought back. As a result, American holdings in the Caribbean region and southward are now much larger. American dominance was easy to achieve in countries over which the United States Government or its so-called “treaty officials” exercise wide authority. In the Dominican Republic, the Texas Company through its subsidiary Antillean Petroleum has acquired four concessions covering all of Azua province and parts of adjoining provinces. The British have been more successful in Bolivia and Ecuador, though neither of those fields is important as yet. A London firm, Anglo-Ecuadorian, is the only company with commercial production in the latter country. British interests in 1927 acquired a large block of stock of Inter-Continent Petroleum Corporation, a mixed company holding about eight million acres in Ecuador, Mexico, Guatemala, British Guiana, and Venezuela.

Though Brazil in 1926 nationalised all mineral deposits in anticipation of important petroleum discoveries, exploration and drilling operations are still in an initial stage. Chile also has passed restrictive legislation, though oil has not yet been found in commercial quantities. A bill to place a prohibitive tax on oil imports, to force American copper companies to use native coal, was side-tracked in 1928 when Washington unofficially protested.

Argentina in 1928 produced a total of nine million barrels, and was tenth in world output.



Foreign capital has been at a disadvantage. The Government exploits the best fields and practically prohibits exports. Nationalisation of the industry throughout the Republic, State monopoly of oil transportation, and exclusive State exploration are provided in a bill passed by the Argentina Chamber of Deputies in 1927. Foreign companies in 1928 and 1929 blocked the bill in the Senate. British Railways and Anglo-Persian are the largest private producers; Standard (N.J.) and Dutch-Shell output is insignificant. Standard has been cited by the Supreme Court. Rising Argentine nationalist opposition to Standard was indicated by *O'Shaughnessy's South American Oil Reports*, March 1928; "The theme of all this propaganda was that the Standard Oil Company (backed by the United States Government) as part of its world program, was endeavouring to monopolise or control the supposedly tremendous oil resources of the Argentine, and that it was essential that legislation be enacted immediately depriving the provinces of the ownership of petroleum wells and vesting all title and control in the Federal Government (nationalisation) and thus prevent such a situation ... the discussions in Congress were practically a continuous tirade against the Standard Oil Company, with a great deal of attention devoted to the alleged imperialistic 'oil policy' of the United States Government. ..."

Bolivia has been chosen by the British for a grandiose exploitation scheme under grants obtained by a London concern, Bolivia Concessions, Ltd.<sup>73</sup> The vast concession covers 50 million acres, including 20 million under option. The company's rights cover oil, mineral, timber, and agricultural concessions in the eastern part of the country. A port has been built on the Paraguay River near the Brazilian border and 600 miles from the coast, and a railway and wireless station projected by the company. Petroleum deposits have been found in a score of places between Yacuiba and San Cruz, Bolivia. Standard has small productive wells in the Yacuiba territory, near the British concession. Guggenheim and other United States mining and financial interests are a power in that country, as we have seen in the chapter on tin. Unfavourable inland location of the country and transportation obstacles, however, have retarded oil development. A pipe-line across the Andes would have to cross Chilean and Peruvian territory, raising political difficulties in addition to the heavy investment required. The longer outlet down the Paraguay River was projected in 1930.

Peru is the most important oil country in South America, except Colombia and Venezuela. With an annual production of 12 million barrels in 1928 it ranked ninth among the producing countries of the world. There are three Peruvian fields on or near the coast, Zorritos, Lobitos, and Negritos. Less accessible are the Titicaca deposits in the Andes. Standard (N.J.), through its subsidiary, International Petroleum, the largest producer in Colombia, holds the La Brea y Patinas concession of 400 thousand acres in north-eastern Peru, and smaller tracts aggregating 850 thousand acres more. The Rockefeller company is holding output to about seven million barrels a year on account of present world over-production. Part of Standard's acreage was obtained from British Controlled Oilfields, when that company's near-bankruptcy was discovered by its stockholders. A British concern, Lobitos, produces annually about 2.5 million barrels. Dutch-Shell, like British Controlled Oilfields, went into Peru several years ago, but grew discouraged too soon. The Deterding combine let its largest concession option lapse through failure to exploit

the tract. An American company, Phillips Petroleum, in 1927 obtained that concession on a Government royalty basis. The tract of almost 1.5 million acres is along the coast in Piura Department. Other American companies are exploring government lands. A British promoter, Mr. G.V. Holden, became very active in Lima in 1927, finally winning the friendship of President Leguia. He was promised a refinery concession and gasoline sale "monopoly" on a 12.5 per cent Government royalty basis. The Chamber of Deputies refused to ratify the Holden "monopoly" contract in October 1927, but reversed its decision in 1928. Apart from this apparent favouritism toward some British interests, American companies for the moment are fairly well satisfied with conditions in Peru. They were able in January 1927 to get from the President an executive decree, which "clarified" the petroleum nationalisation law in line with American demands. The decree extended the length of concessions to 40 years. Various legislative and administrative restrictions also were relaxed.

Venezuela has suddenly emerged as one of the important oil fields of the world, ranking second to the United States in production. In 1927 it almost doubled its output, and with a total of 64 million barrels edged Mexico out of third place. In 1928 it passed Russia by producing 106 million barrels. In 1929 its production total should reach more than 135 million.

The chief struggle is between Standard and Dutch-Shell. Early British production supremacy has been overcome; the 1929 output ratio was British 40 per cent and American 60 per cent approximately. The importance of Venezuelan wells is enhanced by the favourable position of the country. It is close to the Panama Canal, on the short route to the Far East markets, and 100 miles nearer than Tampico, Mexico, to New York, and 800 miles nearer London. Deterding's organisation was first on the ground. British Controlled Oilfields followed. Standard (Ind.) arrived four years later in 1922. Then came the Gulf interests of Mr. Andrew W. Mellon, United States Secretary of the Treasury.<sup>74</sup>

Political conditions are similar to those of Mexico in the days of Diaz. General Juan Vicente Gomez, who is still political dictator and army chief despite his presidential resignation in 1929 after 20 years in that office, gives the country a reign in which the rights of labour are restricted and foreign capital is favoured for a consideration. The British drilled into the Gomez regime and grabbed the best oil lands before the Americans realised the importance of Venezuela, just as the Americans had done in the Mexico of Diaz. Like Diaz, however, Senor Gomez has found it expedient to balance the monopolistic power of one foreign group by letting in a second group, in this case American. Lawless methods of competition, running into violence, are charged against Britons and Americans.<sup>75</sup> Political graft has a part in obtaining and holding concessions. Much of the land is unsurveyed wilderness, hence disputed titles and bribery. The gushers of the La Rosa-Lagunillas district at Lake Maracaibo are in the state of Zulia, which is relatively inaccessible and far from the capital, Caracas. President Perez Soto of Zulia boasts of his alliance with foreign oil interests. Separation of Zulia from Venezuela is favoured by certain American companies fearing the fall of Gomez.

