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EDITORS

MEXICAN ◇ U.S. RELATIONS CONFLICT AND CONVERGENCE

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Oil Booms and the Mexican Historical Experience: Past Problems—Future Prospects

Lorenzo Meyer

Since 1976, Mexico's oil policies have changed dramatically. After the discovery of new petroleum deposits in the early 1970s, Mexico decided to become a relatively important exporter of oil and petroleum by-products. This change reflects a break with the past—with the second to fourth decades of this century. During that period, Mexico experienced its first oil boom. We would be committing a serious error and failing in our responsibility to future generations if we now ignored some of the lessons we should have learned then. The objective of this essay is to show that those lessons are still valid today.

Mexico ceased to be a significant oil exporter more than half a century ago. When this country expropriated the oil industry in March of 1938, it simply accentuated this. With a single stroke, Mexican oil was eliminated from the channels of international

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commerce dominated then by the same powerful foreign companies which had created and developed Mexican oil production during the first decades of the century. Then, only 40 percent of oil production—18.7 million barrels in 1937—were exported, a relatively low proportion considering that in 1921, 190 million barrels, or 99 percent of the oil produced, was destined for export. Nevertheless, the loss of export markets in 1938 had an immediate effect on the Mexican economy, as a result of its declining balance of payments. When World War II began, the Allies applied an oil embargo against the Axis powers, which further diminished the volume of Mexican oil exports. By the end of the war, Mexico was exporting only 5.5 million barrels annually—a mere 13 percent of what had already become a modest level of production.

During the post-war period, the newly nationalized industry dedicated itself almost completely to supplying the domestic market. This was no easy task, since the demand was growing quickly. Although a small amount was exported, it must be borne in mind that some oil and refined products were also imported to supply the needs of the northern sections of the country. After 1944, Mexico occasionally experienced a negative oil trade balance, and by the early seventies, its role as an oil exporting country seemed to be a thing of the past.

In 1976, this role was transformed almost overnight. The global energy crisis had coincided with a Mexican domestic crisis—the end of the twenty-year "stabilizing development" model during the Echeverría administration. Both forced the Mexican government, despite the skepticism of many, to reevaluate the level of available proven oil reserves and to undertake a policy which rapidly increased investment and expanded exports in the oil industry. Beginning in 1978, Mexico reentered the world oil market with an export volume of 250,000 barrels per day, which increased sharply to more than 1 million barrels per day in 1980. This decision placed Mexico in a position reminiscent of the early period of the industry, and for this reason we must now recall some of the experiences of the past.

Although the lessons of the past do not constitute a blueprint for dealing with present events, it has never been prudent to dismiss them. Those who forget history, observed George Santayana, are condemned to repeat it. To be sure, every social—and particularly political—process has a set of unique characteristics which, strictly speaking, cannot be duplicated. All historical lessons, therefore, are incomplete. Nevertheless, since each new chain of events preserves important aspects of the past, it is useful to consider the collective memory—history—as one additional factor when formulating policies that would change the present, and above all, alter the future. And without a doubt, today we face some of the same circumstances which shaped the history of Mexican oil vis-à-vis the rest of the world up to the middle of the twentieth century.

The struggle to nationalize the oil industry entailed a long process. It began formally in April 1916, with the presentation of a report by the Technical Commission on the Nationalization of Oil to then-president Venustiano Carranza. The report concluded that ". . . we believe that it is just and proper to return to the nation that which belongs to it, the richness of the subsoil, coal, and oil."[1] This objective might be said to have been assured by the early fifties, when the foreign companies formerly engaged in oil production and their governments finally ended their efforts to return to Mexico and accepted PEMEX as the only agency responsible for oil production and distribution[2] and that a meaningful foreign presence in those areas was impossible.

This process was significant because of the conflicts it engendered. So acute were these that in large measure they determined the nature of the relations between the Mexican Revolution and the rest of the world and even the character of the Revolution itself. At given times, such as 1917–20, 1925–27, and 1938–40, the most serious threats to the new regime and the principal obstacles to its programs did not come from within, but from without —from the pressures exerted by powerful oil interests and from governments acting in their behalf. On the other side of the coin were those instances when the Mexican government enjoyed considerable support from without, such as when government policy was relatively compatible with foreign interests. Two memorable examples would be the times when the Bucareli and Calles-Morrow agreements were negotiated in the 1920s. In any event, it cannot be denied that Mexico's oil policy choices of the decades 1910–50 had significant impact. Some of their consequences are still being felt.

The major decision of the last few years has been in the direction of dealing with the disastrous balance of payments problem by substantially increasing the volume of oil and petroleum byproducts exported. Everything seems to indicate that this decision will be crucial for Mexico's future—not only in the economic, but in social and political spheres. Apparently, the present political system cannot overcome the economic obstacles its own development model has created. If this is so, then the political demands generated by Mexico's unemployment and inflation, as well as the pressures of population growth (urban concentration, the inability of Mexico's industry to absorb the growing labor force) could take the present regime—itself the product of the Revolution—beyond its capacity to insure a minimum degree of national consensus and a minimal level of control over the principal political actors.

The respite oil gives to the present political system as a consequence of Mexico's transformation into an oil exporting country entails some risks. Some, but not all, are different from those in the past. And it is just here that the lessons of history are pertinent.

CHANGES AND CONTINUITIES

Among the factors that must be taken into account when trying to compare Mexico's situation as oil producer and exporter until nationalization, and again since 1976, one stands out: Mexico's dependence upon the United States, the country's major oil purchaser. Although Mexico's relations with the United States have changed somewhat in the two periods compared, its dependence on the U.S. has remained a basic constant. Many indicators support this observation; for instance, the concentration of foreign trade. On the eve of the 1938 expropriation, the U.S. received 56 percent of all of Mexico's exports and provided 62 percent of its imports. The situation has changed in the direction of increased concentration of foreign trade. In 1980 the country sold 61 percent of its exports to and bought 62 percent of its imports from the United States.

Another indicator is direct foreign investment in Mexico. Since before the Revolution, U.S. participation prevailed. It did not change when the governments of the Revolution were consolidating, nor has it materially changed since then. The U.S. proportion of foreign direct investment is presently about 80 percent. In the past, such investment was concentrated in the well-known mining and petroleum "enclaves," which have since disappeared. Today's direct foreign investment is concentrated in the new leading sectors of the Mexican economy—more than 70 percent can be found in industry.

The foreign public debt, whose servicing was postponed by the Revolution and which was later settled for a fraction of the original amount, has since reappeared. By the end of 1981 it had mushroomed to almost $50 billion, more than half of which is owed to U.S. lending institutions or to other institutions where U.S. influence predominates.[3]

Other indicators could be mentioned, but these are sufficient to sustain the argument that notwithstanding the elimination of enclave economies through nationalization or the Mexicanization of key industries (the oil industry among them), the economic dependence of Mexico vis-à-vis the United States persists.

An economic dependence relation is only part, though significant, of a broader dependence relation which includes political aspects. The latter constitutes another set of historical continuities. Even before the Revolution and certainly since then, Mexico has sought, in its dealings with the U.S., more maneuvering room than other Latin American countries. Nonetheless, after World War I and a U.S. confrontation with England and Germany over Mexico, there could be no doubt that Mexico was left without any recourse and within the U.S. sphere of influence. The world powers recognized it as such. Moreover, the alliance between Mexico and the U.S. during World War II and the subsequent effects of the Cold War afforded Mexico few opportunities to exhibit a modicum of independence. Nevertheless, Mexico took advantage, as far as it could, of many opportunities to keep some distance from the United States, though still remaining within the latter's sphere of influence.[4] In this vein one may note that the formulation of the Revolution's oil strategy took place in the context of this general dependence and of attempts to diminish it. The new oil strategy should be developed in the same context.

Another historical continuity to bear in mind is Mexico's limited importance as an oil producer in the global context. Between the downfall of Porfirio Díaz and the consolidation of Obregón's power, Mexico's high level of oil production was constantly increasing. When it reached a level of 157 million barrels, 25.3 percent of world production in 1921, Mexico was second only to the United States among the world's oil-producing nations. This peak did not last; production started to fall off in 1922, and by 1926 the decline was catastrophic. Two years later Venezuela surpassed Mexico's level of oil production, and Middle Eastern developments further diminished the importance of Mexican petroleum. From 1928 on, Mexico became a marginal producer of oil.

One might note that in 1973, Mexico barely produced 1 percent of the world's oil output and held only 0.6 percent (3.6 billion barrels) of the world's proven reserves. The picture changed somewhat with the September 1981 announcement that proven reserves had increased to a level around 72 billion barrels (approximately 9 percent of world reserves). This increase, notwithstanding its importance in placing Mexico considerably above Venezuela, did not constitute a qualitative change in a global context. At the beginning of 1978, Mexico produced 1.22 million barrels daily, 250,000 of which were exported, a level which doubled by the end of the year. The plans announced by PEMEX in March 1978 were that 2.2 million barrels of oil would be produced daily by 1980, which in fact occurred. Thus, by 1981 Mexico was exporting 1.5 million barrels per day—a tripling of the 1978 volume. Even so, the amounts produced and exported are only a fraction of the global output. In short, no matter how important oil's impact on Mexico may be, in an international context this nation will never have the means to significantly influence the world petroleum market as it did between 1918 and 1923, unless, of course, a tremendous crisis were to suspend the flow of oil from the Middle East, particularly from Saudi Arabia. For the immediate future and under normal conditions, the world will impose market conditions on Mexico, not the reverse. And in large measure, the natural market for Mexican oil is the United States.

Finally, one should examine the change and continuity of Mexico's economy and society over the period considered. It is in these that one finds significant and new developments. Until World War II Mexico had an agrarian society on the threshold of industrialization. The possibility of exhausting the nation's oil reserves did not loom large in reality, nor was the importance of

oil quite as evident in Mexico as it was in the industrial societies of the time. But at the present time a Mexico without oil or gas is inconceivable.

The nation consumes over one million barrels of oil daily, and directly or indirectly this represents 85 percent of total energy consumption. Hydroelectric power plants are few; nuclear plants do not yet exist; and coal does not seem to be a viable alternative source of energy. As it is, coal is used only in such industries as steel—where no substitute is available. In sum, petroleum is a much more important raw material today than it was in the past. This presents us with a dilemma between national consumption and foreign export—and unless current estimates of proven reserves are revised significantly, the dilemma will become increasingly acute as we approach the end of the century.[5]

OIL AS A STRATEGIC MATERIAL AND MEXICO'S BARGAINING POSSIBILITIES

Once the United States resolved its problems in Southeast Asia in the early seventies, foreign policy concerns became a matter of lesser priority for Washington. As the Republican administration was replaced by the Democrats, Washington shifted its attention to the energy problem created by the 1973 oil embargo and the increase in the price of oil imports. The Carter Administration presented the problem of solving the energy crisis to the U.S. public as nothing less than the "moral equivalent of war." The securing of petroleum and its by-products in the short term, and the discovery of petroleum substitutes in the long term, have emerged as a preponderant, almost dominant concern of the present U.S. government's national interest. With Reagan and the relative oil glut in the world market of 1981, the energy crisis has now lost some of its sense of immediacy. Nevertheless, this definition is still applicable and has important implications for Mexican petroleum policy: from here on anything that involves the importation of energy supplies is a matter of priority importance to Washington.