Petroleum and mineral rights are vested in the Federal Government. This is traditional, dating

from colonial days when the Spanish Crown granted land titles but retained the mineral resources. Under the present law the landowner has no vested subsoil rights. Concessions granted by the Government are limited by the hydrocarbons law of 1925 to 40 years. Royalties range from 7.5 to 11.25 per cent. There is no corporation tax. Other oil taxes include 10 per cent on production at market value, and small taxes on export, tanker clearance, exploration, and exploitation. After passing mining laws not entirely satisfactory to foreign capital, the Venezuelan Government in 1922 called in American and British oil men to write a law practically to suit themselves. With only slight changes this foreign draft was enacted and oil capital began to flow into the country as desired. Satisfactory arrangements were made regarding old concessions of foreigners, which had been adversely affected by a regulation of 1920. The 1922 law, rewritten without basic changes in 1925, is praised by the companies as a model for all other Latin American countries.

But foreign companies fear that Venezuela, under Gomez's successor, may follow the Mexican lead and take a heavier toll by taxes and restrictive legislation. The abortive student-military rebellions of 1928 and 1929 increase this foreign fear of a future "radical" regime. Labour problems grow increasingly serious, though the predominantly Indian population has achieved no strong labour organisation.

Transport difficulties are the chief immediate obstacle. The present producing area is the Lake Maracaibo basin, covering about 30 thousand square miles in the north-western part of the country. Moving sand-bars at the lake outlet to the sea block the passage of ocean tankers. Specially constructed lake tankers are required for import of material to the fields, and export of crude. Pipe-lines to the coast and extensive lake-channel dredging operations are planned, but for several years the companies expect to depend upon the present method of transport. Limited transport necessitates restriction of output in all fields of the basin. But American and British companies are pushing exploration and initial drilling in the race which is extending over practically the entire northern half of the country.

Dutch-Shell in the Mene Grande field of the Maracaibo basin began small scale production in 1917, through its subsidiary, Venezuelan Oil Concessions. That company is still the largest single producer. In the period of 1918-20 British Controlled Oilfields, under tutelage of the London Government, bought up as much Venezuelan land as it could. This included a large tract, still undeveloped, in the eastern Orinoco Delta region. Of more importance it acquired the Buchivacoa concession in the Maracaibo district, covering 15 thousand square miles. Being essentially a political company without producing experience, British Controlled Oilfields spent much money without being able to develop this extensive tract. It chose the safe method of permitting Standard to prove and develop the eastern part of the concession for it on a 12.5 per cent royalty basis, under careful time and other restrictions. A better portion of the concession was leased or sold under restrictions to Dutch-Shell. The remaining western part of Buchivacoa was developed slowly and inefficiently by British Controlled Oilfields. At this same time Anglo-Persian, Dutch-Shell, and Standard were taking up open lands, and Gulf was coming in on a large scale.

By 1929 there were five large operating companies. The two Dutch-Shell subsidiaries (V.O.C. and Caribbean Petroleum) were running less than 4.5 million barrels a month, compared with about 6.3 million barrels for Standard of Indiana (Lago), Gulf, and Standard of New Jersey (Creole Petroleum).

Other companies are entering the field, including Sinclair (Venezuelan Petroleum). Atlantic Refining (American) in 1927 acquired half interest in the Andes Petroleum tract of four million acres. California Petroleum and Union Oil of California contracted late in 1927 to spend \$7 million within six years in developing 1.5 million acres on the Pantepec Oil tract. Anglo-Persian plans extensive developments on its large tract in the State of Falcon. Fearing a radical Government may come into power when the dictator Gomez dies, British and American companies hesitate to invest capital in refineries there. Dutch-Shell, British Controlled, and Standard have only very small "topping" plants in that country. Sir Henri chose the neighbouring Dutch West Indies. His refinery at Willemstadt, Curacao, handles most of his company's Venezuelan production. Dutch-Shell in 1928 completed another refinery at Oranjestadt, Aruba. Standard (Ind.) completed its large refinery on the same island in 1929. American companies have storage capacity in Venezuela of 14 million barrels compared with four million for the British.

Profits mount despite transport obstacles. Dutch-Shell's subsidiary, V.O.C., in 1927 paid a 55 per cent dividend, besides a 15 per cent dividend to its holding company. Shares in some British and American operating companies increased in value about 600 per cent from 1924 to 1927.

American success in the production and profits race does not mean, however, that British companies have been driven from their dominant position. Most of the acreage of proven lands is still owned by Dutch-Shell and British Controlled Oilfields. British policy requires that much of this land remain undeveloped until present operating fields are exhausted. Even in some producing fields, the British restrict production more than the transport limitations require. They expect American companies to be as prodigal and short-sighted in Venezuela as in the United States. But under provisions of the petroleum law by which half of land originally explored by a concessionaire must revert to the State, Americans may get some of the present British land if they are on better terms than their competitors with the Government.

In Colombia an international oil explosion is threatened by efforts of Anglo-Persian, a British Government company, to get a concession with canal rights flanking the Panaman defences of the United States. All the elements of danger are there: alleged British Government defiance of the "Monroe Doctrine Corollary," conflict between Standard and British companies, Nature blocking petroleum exploitation, primitive tribes suspicious of alien invasion, labour trouble, "Mexicanised" laws and regulations, disputed land and subsoil titles, foreign financial penetration and diplomatic intervention. On top of this explosive well sits Standard. The Anglo-American struggle there dates from 1913, when the British Cowdray (Pearson) interests, after challenging the Yankee monopoly in Mexico and Central America, obtained a concession from the Bogota executive. That contract granted to the British the right to exploit 10 thousand square kilometres of oil lands anywhere in the country, including the frontier over-looking the Panama Canal. The



significant right to build communications systems and a canal was included. This aroused the enmity of American oil interests, and fear in the State and Navy departments at Washington. President Wilson saw a threat to the Monroe Doctrine. Secretary of State Bryan stormed against the machinations and intrigues of foreign concessionaires. American diplomatic pressure was applied in Bogota and London. And in January 1914 Ambassador Page was able to report from London that the British Government had considered “the dangers that lurked in the Government’s contract with Cowdray for oil; and they pulled Cowdray out of Colombia. ...”<sup>76</sup> Washington in turn granted the British demands for repeal of the law exempting American ships from Panama Canal tolls. To what extent this was a direct trade for London’s withdrawal of support for the Cowdray concession is not clear. Meanwhile the Colombian Congress had refused to approve that concession, and had shown its growing distrust of foreign capital by passing a law nationalising oil rights in public lands and restricting the granting of concessions on such lands. Since then the importance of Colombian oil has greatly increased.