The situation presently facing Mexico is not new. In 1915 the U.S. produced 300 million barrels of oil (about ten times the production of Mexico at that time), almost 65 percent of total world production. U.S. domestic consumption absorbed almost all of this, and by 1916, the need to substitute the oil which the U.S. exported to the Anglo-Franco alliance became a priority concern.[6] Fuel imported from Mexico became indispensable for the maintenance of an adequate equilibrium between domestic needs and the demand of the alliance.[7] Between 1915 and 1918 Mexican oil production doubled, and in the latter year, the Constitutional Congress of Querétaro adopted the fourth paragraph of Article 27 of the Constitution, which returned subsoil deposits to the public domain. The hitherto unquestioned control of a strategic material by U.S. and British corporations was thus challenged by Mexico. For many years the nation had to face the consequences of that decision.

The strategic nature of Mexican petroleum was doubly significant. On the one hand, a number of U.S. and British interests pressed the U.S. government to occupy militarily the Mexican oil producing regions arguing that German agents could sabotage the Mexican oil fields. (The British were arguing from experience, since they had destroyed the Rumanian wells on the advent of their occupation by the Central Empire.)[8] On the other hand, and in spite of the inability of Carranza's forces to withstand an invasion of Mexican territory, it was clear that the Mexican forces *did* have the means to destroy their own oil wells before foreign troops could take them over. Given the primitive roads of the region, an invading force could have taken hours—even days—to reach all of the strategic points of the production complex.[9] Moreover, the occupation of the petroleum region would have meant doing to Mexico what the Germans had done with Belgium, which would diminish the credibility of the U.S. position. Finally, going to war with Mexico would have required the withdrawal of a significant number of troops from the European front.

It was the strategic nature of oil itself that stopped the United States from resorting to invasion as a means of resolving the problem created by the adoption of the new Mexican Constitution of 1917. This strategic importance also led the U.S. to provide covert aid to General Manuel Peláez so that he might keep most of the petroleum-producing region out of Carranza's control.[10] Though it did not take place, the threat of an invasion to protect and maintain the foreign control of resources considered vital for the U.S. economy and national security was one of the constant pressures on Mexico from 1916 to 1920. In 1917, the U.S. War Department drafted and readied WPD 6474-408, a plan to occupy the Mexican oil region as quickly as possible.[11] In the final analysis, even if the invasion did not take place, Carranza found it impossible to enforce the section of Article 27 which applies to petroleum. On February 19, 1918, when he issued the executive order requiring oil companies to secure a concession from the government to confirm their activities, these corporations, with the support of the Department of State, simply refused to comply. Its sovereignty questioned, the Mexican government had to back down and accept, for tactical reasons, the fact that foreign enterprises would continue to produce oil as before. The enforcement of the Constitution would be postponed for a better time.[12]

If the past is at all instructive with respect to the influence that Mexican oil—or any other strategic natural resource—can have on negotiations with Washington, it shows that if carried out intelligently, i.e., if they appeal to the mutualities of interest between both countries, such negotiations can result in the U.S. accepting conditions it might otherwise ordinarily reject. But it is also clear that if Mexico's policy contemplates the possibility of denying its neighbor access to these resources, U.S. responses may include any action necessary to force Mexico to behave in accordance with the former's national interests. If in 1938 the United States did not use force to prevent the expropriation of the oil industry which President Cárdenas initiated, it was due in large measure to the fact that Mexican oil was no longer of strategic importance. By that time U.S. oil production had passed the billion barrel mark while Mexican production had dropped to 56 million; indeed, Mexico was simply one of many secondary oil producers. Moreover, at that time the United States needed Mexican cooperation in other and more important strategic areas. Oil could not be allowed to become an obstacle to a general agreement between the two countries.

Mexico's level of oil production is currently a fraction of the world total, and it is not therefore as strategic for the United States as it was in the final stages of World War I. However, it would not be too bold to suggest that, given the inability of world oil reserves in general, and U.S. in particular, to meet U.S. oil demands, a not-too-remote possibility, Mexican oil and gas can once again acquire the strategic value that they had in the past. Should this occur, whether we like it or not there will be the ever-present danger that Mexico will again be pressed to subordinate its own national interest to that of its neighbor. As Richard Fagen has noted in his chapter included in this volume, a Middle East crisis could result in Mexican oil becoming a strategic resource for the United States. Should that occur, the decision regarding how much oil would be exported to the U.S. would no longer belong to Mexico.

THE NATURE OF MEXICAN–U.S. NEGOTIATIONS AND THE POSSIBILITY OF ALLIANCES WITH U.S. PRIVATE INTERESTS

In early 1978, Mexico's petroleum policy faced a dilemma. An ambitious project was being threatened which involved the construction of 1,350 kilometers of gas pipeline from the fields in Cactus, Chiapas to the northern border at Reynosa, Tamaulipas at an approximate cost of $1 to $1.5 billion. The original idea was to export up to 2 billion cubic feet of gas daily to six U.S. companies at a price eight times higher than that of the Mexican domestic market. This would have provided Mexico with an income of $3 million per day, gradually rising to $5 million. The problems began when the U.S. government decided to oppose the plan because it would have involved the importation of gas at a cost of $2.60 per thousand cubic feet—Canada was exporting gas at a mere $2.16 per thousand cubic feet, and the U.S. price for natural gas produced domestically was lower still. The U.S. petroleum corporations headed by Tenneco Interamerican, Inc., indicated that they were willing to pay a higher price for imported gas than that which they received for gas produced domestically because this would provide an opportunity to engage in the construction of one of the world's great gas pipelines and, furthermore, by exacerbating the difference between domestically and foreign-produced gas, they would have one more argument with which to pressure Washington for a higher official domestic price for intrastate gas.

The Mexican officials responsible for the gas negotiations apparently counted on the political clout of the U.S. oil companies in Washington. Thus reflecting its confidence on this chance alliance, the Mexican government did not wait for final approval from the U.S. government before beginning construction of the pipeline. To the dismay of both the Mexican government and the oil companies, the Secretary of Energy did not approve the negotiated price of the gas, and in early 1978 the project came to a sudden halt, leaving PEMEX in a difficult position.[13] As a consequence, it became necessary to find a domestic justification for the gas line to the northern border: to supply northern Mexico with gas, and export the remainder. In any event, it should be noted that Mexico's domestic price for gas was still much lower than that offered by the U.S. government at that time.

Mexico had fallen, perhaps unconsciously, in the midst of a struggle connected with one of the major domestic political problems then facing the United States, and found itself allied with the group that opposed the energy plan President Carter presented to Congress in 1977. One of the bones of contention in this struggle, in which billions of dollars were at stake, was that the gas industry and its supporters in Congress wanted price controls removed from the so-called "new gas" or newly-discovered gas deposits in the United States. Supporters of the industry argued that the global price of oil was following a steady upward trend, and the results of the negotiations with Mexico served to reinforce this point. This helps explain the opposition of the Secretary of Energy to the terms of the agreement between Mexico and the oil companies. Moreover, the Energy Secretary wanted a gas line between Alaska and the continental United States. The problems created by a refusal of the Mexican deal were therefore secondary, particularly since the supply of gas in the United States exceeded domestic demand.

In its dealings with the U.S. government, Mexico can and should make better use of the enormous range of implicit alliances made possible by the variety of interest groups in that country. This has already occurred in the past, although care should be taken in deciding with whom and under what circumstances such alliances are made, and how far these arrangements go. It is particularly inadvisable, without first weighing the alternatives and having some good reasons, to confront the executive branch of the U.S. government when something of such high priority, as the Carter energy plan, is at stake. The manner in which the proposed gas sale was handled, together with the reaction of public opinion leaders in Mexico, led the Mexican government to adopt the position (at the end of 1977 and early 1978) that the price of gas was not negotiable. Such a firm and clear position would have been laudable under different circumstances. By then much of the construction of the pipeline, one of the longest in the world, was under way. For this reason, the Mexican government's policy space had shrunk dramatically by then: either the gas was to be consumed internally or burned off.

As it turned out, PEMEX successfully negotiated an agreement later, and in 1980 it sold to the U.S. 300 million cubic feet of gas per day—one seventh of what had been contemplated earlier. Moreover, it did not express any interest in selling any larger quantities; instead, it encouraged the domestic consumption of gas.

There is a lesson to be learned from this. PEMEX will continue to sell petroleum products to the U.S., but in any event, it will be necessary to exercise more caution in the future. It is particularly important to keep in mind that the position of the powerful oil companies (this time, ironically, on the side of Mexico) is not always met with approval in Washington. This is especially true when, as in this case, that position goes against clearly established administration policy. Given that the Mexican historical experience had shown that the oil companies generally enjoyed the full support of the U.S. government when they operated in Mexico, it is easy to understand why PEMEX officials had such confidence that the position of the oil companies would prevail. This view, however, must be qualified: the position of these companies is favorably received in Washington as long as it does not directly conflict with other more powerful interests or with what is considered to be in the national interest.

There are at least two instances in Mexico's experience where such conflicts arose, and the position of the oil corporations did not prevail. The first occurred in December 1925 when President Calles promulgated a law for the enforcement of the petroleum clause of Article 27. For a year, the companies—in violation of this law—did not show any signs of submitting to the same. Instead, they countered by arguing that the regulations were retroactive because, among other reasons, their licenses to pump oil, which had been granted in perpetuity, were being limited to a period of fifty years, and their property rights to land acquired or leased prior to the effective date of the 1917 Constitution were not recognized unless they had actually begun to draw petroleum from those lands prior to May of that year. (The latter was known as the "positive act.")

The U.S. executive initially supported the position of the oil companies as it had in the immediate past. International tensions mounted to a point where it was feared that the U.S. might use force to prevent Calles from interfering with the activities of the rebel companies.[14] But by mid-1927, for domestic reasons both Congress and U.S. public opinion had turned against the position being adopted with respect to Mexico, and the U.S. executive branch changed its policy accordingly. For his part, Calles did not interfere with the now illegal extraction of petroleum.

The United States sent a new ambassador to Mexico, Dwight Morrow, who brought a more conciliatory position to the bargaining table. By early 1928, Morrow had worked out an informal agreement with Calles. Mexico made some changes in its petroleum law, relinquishing some of the limits that had been imposed upon the definition of acquired property rights, and the United States accepted some of the terms to which the companies had objected. Foremost among the latter were the "positive act" and the requirement that the oil companies exchange their titles, which conveyed absolute property rights, for "confirmed concessions" granted by the government. From a practical standpoint the real interests of the companies were not at all affected; from a legal standpoint there was a significant change—the new titles no longer conferred absolute subsoil rights. For this reason the companies protested before the U.S. government. They were able to count on the support of the major newspapers of that country, which decried the weakness of the State Department in its dealings with Mexico. The U.S. stood firm, however, and in the end, with much grumbling the oil companies accepted the change in their titles. The conciliatory approach taken by the U.S. reflected a need by that government to reach a general agreement on the various outstanding issues facing both countries at that time, and a new U.S. foreign policy toward Latin America.[15] For the first time, it had become clear that the pressure exercised by the oil companies had its limits.