The United States now looks to Colombia to take Mexico’s place as the source of American petroleum reserves. Following the report of the Coolidge Conservation Commission on the coming shortage in the United States, the interest of Washington and New York in the republic adjoining the Panama Canal has increased rapidly. British initial success in getting neighbouring Venezuelan fields intensifies the American drive on Colombia. No one knows the extent of Colombia’s petroleum resources. Apparently they stretch hundreds of miles back through tropical jungle to the Andes. But there is no natural outlet. The Magdalena River, running through the oil country, is too shallow even at its mouth for sea-going tankers. This obstacle for several years retarded subsoil development. Then Standard (N.J.) rushed in where only giant capital can follow.

Roberto de Mares, a French engineer, later naturalised, obtained in 1905 a 50-year concession in the heart of the Carare country. The tract lacked definite boundaries, but was later found to contain about 1.3 million acres. Standard in 1916 purchased his rights.

Standard operated through its subsidiaries, Tropical Oil and Andean National Corporation. Tropical started exploration at once. But annual production in the period of 1922-25 was held to about 500 thousand barrels. Then the pipe-line, 360 miles through the jungle to Mamonal on the coast, was completed. The company built refineries, factories, harbours, boats, roads, railways, and cities. Within five years Standard invested \$60 million. Production for 1928 was 20 million barrels. To construct the pipe-line, Standard had acquired in 1923 a special concession from the Government. The company claims it spent the large sum involved in construction only after assuring itself that the Bogota Government would pursue in the future a favourable legislative and administrative policy. This general promise has not been borne out. But the company was able to settle favourably a royalty dispute with the Government in 1928.

Other companies, American and British, have gone into the country. But lack of transport facilities prevents commercial production outside of Standard’s De Mares field. Among interested American corporations are Gulf (Mellon), Transcontinental, Texas, Magdalena

Syndicate, Colombia Syndicate, Leonard, Bogota Syndicate, Sinclair, and Standard of California. The latter's holdings are in addition to the Standard of New Jersey Tropical concession.

The chief conflict between American and British companies centres in and around the Barco concession area, far back in the interior against the Venezuelan frontier. General Virgilio de Barco, who had defeated the rebel army in Colombia's civil war, in 1905 received as a reward more than a million acres of jungle land. In 1916 he sold it to an American-British syndicate. The Americans held a majority interest. Dutch-Shell was indirectly represented. But this syndicate could not solve the transport problem. There were two possible outlets, both expensive. One lay over the Andes, the other across the Venezuelan frontier to Lake Maracaibo and the sea. The first was rejected by engineers as too difficult and costly. The alternative route was blocked by a Colombian-Venezuelan boundary dispute. When this controversy was settled the syndicate was unable to make satisfactory pipe-line arrangements with the Caracas Government. Then the issue of titles arose to plague the syndicate. Colombian titles are described by petroleum lawyers as "the most involved titles of any oil country in the world." The syndicate's titles were questioned. Too many other persons, native and foreign, were interested in the Barco region.

As a result of these complications in 1925, Mr. Henry L. Doherty, chief American holder in the syndicate, arranged for the Gulf (Mellon) interests to obtain control through the Colombian Petroleum Corporation. Gulf has 75 per cent interest; the Carib Syndicate, American-Doherty capital, retains 25 per cent. Within less than two months after the family of the United States Secretary of the Treasury acquired control of the Barco fields, Venezuela agreed to permit a pipe-line across its territory.

But the Colombian Minister of Industries in February 1926 had declared the company's Barco concession invalid. The new Mellon interests were not able to get favourable action from the Mendez Cabinet, which took office about that time. It was easy enough for Secretary Mellon in Washington to cause United States diplomatic and financial pressure. But when the American Minister, Mr. Piles, early in 1928 protested Bogota's delay in clearing the Barco title, Colombia was fired with anti-Yankee hatred. Driven by popular resentment, the Colombian Foreign Minister replied: "The Secretary of State of the United States has committed an error in initiating this intervention in respect to an affair which, since it deals with the judicial relations between the Government and a national entity, pertains exclusively to the tribunals of the country."<sup>77</sup>

Minister Piles continued his protests. Bogota replied on August 4, 1928, by reaffirming cancellation of the concession—this time on grounds of non-exploitation of the resources by the company in the period 1923-26.

There followed a sharp exchange of notes in which the United States expressed its "surprise" that Colombia should be guilty of practices allegedly contrary to the customary treatment accorded friendly nations. Specifically, Washington insisted that Bogota reply to the Mellon company's demand for a month in which to submit an appeal from the cancellation decision. Then the Foreign Minister put the dispute before his Congress, which enthusiastically and unanimously

approved the defiant attitude toward Washington's "intervention" in what was described as the domestic affair of the sovereign and independent Colombian Republic. Quick to seize another opportunity to attack the alleged Yankee menace, leading newspapers elsewhere in Latin America increased their anti-American agitation. This wide backfire abroad, together with liberal opposition in the United States to a provocative State Department policy in behalf of Secretary of the Treasury Mellon's company, forced Secretary Kellogg to modify his demands. Moreover, the Republican Administration could not afford to be embarrassed by a Mellon issue during the 1928 election campaign. Diplomatic representations then were no longer directly insistent on reconsideration of the concession cancellation, but only indirectly so, by pressure for the Government to reply to the company. This indicated that Washington had lost the fight, or rather had withdrawn to a more strategic battle ground—that of financial pressure. Meanwhile the faithful Mr. Piles was relieved, and American Minister Caffrey was sent from Salvador in November 1928 to take his place.

A year later the Bogota Government included the Barco concession area in the lands to be nationalised by its proposed petroleum law. But if Washington and Mr. Mellon can help it, the Barco fight is far from over. It will be fought out on the charge of confiscation without compensation. There are sporadic political separatist movements in the Barco region, reported to have oil motives.

Lobitos and Costol Oilfields among the British companies in Colombia are Dutch-Shell, but the most active is the British Government company, Anglo-Persian.

Henry Irving Frederick Yates landed in Colombia early in 1927. This gentleman is a Briton by nationality, a colonel by title, an agent of the British Government's Anglo-Persian Oil Company by vocation. He arrived with a diplomatic passport, and the prestige and immunity which that gives. His way had been prepared by the British Legation at Bogota. He negotiated with Colombian officials. The daring Colonel proposed that the Colombian Government grant to the British Government company a 50-year monopoly concession for the vast area of national lands adjoining Panama and dominating the Canal approaches. Minister of Industry Montalvo, the President, and the Cabinet agreed. But certain Americans, whose business it is to know what foreign agents do in the Panama Canal region, promptly learned of the secret agreement. They were especially alarmed by the right granted the concessionaire to establish air bases and construct a transoceanic canal.

What was the United States Government to do? Ordinarily its formal protest under the Monroe Doctrine would be quick and sharp. But this situation was not so simple. In the process of protecting that same Monroe Doctrine and its "Coolidge Corollary," the United States at that time was threatening Mexico, allegedly violating Panama's sovereignty with a military treaty rejected by the National Assembly, and "pacifying" Nicaragua with battleships and marines. Washington's exercise of these "duties" had been "misunderstood" throughout Latin America. Anti-Yankee sentiment was running high, especially in the South American republic next to the Panama Canal. President Coolidge had justified his Nicaraguan intervention by a declaration of "special interests." Colombians were asking: "Will our country be next?" Colombian leaders

were sending protests to President Mendez, warning against American financial and economic penetration as the first step in the invasion of their country's sovereignty.<sup>78</sup> Clearly it was no time for the State Department to protest to Colombia, even under the Monroe Doctrine. Open opposition to the British Government's scheme to acquire territory flanking the Panama Canal was left, therefore, to certain Colombians whose own interests were also jeopardised. They protested on the ground that the Colombian constitution and laws prohibited a foreign government from acquiring, directly or indirectly, such rights.

Popular sentiment forced the Bogota Government, led by the British Colonel, to a strategic retreat. The Colonel agreed that this was no sort of concession to be given to a foreign government. But that it should be given to Mr. Yates as an individual obviously was an entirely different matter. The Bogota Government gave him the concession to six million acres—along the Panaman border.

But the objections continued. The strategist decided to leave the country. He departed as plain Mr. Yates, but allegedly with a diplomatic passport and with his records and luggage under immunity and seal of the British Government. The British Minister continued negotiations for the concession. Then London sent another Anglo-Persian agent, Lieutenant-Colonel Sir Arnold T. Wilson, who was experienced in pulling wires in Mosul and Persia. He tried to revive the Yates contract. But up to 1929 he had not succeeded.

Colombian opposition to the proposed Yates-Montalvo concession is led by Dr. Laureno Gomez, former Minister of Public Works. *"The reserve of Uraba, which Law 72 established for the Republic of Colombia and incorporated in its patrimony, becomes (under the contract) a reserve of the British Government or of its oil operators," according to an "expose" by Dr. Gomez in the Bogota El Tiempo, October 18, 1927: "There is something offensive to Colombian good sense in the manner in which Yates wanted to get the concession for the new canal."*

The text of the amended contract is long and involved, many of the major points being obscured in technicalities. The extract given below is from the English text appearing in *O'Shaughnessy's South American Oil Reports*, December 1927, which officials consider reliable. The Opposition argument is inserted here in parenthesis: "Clause 13. ... Whenever, for the purpose of the official exploitation to which this contract refers, it is necessary to establish telephonic, telegraphic or radio-telegraphic communications, or to construct railways or other means of communication of analogous or of greater importance, they may be constructed by virtue of a separate contract, the cost thereof to be charged by the Administrator to the 60 per cent treated in the seventh clause hereof."

(Gomez's criticism: "This clause is of exceptional gravity. The difference attracts attention as between that established when they treat of constructing pipe-lines, ports, and docks which require authorisation on the part of the Government and 'the construction of telephones, telegraphs, railroads, or other similar ways of transportation of major importance' in which it is not established that authorisation is necessary. The fact of enumerating them separately implies that this authorisation is not previously necessary because it is considered to be conceded by the



contract itself. With regard to these works it says 'that they will be able to be done by separate contract.' Here Clause 2 commences to function. The contractor [Yates], 'representative of the Government for all the operations which should be carried out in the development of this contract,' will be able to make the separate contract in the name of the Government with the entity add that may suit him, for the construction of railroads or the opening of the interoceanic canal. ... The contractor [Yates] 'is enabled to contract separately for the construction of the canal,' without the necessity of a permit and without advice to the Government.")

The President and Cabinet had tried to give away a right of which Congress alone could legally dispose. There was no way out then for the British and the Government except to put through Congress legislation empowering the executive to grant such concessions. A measure known as the Sanchez bill was written by Minister Montalvo, and introduced in Congress in the summer of 1927. Its passage was blocked. Downing Street intervened. This incident was described by the Bogota press, according to an American agency despatch of October 23, as follows: "*El Tiempo* announces that the British Minister sent a note to the Government demanding extension of the session of Congress while discussion of indemnification of \$12 million for expropriation of a British company's mines of Supia and Marmato is pending, assuring that the Foreign Office would compromise for \$6 million provided the Yates contract is approved. *El Tiempo* adds the Foreign Minister read the British note in secret session of the Senate, where it caused great indignation, the Senate deciding to protest it and to reject the settlement, which will be arranged by the Government administratively."

Britain's resort to strong-arm methods and the consequent anti-British reaction in Colombia prevented Congressional action on the contract. The British and the Bogota Government, unwilling to admit defeat, introduced in place of the Sanchez measure an emergency petroleum bill with a similar rider empowering the executive to dispose of national lands to concessionaires. This rider was defeated by Congress. Under the amended emergency petroleum law (Law No. 84), the Yates contract must be suspended pending its acceptance by Congress or passage of a new law empowering the executive to grant the concession.

The Bogota Government's act in negotiating this concession and attempt to put it into effect over the protest of Congress is tremendously significant. Perhaps no more daring gesture against the United States's assumed authority over the Caribbean has ever been made by a South American government. What is behind this, and where will it lead? That is what Washington is wondering.