The second incident occurred as a result of the expropriation of the oil industry in 1938. While on the one hand the oil companies rejected the legality of the expropriation itself,[16] the U.S. government, on the other, merely conditioned the measure to the "prompt, adequate and effective" payment of what the Mexican government had taken over. Since Mexico was in no position to effect payment on those terms, the difference in the positions adopted by the companies and the U.S. government did not immediately surface, and both pressed Cárdenas simultaneously.

The situation changed dramatically when the Cárdenas Administration ended and Mexico found itself—to the great surprise of many—shoulder-to-shoulder with the United States, fighting the Axis powers. The interests of the United States now required effective cooperation from Mexico in both economic and strategic areas. With respect to the former, the U.S. needed Mexican raw materials and labor. With respect to the latter, it needed permission to fly aircraft over Mexican airspace to the Panama Canal Zone; it needed Mexican cooperation for the surveillance of the Pacific Coast; it even needed naval bases south of the Río Grande.

Mexico expressed its willingness in principle to negotiate all of these matters in exchange for a final agreement on the claims of the oil companies and other outstanding debts owed to the United States. In 1942 the Department of State overrode the objections of Standard Oil of New Jersey and reached an agreement with Mexico regarding both the value of the expropriated property and the terms of the deferred payment. Following this, the State Department informed the representatives of the companies involved that if they did not accept the terms of this agreement they could not count on any further assistance from the U.S. government. In November 1943, Standard Oil and the other companies involved signed a settlement agreement with Mexico, though not without great reluctance and loud complaints about having been abandoned by their government.[17]

In addition to these examples, we could mention others that show how at various times Mexico was able to use some interest groups in the U.S. to neutralize unfavorable policies emanating from Washington. At the time of the previously mentioned 1925 petroleum law and the resulting crisis, for example, then Secretary of Industry Morones, who was also the leader of an umbrella organization of the nation's principal labor unions—the *Confederación Regional Obrera Mexicana*—used his connections with organized labor in the U.S. to get the American Federation of Labor to oppose Washington's policy of aggressively defending U.S. oil interests in Mexico. It is difficult to say just how much influence AFL pressure had upon Coolidge's change in policy, but the effort was made.[18]

Another example can be cited. As a result of the 1938 State Department decision to support the boycott of Mexican oil exports engineered by the companies affected by the expropriation, it was not easy to get anyone to bypass the boycott and market the oil abroad. Nevertheless, once the appropriate price was met, two minor U.S. companies, Davies and Co. and Eastern States, were willing to face the wrath of the giant oil companies and of Secretary of State Cordell Hull to sell Mexico's oil in Europe. That was how up to the time that the Allies imposed a formal blockade upon Axis commerce, Mexico was able to partially frustrate the express attempts of the companies affected by the expropriation to "drown Mexico in its own oil."[19] The boycott was quite effective but in the early years of PEMEX, critical from a financial standpoint, Mexico was able to sell its oil in the world market in spite of Washington's opposition, precisely by using U.S. corporations.

Towards the end of the forties, PEMEX urgently needed funds to finance exploration and production. The giant companies which had been expropriated offered their resources in exchange for being admitted back into Mexico—even if in association with PEMEX. Mexico finally allowed several small, independent U.S. companies to explore for PEMEX for some years without having to admit their participation within the state-owned corporation.[20]

It should be stressed that in neither of the aforementioned instances did the U.S. government view the actions of the Mexican government, or of its allies, as a threat to its national interest. In each case, the incident was considered to be of marginal importance in the general context of U.S. foreign relations, and particularly minor in the context of U.S. domestic politics.

With respect to what has been discussed up to this point, it should be clear that if Mexico allies itself with certain agreeable interests in the United States, its actions may bear fruit. This is particularly true today, given that U.S. domestic politics are far more complex than they were in the past. On each side of any issue powerful interests are at stake; e.g., the big consumers against the big producers; gas and oil-exporting states, such as Texas, against energy-importing states, such as Illinois. For each case that may arise we should select our allies with caution, measure with care the degree of our commitment to them, and above all, consider how tenable Mexico's position may be in the context of the national priorities which the particular administration in Washington may have. It is difficult for an alliance with a domestic interest group—no matter how powerful—to yield a favorable outcome for a country like Mexico when it chooses to cross the U.S. government in a matter of high priority.

MEXICO'S OIL UNION—A DIFFICULT ALLY

The abundant literature on expropriation leaves no doubt that the cooperation of the oil workers with the government was important to the success of the nationalization process. As a rule this has been true, but the exceptions do not allow us to take for granted that as regards petroleum policy, workers' goals—as expressed by the union leadership—always coincide with the public interest.

The labor movement's militant stance was notable when the industry was in the hands of the foreign companies. From the very beginning of the Revolution, labor strikes in Tampico, Minatitlán and other oil producing and refining areas were frequent and sometimes violent. On some occasions, the cause of labor had the support of the authorities. One should also note that on others, this labor movement opposed some nationalist positions adopted by the government out of fear—founded on fact—that such measures would result in a paralysis of the industry and in widespread layoffs.[21] Thus, prior to the nationalization of the industry, workers and government did not always coincide in their struggle against the oil companies.

It was not until immediately after March 1938 that this conflict came to a head. To understand this one must first recall that Cárdenas did not expropriate the properties of the oil companies on the basis of the same arguments which his predecessors had employed against these powerful corporations. From the beginning of this struggle in 1916 to the Calles Administration, friction with the oil companies arose from conflicting interpretations of the appropriate paragraph of Article 27 of the Constitution. Cárdenas did not reopen this debate; indeed, he accepted the compromise embodied in the petroleum legislation such as it was enacted in 1928. Rather, he used an entirely different instrument of attack—the labor movement. The 1938 crisis, which had been developing since Madero, arose from the oil corporations' refusal to comply with a court order concerning a dispute with the newly created industry's labor union. As a new tactic, in 1937 and 1938 the government supported the union's demand for wage increases and improved fringe benefits for the oil workers.

However, by the time that the government assumed control over the oil expropriation, conditions in the industry had changed. It was immersed in crisis, and no longer had the resources to meet the demands that the workers had originally presented to the oil companies. Not all of the workers understood or accepted this situation, and their leaders insisted in having the original demands met. Indeed, they demanded the management and control of an industry which in principle, given its vital importance and wealth, was the property of the nation. Understandably, Cárdenas refused, and the reaction of some factions of the union was to call for a strike and even to commit sabotage.[22] Although this did not represent the general reaction of the workers, it cannot be denied that in some instances union interests opposed policies which can legitimately be considered to have favored the interest of the public as a whole.

At the present time, the wage scale and fringe benefits of the oil workers—around 100,000 permanent and temporary employees—are higher than the average of the Mexican labor force, and the union which represents them is not particularly distinguished for scrupulous labor practices. This union's corruption is partially explained by the favorable treatment it received from the government at the very beginning. For example, when the government negotiated the first union contract in May 1942, it granted concessions placing the oil workers in a relatively privileged position and chose not to be very strict in overseeing the union's labor practices. This treatment was accorded to the union to silence the protests that followed the initial confrontations and to exercise some control over a segment of labor recognized for its militancy. An immediate result of this policy was a substantial increase in the number of persons on the corporate payroll, even though production dropped. While in 1936 the ratio of wages and salaries to sales in the industry had been 20 percent, by 1939 this ratio had doubled to 42 percent.[23]

The oil boom we are now beginning to experience opens new worlds to conquer for a union which has established a record of forceful demands and to an industry characterized by a not very efficient use of resources. The latter problem was exacerbated by Echeverría's decision in 1976 to accept the reclassification of many management and non-union positions to others falling under a union contract. This increased unionization of the industry has diminished the flexibility of the corporation, since entry into intermediate technical positions is not made available on the basis of merit but on the basis of union connections.

Only time will tell if the government will succeed in keeping dysfunctional and corrupt union practices from spreading proportionately as the importance of PEMEX grows. To prevent the consequences of inertia taking their ultimate course, some difficult policy choices will have to be made.

THE FORMULATION OF PETROLEUM POLICY: BETWEEN THE POLITICIANS AND THE TECHNOCRATS

Before an assembly of oil workers on March 29, 1978, President López Portillo disclosed that for some time PEMEX technicians had concealed information from the nation's political leadership thereby underestimating the nation's oil potential. This could have led to a series of policy choices whose consequences had transcended PEMEX and had affected the entire country.[24]

This is not new. From the very beginning, oil policy was formulated in the closed circles of political elites and in the offices of specialized departments. Without debate, Congress passed the law in 1884 which made hydrocarbon subsoil deposits the absolute right of the landowner. The only time the issue received much attention during the Porfiriato was in 1905, when Díaz himself requested an opinion of the Academia Mexicana de Jurisprudencia regarding a legislative proposal by two attorneys and an engineer that would have returned oil to the public domain. This amendment's objective was not to attack the newly established corporations, but to insure that private parties did not create obstacles for those who wanted to pump oil. The debate was conducted at an academic level and did not extend to the general public. The amendment did not pass.[25]

When the Constitutional Congress of Querétaro decided in 1916 to introduce reforms in Carranza's constitutional proposals, the debate centered around issues such as church-state relations, agrarian reform, and so forth. No debate took place when paragraph four of Article 27 of the Constitution, which altered the legal regime for oil production, was presented to the general assembly in January of 1917. Thus, one of the constitutional issues which was to shape Mexico's relations with the world powers of the time was accepted without further discussion by the highest legislative body of the nation.

This all-important constitutional provision was in reality the product of a small commission headed by Francisco J. Mújica and Pastor Rouaix, along with José N. Macías and Andrés Molina Enríquez. Rouaix, Macías and Molina always coordinated their position with that of Carranza.[26] It can be noted that in 1917 the country revolutionized its relations with foreign capital by changing its petroleum laws, without the nation's most politically conscious segments being completely aware of the fact.

In the end, the government's oil policy turned out to be one of the greatest achievements of the Revolution and the 1938 expropriation the high water mark of its nationalist enterprise. Let us not forget that on several occasions the original idea was almost lost as a result of the distance between the formulation of petroleum policy and the terms of public debate.

We might note, for example, that after 1918 Carranza decided not to propose any oil legislation to Congress and to manage the industry on the basis of the extraordinary powers conferred upon him. Substantive changes in the legal regime for oil production were introduced under the guise of technical and administrative regulation.[27] Until he died, Carranza had the last word on Mexican oil policy. Before and after the 1917 reforms, he formulated policy in consultation with the more important members of his cabinet and with the technical assistance and legal advice of a core group of specialists in the Department of Petroleum of the Ministry of Industry, Commerce and Labor.[28] Since then, the executive branch, surrounded by an influential technocratic group, has largely determined the course of petroleum policy.