Is this Colombia's revenge for the alleged theft of her Panaman province by the United States in 1903? Washington knows that wound has not healed, despite American payment of the monetary claim. But Washington has not supposed that the Bogota Government seeks retaliation, if such is the case. Senator William E. Borah, now chairman of the Foreign Relations Committee, in his unsuccessful opposition to the \$25 million payment treaty<sup>79</sup> characterised that settlement as an effort at "purchasing the friendship of Colombia." In his Senate speech of April 14, 1921, Mr. Borah pointed out: "Colombia, as we all know, has always assumed to treat any such suggestion as an insult. For 17 years this controversy has been going on. It was initiated in

the claim upon the part of Colombia that the United States Government had violated international law, that its President, usurping power, had oppressed a helpless people or a weaker people, and that we had aided and abetted in the tearing asunder of the Colombian Republic.” The Senator did not quote the famous explanations made in 1911 by Mr. Roosevelt, which are frequently repeated in Bogota—“I took the Canal Zone and let the Congress debate, and, while the debate goes on, the Canal does also. ... I was prepared, if necessary, to submit to Congress a recommendation that we should proceed with the work in spite of Colombia’s opposition.”<sup>80</sup> It was freely charged that oil interests were partly responsible for the Harding Administration putting through the payment treaty.<sup>81</sup>

Perhaps the Colombian Government’s share in formulating the Yates contract can be understood, but what about the British Government? This is not a question which Washington officials discuss for the public. Assuming that some responsible officials in London see the international menace of their Government’s ownership of Anglo-Persian, perhaps they were not originally aware of that company’s clumsy and provocative acts in Colombia. If that is the explanation, why does the British Legation in Bogota continue its efforts to get the concession in Mr. Yates’s name? What gain can compensate for the cost the London Government must pay in international distrust? These are some of Washington’s unanswered questions.

These questions are barbed by reports of some American oil men to Washington that their survey showed no petroleum in the concession area—which may or may not prove true. They also cite the experience of the Gulf company which, after spending a reported \$1 million on unsuccessful exploration and drilling in 1929 withdrew completely from the adjacent Panama field. They believe the Yates concession unimportant to any British company—if oil is the only motive. The American judgment that there is little or no oil in the proposed British concession area south of the Panaman border coincides with the American judgment that there is no gold in the British “gold” concession between the Colombian border and the Panama Canal. The Panama Corporation, a British syndicate promoted by the Earl of Cavan and Lord Melchett, in 1925 obtained from the Panaman Government a 10-year monopoly gold concession.<sup>82</sup> Mr. Richard O. Marsh, explorer and discoverer of the “white Indians,” filed charges with the State Department against Britain. Mr. Marsh alleged that the British Government through this concession obtained important naval bases in Panama, the right to police territory near the Canal and exclusive rights to the potential Panaman rubber desired by Americans to block British world rubber monopoly.<sup>83</sup> Anti-British sentiment was revived in the United States as a result of these charges and sensational press stories.

The Senate passed a Borah resolution “directing the Secretary of War to advise the Senate of all facts and circumstances relative to concessions secured by the British Government in the Republic of Panama.”<sup>84</sup> Investigations failed to substantiate the extreme charges. The concession covers 1,150 square miles in Veraguas province, the El Remance mines in that province and the Darien tract of 3,400 square miles in south Panama. The corporation has exclusive 10-year rights to prospect for gold, and thereafter to work its mines as perpetual owner.

All mines within the area to which it establishes claim and which it actually operates are tax-exempt. The corporation has use of national communications and waterways. The Panaman Government receives a two per cent royalty of gross receipts from mines after one year of operation. The area covers harbours but no major ports. Concession lands are in no case closer to the Canal than 100 miles. Though the military guard is paid by the corporation it is "appointed" by the Government. There are other Panaman lands as well adapted to rubber cultivation. The British Government has no apparent holding in the company.

There remain, however, several questions concerning this concession which trouble some Washington officials. First, there is believed to be not sufficient gold in that region to explain under ordinary circumstances the organisation of a \$10 million corporation. Secondly, the concession promoters are men who are, or have been, British Government officials. The importance of Lord Melchett has been discussed in preceding chapters. Mr. Andrew Percy Bennett is former British Minister to Costa Rica, Venezuela, and Panama. But the most important person, from the American point of view, is the chairman, Mr. Duncan Elliot Alves. Mr. Alves will be remembered as head of British Controlled Oilfields, organised under British Government control for the avowed purpose of obtaining Latin America's resources to be held for exclusive British Government service in time of need. Mr. Marsh's idea that the London Government could establish naval bases in this concession area near the Panama Canal, without being observed and stopped by the United States, is naive. Military and naval men think about all the British Government can obtain from this concession, if it so desires, is a very thorough knowledge of this rather inaccessible region, which would be of value in event of war between the two countries. Washington blocked Mr. Alves's effort in 1928 to obtain a permit to build a trans-isthmian highway.

Mr. Alves's record with the British Controlled Oilfields and his association with this extensive and apparently valueless tract near the Panama Canal however, increases the mystery in Washington's mind. That mystery deepens when a British Government company attempts to get possession of another large neighbouring territory across the border in Colombia. The United States Government is especially sensitive to any act in Panama or the Canal regions, which suggests that a foreign Power is interested. Establishment of air bases by Colonel Yates, as permitted by the proposed Colombian concession, would disturb greatly the American military and naval strategists. Washington's suspicion regarding holdings of foreign Powers extends a long distance from the Panama Canal itself. When a Japanese syndicate was reported seeking to acquire the Magdalena concession in Mexico, the State Department announced it would view with grave concern the "actual or potential possession of a harbour or any other place" by any non-American government in an area which might threaten the defences and communications of the United States. This was the attitude of the Senate in the Lodge resolution.<sup>85</sup> Transfer of the Magdalena concession to the Japanese company, according to the Department, "would be quite certain to be interpreted in some quarters in a manner to cause a great outcry and such a result would be so obvious a cause of regret to the Government of the United States that it would appear unnecessary further to comment on the disposition of the Federal Government."

Yates's proposed concession in Colombia would give to the British, hundreds of miles nearer the Panama Canal than Magdalena Bay, "the actual and potential possession of a harbour or any other place," which Washington declares a matter of grave concern. The merest hint of such a British interoceanic canal as permitted by the Yates concession is considered a threat to basic United States commercial and naval policies. Under no conceivable circumstances will Washington permit construction of any canal connecting the Caribbean and Pacific which is not under absolute United States control. This fixed policy resulted in United States acquisition by the Wilson Administration of exclusive perpetual rights to build such a Nicaraguan canal. The amount paid was \$3 million. That action was taken because other foreign Powers desired canal rights. Not until several years later was it apparent that the United States could well use for commercial and naval purposes two canals. Protection of these Nicaraguan canal rights, and supplemental naval base rights at Corn Islands and Fonseca Bay, was given by President Coolidge in a special message to Congress as a major reason for military intervention in that country in 1927.<sup>86</sup> Congress has since authorised a survey for such a canal.

Political conditions in Panama also partly explain Washington's sensitiveness to the Yates contract. While British agents and the British Minister in Bogota are trying to obtain territory flanking the Panama Canal, the Panamans themselves are protesting the United States's claim to complete sovereignty over the Canal Zone. The Panamans are not only disputing this delicate issue with Washington, they are challenging the United States's claims before the League of Nations. Senor Morales, Panaman Minister of Finance and Geneva delegate, said in an address to the League Assembly: "It is, however, a serious question in reply to which no compromise is possible between the two governments, because it cannot be settled unless one of the participants changes its view wholly and completely, and adopts the other's views. The United States maintains that Panama has transferred its right of sovereignty over the Canal Zone, while Panama maintains that it has only granted such rights and authority as they would possess if they were, in fact, the sovereign Power, for the specific purpose of constructing, maintaining, operating, sanitating, and protecting the Canal."<sup>87</sup> Refusal of the Panaman Assembly to ratify the United States treaty, and the prospect of continuance indefinitely of that dispute, heightens Washington's concern over complications or possible foreign intervention in the Canal region as implied in the Yates contract.

While Washington was worrying over international implications of the British concession and provisions of the Sanchez bill to make the contract effective, American oil interests were concerned with restrictive provisions of the bill affecting their industry. They were convinced that no oil was to be found in the Yates region and were mildly interested in alleged political and naval intrigues of the British Government. But they were ready to fight against the Colombian Government's new policy of "Mexicanisation."

This nationalisation policy was expressed in part in the emergency law (Law No. 84) of November 1927. It required foreign companies to re-prove title, indefinitely suspended action on all pending contract applications, and doubled the exploitation tax. The companies cried "confiscation." Two months later an Executive Decree (No. 150) increased the severity of the



law by shortening the half-year proving period to one month, and by giving to the Minister of Interior, instead of the courts, power to pass upon titles. This followed the protested Mexican provision almost to the letter, and in a country where land and subsoil titles are perhaps more confused than in any other oil area in the world. Again Washington applied diplomatic pressure. As a result President Mendez revoked Decree No. 50, thus automatically postponing operation of Law No. 84. The Colombian press was infuriated by this Yankee "intervention." A rather complete nationalisation bill was blocked by the companies in the autumn of 1928. Then the Government was induced to call in a group of foreign experts to write a new bill, and this included Mr. H. Foster Bain of the U.S. Bureau of Mines and Mr. J.W. Steel of the U.S. Geological Survey.

This bill passed the Senate but died in the Chamber in 1929. It was to be introduced again in 1930. It provides for nationalisation of most of the potential oil lands. The nationalisation provision covers the Santander del Norte or Barco concession area, but does not mention the Uraba or Yates contract region. Exploitation of national reserves is made subject to Congressional authorisation, the limit of concession to any one company being 100 thousand hectares. The nation reserves to itself in each field an area equal to private concessions, the latter being for 30 years with an additional 10-year extension. An elaborate and high system of royalties is provided. American oil companies object to the bill. Their attitude is reflected by the *Wall Street Journal*, which stated editorially, August 30, 1929: "Assuming that the framers of the bill wish to secure a workable petroleum law, one that would lead to the development of Colombia's resources, they have missed the mark. A law along the lines of this bill would make such development impossible. ... If a company acquires privately owned lands, the consent of the Government must be obtained to drill wells, and the Minister of Industries may even contest the titles legally acquired from the private owners."

In retaliation against "Mexicanisation" of Colombian oil, American companies have decided upon a quasi-boycott of Colombia. Standard of New Jersey, with its large investments sunk in the Tropical wells, Andean pipe-line and tanks, of course, will carry on. But others will resort to a watchful waiting policy. These tactics are based on the premise that Colombia is entirely dependent upon large-scale capital for development of its subsoil riches. With Russian production mounting rapidly, and a "friendly" Government in the neighbouring competing fields of Venezuela, Colombia is not in a position to drive a hard bargain with the American companies, according to the latter. Whether the British will join with the Americans in a temporary united front to enforce such a boycott is another question. Attempted Anglo-American co-operation in boycotting or injuring Russian and Mexican oil production has not been such as to alarm the Colombians.

That Bogota is playing a canny game diplomatically is indicated by its refusal to sign the recent Washington Pan-American arbitration treaty, without reservation excluding such domestic issues as oil disputes.

Washington, in the main, counts on the American economic and financial hold upon Colombia to

check that country's tendency to "go Mexican."<sup>88</sup> The official *Colombian Review* of the Bogota Government stated in September 1927: "The ambitious [railway and general construction] program on which Colombia is now embarking has been made possible by reorganisation of her finances under the plan of the [United States] Kemmerer Commission." In 1926-27 Colombia borrowed \$81.5 million from the United States. At the close of that period the Treasury deficit was over \$8 million. There followed in April 1928 an additional New York loan of \$35 million. Colombia probably is in too deep as a debtor to ignore or to defy United States policy successfully. Proof that the United States Government is using financial pressure as a weapon in oil diplomacy is seen by Bogota in a much resented warning issued by the U.S. Department of Commerce in 1929 to American bankers, expressing lack of confidence in that country's financial stability. That is a virtual credit and investment boycott, according to Colombians.

In reacting against this alleged bondage to the United States, the Colombian Government apparently has decided the only escape is to play Great Britain against the United States, encouraging the two Powers to weaken each other. During Congressional debate on the emergency petroleum bill, Representative Uribe Afanador and other opponents of the measure were charged by Minister Montalvo with acting for American companies. The Minister in turn was charged with representing the interests of Colonel Yates and the British.

Little Colombian encouragement is required to stimulate Anglo-American conflict, already growing elsewhere in the world. But Colombians should realise that the battle ground of giants is no healthy place to be.

#### ROUMANIA TAKES ORDERS

Most of the familiar oil problems of other producing countries exist in Roumania. There are nationalisation and restriction laws, government ownership of part of the pipe-line systems and regulation of export, high taxes, alleged bribery of officials, Anglo-American conflict inherited from the San Remo pact, and diplomatic controversy.