Although the legislative and judicial branches were supposed to have a role in shaping oil policy, their input was actually minimal. To begin with, Congress only passed legislation on oil matters when the President requested it in 1925; and then it passed what the administration proposed. When it amended the law in 1928, it did so because Calles decided that such an amendment was necessary to defuse the tense relations with the United States. The terms of the legislative changes were the result of negotiations between then Secretary of Industry, Morones, and the U.S. Embassy—Congress simply passed the amendments as proposed.[29]

The judicial branch did not behave differently. The basic issue it confronted with respect to petroleum was how to interpret paragraph four of Article 27: Was it retroactive? In August of 1921, the Supreme Court decided, in connection with a suit brought forth by the Texas Oil Co., that it was not. This decision was communicated by the Secretary of Foreign Relations to the U.S. Embassy several days in advance of the Court decision itself.[30] When Calles decided to change the 1925 law, as noted earlier, all he had to do was to ask Morones to communicate this request to the High Court, with the indication that "the government is in danger."[31] Using the 1921 Texas decision as precedent, in November 1927 the Court declared the law unconstitutional and opened the way for the amendments to be introduced, and passed later by Congress.[32]

In summary, the oil issue has not been different from many others. Public discussion and access to pertinent information were lacking. By keeping many aspects of oil policy out of open debate, there can be no doubt that Mexico's authoritarian tradition is being reinforced, and the legitimacy of the government's oil policy is being eroded precisely when it most needs public support to deal with external pressures.[33] Policy choices which will affect present and future generations of Mexicans are made without most people being aware of their significance and without having an opportunity to influence the outcome.

WHO BENEFITS FROM THE PETROLEUM BONANZA?

One of the most significant future effects of the oil bonanza may be the achievement of a favorable balance of trade. By 1980, oil represented 68 percent of the value of all commodity exports—$10.3 billion. The importance of oil in earning foreign exchange is thus evident.

This poses a question of vital importance to the nation's destiny: what are we to do with the foreign exchange that we will earn by pumping a non-renewable resource out of the ground? The oil bonanza presents an opportunity which will not repeat itself; how the petroleum resources are used should be the object of considerable scrutiny. A number of possible alternatives exist, although there can only be one objective: to construct a long-term basis for generating other sources of wealth and energy to survive when the oil is gone. Unquestionably, history will judge this to be one of the major responsibilities faced by the López Portillo administration and its successor. National plans should be made

with great care and realism. The National Development Plan (*Plan Global de Desarrollo*) is but the first step; it should be followed up as quickly as possible. There is no time to be lost.

Examples of extraordinary waste abound. There is no need to dwell on the irresponsibility of Arab potentates squandering their fortunes in Europe after having grabbed them from the oil multinationals. More instructive, perhaps, are the examples of Venezuela and Indonesia, whose societies are relatively more complex and developed. Neither of these countries can praise themselves for having made the wisest use of their oil income. But actually, we need not go outside of our borders to find pertinent examples. Between 1910 and the mid-1920s, Mexico saw an opportunity go up in smoke: the possibility of gaining something permanent from the oil income for the benefit of all.

What, indeed, was the social benefit derived from the oil boom of 1910–24? During that period, Mexico's oil fields produced around 1.2 billion barrels of crude, of which approximately 90 percent were exported. In principle, this oil wealth could have potentially made a substantial contribution to the national well-being; at one point (1921–22), the value of oil exports reached 6–7 percent of the gross domestic product. But the truth is that this did not happen.

There were many reasons for this. The most important was that this activity was conducted as an enclave, and most of the benefits went to foreign economies. One might add that, on the one hand, the petroleum industry never generated much employment—between 30,000 and 50,000 at its highest point. On the other hand, many of the industry's inputs—from machinery and technology to food for the labor force—had to be imported for the simple reason that these were not produced locally. This demand for products therefore was not translated into an important stimulus for the country's economic development.

This is why taxes levied upon the oil companies were the only vehicle for keeping some of the wealth in Mexico which would otherwise leave the country. These taxes, which the revolutionary regime had to struggle to impose, represented a substantial proportion of the federal treasury's income. In 1918 this proportion was 11 percent; by 1922 it had risen to 34 percent.[34] The state was not then in a position to use its budget for economic development. Its expenditures in this respect were minimal. Carranza barely spent an average of 6 percent of his budget in economic investment; Obregón spent 14 percent.[35] It would not be until 1925 that the Calles Administration would begin to spend federal monies in opening up irrigation districts, roads, etc. Thus, during the peak period of oil production, the state limited its spending to the bureaucracy and military. The benefits that Mexico received from its first oil boom were therefore few. At best, the income derived from oil exports made it easier for the revolutionary regimes and their successors to survive as constitutional governments.

In principle, the present situation is quite different. To begin with, the oil industry is no longer an enclave. PEMEX, the largest Mexican industrial firm, is an integral part of a government and a country with an infrastructure capable of channeling the resources earned from petroleum exports to other sectors of the economy. (In 1980, the firm paid $7 billion in federal taxes into the treasury.) The transfer of massive quantities of resources is indeed needed for agriculture, the capital goods industry and for the development of alternative energy sources. However, there is nothing automatic nor inevitable about this process. The future must be planned with a full sense of the gravity of our responsibility. The possibility of once again misusing our petroleum resource endowment is only too real. Corruption, irresponsibility, and the inertia of the present political system conspire to make this possibility loom large. Finally, we must avoid at all costs a danger which is already present—the risk of reaching a level of oil production more congenial to the interests of the central economies than to those of our own.[36] This, indeed, would be to repeat one of the most tragic mistakes of the previous boom.

By chance, Mexico today has in abundance a natural, nonrenewable resource which is urgently needed both by its economy and by the rest of the world. The type of economic growth that the country has experienced since the end of the nineteenth century has led, on more than one occasion, to a dead end. An unexpected turn has opened up new possibilities to correct some of the errors of the past, and in the process, to strengthen the role of the state as the director of the economy. If this opportunity is lost, it will be difficult to find another . . . and in any event our leaders will not be able to hide behind any of the excuses of the past—particularly that of being ignorant of the consequences of their decisions.

Notes

1. *Boletín del Petróleo* (January-June, 1917), p. 220.

2. Lorenzo Meyer, "La resistencia al capital privado extranjero, el caso del petróleo (1938-1950)," in Bernardo Sepúlveda et. al., *Las empreses transnacionales en México* (México: El Colegio de México, 1974), pp. 122-156.

3. The reader who would like to pursue the implications of these indicators further may consult, among others, the following works: Bernardo Sepúlveda and Antonio Chamucero, *La inversión extranjera en México* (México: Fondo de Cultura Económica, 1972); María del Rosario Green, *El endeudamiento público externo de México, 1940-1973* (México: El Colegio de México, 1976). René Villarreal, *El desequilibrio externo en la industrialización de México* (México: Fondo de Cultura Económica, 1977); José Luis Ceceña, *México en la orbita imperial; las empresas transnacionales* (México: Ediciones "El Caballito," 1970).

4. The nature of Mexican political dependence upon the United States has been the object of considerable attention by analysts. A general treatment of the present situation can be found in Mario Ojeda, *Alcances y límites de la política exterior de México* (México: El Colegio de México, 1977).

5. At the beginning of 1979, proven reserves were estimated to be 40.2 billion barrels, probable reserves 44.6 billion barrels, and potential reserves 200 billion barrels.

6. Harvey O'Conner, *World Crisis in Oil* (New York: Monthly Review Press, 1962), p. 69.

7. *Commerce Reports*, No. 235 (7 October 1918). In a letter from the Mexican Gulf Co. to A.L. Weil (20 August 1918), it was noted that in 1917 the U.S. had produced 350 million barrels of oil, but even so, it required an additional 42 million barrels from Mexico. See The Public Record Office, London, Foreign Office 371, file 139881, volume 3250, document 199881.

8. Edmund David Cronon, *The Cabinet Diaries of Josephus Daniels, 1913-1921* (Lincoln: University of Nebraska Press, 1963), p. 328.

9. As early as 1916 the English were aware that Mexico was willing and able to destroy the oil fields in the event of invasion. See *Report of the English Chargé d'Affaires in the Foreign Office*, 6 June 1916, Public Record Office, London, Foreign Office. 371, file 48, volume 2700, document 109289.

10. Lorenzo Meyer, *México y los Estados Unidos en el conflicto petrolero (1917-1942)*, 2nd. ed. (México: El Colegio de México, 1972) pp. 99-103.

11. Denis J. O'Brien, "Petróleo e intervención; relaciones entre los Estados Unidos y México, 1917-1918," in *Historia Mexicana* 27 (1977).

12. *Ibid.*, pp. 124-126.

13. A good treatment of this problem can be found in Richard R. Fagen and Henry R. Nau, "Mexican Gas: The Northern Connection," in Richard R. Fagen (ed.), *United States Foreign Policy and Latin America* (Stanford: Stanford University Press, 1978); see also, *Comercio Exterior* 27 (November, 1977):1287-1296.

14. Lorenzo Meyer, *México y los Estados Unidos*, pp. 257-263.

15. See the discussion relating to oil in Stanley R. Ross, "Dwight Morrow and the Mexican Revolution," in *Hispanic American Historical Review* 38 (1958).

16. Standard Oil Company of New Jersey, "Confiscation or Expropriation? Mexican Seizure of the Foreign-owned Oil Industry," pamphlet published in New York, 1940.

17. Lorenzo Meyer, *México y los Estados Unidos*, pp. 433-457.

18. Harvey A. Levenstein, *Labor Organizations in the United States and Mexico: A History of Their Relations* (Westport, Conn.: Greenwood Publishing Co., 1971), pp. 128–131.

19. Lorenzo Meyer, *México y los Estados Unidos*, pp. 429–433.

20. Lorenzo Meyer, "*La resistencia*," pp. 149–152.

21. See the opinions expressed by the U.S. chargé d'affaires in Mexico in 1927, where he explains why the oil unions did not support Calles's policy. National Archives, Washington, D.C., Schoenfeld to Department of State, 24 August 1927, 812.6363/2353.

22. Jesús Silva Herzog, *Petróleo mexicano* (México: Fondo de Cultura Económica, 1941), pp. 274–284.

23. J. Richard Powell, *The Mexican Petroleum Industry, 1938–1950* (Berkeley: University of California Press, 1956), pp. 131–132.

24. Some of the problems that PEMEX's first director during the López Portillo administration, Jorge Díaz Serrano, had to deal with in order to get reliable data on the petroleum reserves are discussed in a *New York Times* article which appeared on July 16, 1978.

25. Salvador Mendoza, *La controversia del petróleo* (México: Imprenta Politécnica, 1921).

26. Pastor Rouaix, *Génesis de los Articulos 27 y 123 de la Constitución Política de 1917* (México: Biblioteca del Instituto Nacional de Estudios Históricos de la Revolución, 1959), p. 161.

27. Lorenzo Meyer, *México y los Estados Unidos*, pp. 123–152.

28. *Ibid.*, pp. 118, 124, 128, 145–149.

29. *Ibid.*, pp. 229–230, 235, 269, 274.

30. *Ibid.*, pp. 173–175.

31. *Ibid.*, pp. 270–271.

32. *Boletín del Petróleo* 25 (January–June, 1928):256 ff.

33. The clearest example of this was the recent debate concerning the gas pipeline. The decisions were initially made without allowing for public debate. When Heberto Castillo, writing in *Proceso* in the fall of 1977, questioned the project just as the negotiations reached a crucial stage, he put PEMEX and the government in a corner. It became difficult for the Mexican negotiating team not to harden its position vis-à-vis Washington; that was the only way in which they could maintain some semblance of legitimacy after it had been eroded by Castillo, spokesman of the *Partido Mexicano de los Trabajadores*.

34. Lorenzo Meyer, *México y los Estados Unidos*, p. 35.

35. James Wilkie, *The Mexican Revolution: Federal Expenditure and Social Change Since 1910* (Berkeley: University of California Press, 1967), p. 36.

36. See Richard Fagen's article in this volume.