The State Department protested that provisions of the 1924 mining law in effect confiscated Standard's (N.J.) rights and investment of 870 million. But foreign companies suffered little from that law. Allegedly by financial donations to certain high Roumanian officials, some foreign corporations continued to operate old properties with a minimum of governmental interference. Dutch-Shell and Anglo-Persian are said to have obtained new lands through formation of "straw" companies with dummy native officers. They have also acquired Crown land concessions.

The law was changed in 1929. Foreign companies are not entirely satisfied, though in the opinion of the American consul at Bucharest the new law "abolishes all the discriminations against foreign investments."<sup>89</sup>

Foreign companies hold five-sixths of present reserves. Of 160 operating companies, 10 predominantly foreign firms have 92 per cent of total output. Measured by standards in the United States, Russia, Venezuela, Mexico, or Persia, Roumanian output has been a minor factor in the world market. But engineers expect the output to double now that the Government has

lifted restrictions on foreign exploitation. In 1928 output was 30.6 million barrels, compared with 10.8 million in 1923.

Dutch-Shell and Anglo-Persian tried through the San Remo agreement to keep Standard from becoming a large producer in that country. They failed to keep out the American trust, but these two British companies continued to dominate production. Dutch-Shell and Anglo-Persian own Astra-Romana, the largest company in the country; they have part interest in Steaua Romana, the third largest producer, and in other important corporations such as Orion and Phoenix. The Service Petroleum Company of London was organised in 1927 with a capital of \$5 million and acquired the old Industrie Roumaine Miniere. Standard has controlling interest in Romano Americana, which ranks second in single production, but that is the only American property of significance. French capital, through Steaua Romana, Concordia, Colombia, and Aguila Franco-Romana, ranks next to the British in total production and control of reserves.

But Roumania is not so vital to the United States as are the areas of the Caribbean, Russia, and the Near East, where larger petroleum resources and international issues intensify the struggle.

to continue

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1. Parts of this chapter are taken verbatim from the author's *We Fight for Oil*, 1928, the purpose being to condense and bring down to date that study of the earlier battles of oil diplomacy.
  2. Note of Dec. 15, 1917.
  3. Address to Inter-Allied Petroleum Council, London, Nov. 21, 1928.
  4. Quoted from Pierre l'Espagnol de la Tramerye, *The World Struggle for Oil*. 1923.
  5. London *Sperling's Journal*, September 1919.
  6. Federal Trade Commission, *Report on Foreign Ownership in the Petroleum Industry*, p.x. 1923.
  7. —, p. 39.
  8. 66th Congress, 2nd Session, Senate Document No. 272, p. 17.
  9. Federal Oil Conservation Board, *Public Hearing, May, 27, 1926*, p. 7.
  10. For a briefer account of Standard than Ida Tarbell, *History of the Standard Oil Company*, and the Government Printing Office index on anti-trust hearings and reports, cf., John Ise, *The United States Oil Policy*, pp. 46-51, 225-273. 1926.
  11. Cf., *Political Science Quarterly*, Vol. xxxix, No. 2, Edward Mead Earle, "The Turkish Petroleum Company—A Study in Oleaginous Diplomacy." Earle, *Turkey, the Great Powers and the Bagdad Railway*. 1923.
  12. Quoted from E.H. Davenport and S.R. Cooke, *The Oil Trusts and Anglo-American Relations*, p. 27. 1923.
  13. —, p. 5.
  14. The New York *Wall Street Journal*, March 27, 1928, published the following: "Because of statements recently in various publications that Sir Henri Deterding, managing director of Royal Dutch-Shell Group, had changed from Dutch to British citizenship, Richard Airey, president of Asiatic Petroleum Co., a Royal Dutch subsidiary, states that Sir Henri has never changed his nationality. 'He was born a native Dutch subject, is, and in my opinion, will remain so until his death,' Mr. Airey states. He further points out Royal Dutch Co. charter requires all officers and directors be Dutch subjects. ... He further points out 60 per cent of the operating subsidiaries are owned by Royal Dutch Co. and 40 per cent by Shell Transport. Also that the British Government has repeatedly denied it owns any Royal Dutch stock." Although not directly stated, this apparently is intended

to convey the impression that Dutch capital, rather than British capital, has majority control of Dutch-Shell.

The British Embassy, when questioned March 27, 1925, by the author, said to the best of its knowledge it believed Sir Henri was a naturalized British citizen, and added that the British title borne by him was not usually bestowed on an alien. The British *Who's Who* states he was knighted in 1920.

The British authors Davenport and Cooke, *supra*, p. 41, say: "The personality which engaged the attention of the P.I.P. Committee [British Petroleum Imperial Policy Committee of 1915] was Sir Henri Deterding, the Napoleon of the Royal Dutch-Shell combine. Even before the war his Napoleonism had given way to love of England in the affair of the Turkish Petroleum Company, and *in December 1915 he had been naturalized* [Italics mine]. He now lent a willing ear to the Committee. What could be arranged? The objective would be most simply attained if the British interests in the Royal Dutch Company could increase their share holdings and obtain a majority stock control. How could this be effected? Obviously there might be a transfer of a block of shares to Sir Henri Deterding, and from him thence to British nominees. Sir Harry McGowan, as the civilian member of the Committee, was instructed to make the financial arrangements with Sir Henri Deterding. That something like the desired control was obtained is obvious from unguarded references in a speech made by Mr. Pretyman on a great oil occasion, the laying of the foundation-stone of the Anglo-Persian Oil Company's refinery on May 7, 1919. ... It was, however, quite wrongly taken for granted that the British Government, directly or indirectly, was interested in the Royal Dutch-Shell combination. The Foreign Office has more than once given an unqualified denial to this report. The British State was not *officially* interested at all. But British citizens had quietly carried out a *coup d'état*. Without a British share control of the Royal Dutch Petroleum Company, which then held the majority control in the Royal Dutch-Shell group of companies, how else could the British Empire have been said [by Mr. Pretyman—L.D.] to be near controlling one half of the available supplies of petroleum in the world? Yet it was not the British Government, but British nationals, who effected the desired result. ... It will be remembered that the British Government had already, during the course of the war, taken over its nationals' holdings in the Royal Dutch in order to stabilize the exchange. In the next war it might do likewise. And in that event it would take over shares amounting to majority control, thanks to the P.I.P. Committee. That, as Sir Henri Deterding must have argued, was the most effective and least objectionable way of making Royal Dutch-Shell another Anglo-Persian."

For official discussions of British capital in Dutch-Shell, see 68th Congress, 1st Session, Senate Document No. 97, *Oil Concessions in Foreign Countries*, especially the British note of April 10, 1921, and United States reply of June 10, 1921. The latter quotes from a Memorandum of the Secretary of the Interior, the following (p. 17): "It will readily be seen that intentionally, or otherwise, the controlling interest in the 'Royal Dutch-Shell' combine, and its constituent or subsidiary corporations, is so inextricably confused that it would require weeks or more, and access to the minute books, as well as the Articles of Incorporation of the original, constituent, and subsidiary companies to ascertain exactly the controlling financial interest and the controlling direction in any given instance."

15. Davenport and Cooke, *supra*, p. 15.
16. Statement to House of Commons, July 17, 1923.
17. Address to Inter-Allied Petroleum Council, Nov. 21, 1918.
18. Note of Dec. 15, 1917.
19. Address to Inter-Allied Petroleum Council, Nov. 21, 1918.
20. Cf., p. 254.
21. De la Tramerye, *supra*, p. 45.
22. Federal Trade Commission, *supra*, pp. 3, 8, 11.
23. —, pp. 21-32, 70-88.
24. —, p. 13.
25. 66th Congress, 2nd Session, Senate Document No. 272.



26. 66th Congress, 1st Session, Senate Document No. 3334.
27. Interior Department, *Report of the Secretary, Year ending June 30, 1919*.
28. 66th Congress, 2nd Session, Senate Document No. 4396.
29. Note of May 12, 1920.
30. Note of Nov. 20, 1920.
31. Notes of Aug. 9, 1920, Feb. 28, 1921.
32. Davenport and Cooke, *supra*, p. 120.
33. 68th Congress, 1st Session, Senate Document No. 97, pp. 47-57.
34. —, p. 70.
35. —, p. 72.
36. Federal Trade Commission, *supra*, pp. ix-x.
37. *New York Times*, March 1, 1927.
38. Davenport and Cooke, *supra*, p. 112.
39. Federal Trade Commission, *supra*, p. 127.
40. Anton Mohr, *The Oil War*, pp. 209-210. 1925.
41. Senate Foreign Relations Committee, Hearings 1913, *Revolutions in Mexico*, pp. 104, 462.
42. Hendrick, *supra*, vol. I, p. 218. 1922.
43. —, vol. 1, p. 206.
44. —, vol. 1, p. 103.
45. 66th Congress, 2nd Session, Senate Documents vol. 9, pp. 255-256.
46. State Department, *Foreign Relations of the United States, 1913*, p. 820.
47. —, p. 856.
48. State Department, *Foreign Relations of the United States, 1914*, p. 444.
49. Cf., Scott Nearing and Joseph Freeman, *Dollar Diplomacy*, pp. 100-111. 1925.
50. 66th Congress, 2nd Session, Senate Documents, vol. 9, p. 284.
51. *Annals of the American Academy of Political Science*, Supplement May 1917, “The Mexican Constitution of 1917.”
52. 66th Congress, 2nd Session, Senate Documents, vol. 10, p. 3120.
53. —, vol. 9, p. 289.
54. Federal Trade Commission, *supra*, p. 94.
55. Federal Trade Commission, *supra*, pp. xx-xxi. Cf., 69th Congress, 2nd Session, Senate Document No. 210, for list of American oil companies in Mexico.
56. State Department, *Treaty Series, 1924*, Nos. 676, 678.
57. State Department, *Proceedings of the United States-Mexican Commission, Convened in Mexico City, May 14, 1923*.
58. State Department, press release, June 12, 1925.
59. *Ibid.*, April 11, 1926, texts of 10 notes.
60. Cf., Henry L. Stimson, *American Policy in Nicaragua*; approved by President Coolidge as an official statement. 1927. For anti-United States narrative, Rafael de Nogales, *The Looting of Nicaragua*, 1928. General references: 69th Congress, 2nd Session, Senate Hearings, *Foreign Loans*. 68th Congress, 2nd Session, Senate Hearings, *Foreign Loans*. Isaac Joslin Cox, *Nicaragua and the United States, 1909-1927*. 1927. Harold Norman Denny, *Dollars for Bullets, The Story of American Rule in Nicaragua*. 1929.

61. New York *World*, April 4, 1928.
62. Cf., New York *Nation*, Oct. 19, 1927.
63. Commerce Department, *Commerce Year Book, 1926*, Vol. 2, pp. 370-379.
64. Texts in *We Fight for Oil*, *supra*, pp. 78-80.
65. Washington *United States Daily*, April 7, 1928.
66. —, March 28, 1928.
67. New York *Times*, March 28, 1928.
68. New York *Herald Tribune*, April 1, 1928.
69. Cf., Carlton Beals, *Mexico: An Interpretation*. 1923. President Calles, *Mexico Before the World*, pp. 8-34, 5;-61, 68-6g, 183. 1927. William English Walling, *The Mexican Question*, pp. 81-144. 1927. Ernest Gruening, *Mexico and Its Heritage*. 1928.
70. Moon, *supra*, p. 429. 1926.
71. Notes of Aug. 9, 1920, Feb. 28, 1921.
72. London *Times*, Oct. 12, 1926.
73. Cf., New York *Times*, Jan. 13, 1928. Boston *Living Age*, April 1, 1927.
74. Cf., New York *Wall Street Journal*, Jan. 6, 1928, for Gulf Oil Company Organisation.
75. Cf., London *Contemporary Review*, December 1927. New York *Foreign Affairs*, October 1927. New York *Nation*, April 25, 1928, article by Mauritz A. Hallgren.
76. Hendrick, *supra*, Vol. 1, p. 251.
77. For fuller discussion of the legal aspects of the Barco concession dispute, cf., J. Fred Rippy, *The United States and Colombian Oil*, Foreign Policy Association Information Service, April 3, 1929.
78. New York, *O'Shaughnessy's South American Oil Reports*, June 1927.
79. State Department, *Foreign Relations*, 1924, p. 163.
80. Nearing and Freeman, *supra*, p. 83, Washington *Post*, March 24, 1911.
81. New York *Times*, March 14, 1921.
82. Text in Panaman *Gaceta Oficial*, March 26, 1925.
83. Cf., New York *World*, April 5, June 6, 1926.
84. New York *Times*, June 6, 1926.
85. Cf., Moon, *supra*, pp. 413-414.
86. 69th Congress, 2nd Session, House Document No. 633.
87. League of Nations, *Minutes of Eighth Ordinary Session of the Assembly*, 11th Plenary Meeting, Sept. 10, 1927.
88. Cf., Robert W. Dunn, *American Foreign Investments*, p. 74. 1926.
89. *Commerce Reports*, June 3, 1929.