Latin America in an Era of Economic Challenge and Political Change

A popular slogan among Latin America's politicians, business leaders, and landowners in the late nineteenth century was "order and progress," and to an extent exceptional in the region's turbulent history, they achieved both. Around 1870 Latin America's economy entered a period of export-driven expansion that lasted until the 1920s. The region became a major supplier of wheat, beef, mutton, coffee, raw rubber, nitrates, copper, tin, bananas, and a host of other primary products to Europe and the United States, and with little industrialization itself, a major market for European and U.S. manufactured goods. Land prices soared, and English and U.S. capital flowed into Latin America in the form of investments in railroads, banks, food-processing facilities, and mining operations and as loans to governments for the construction of roads, bridges, and public buildings.

Latin America's economic boom took place in a climate of relative political stability. In Argentina, Chile, and Brazil this meant republican governments controlled by an oligarchy of landowning families, sometimes in alliance with businessmen in the import-export trade; in Mexico, Peru, Ecuador, and Venezuela it meant rule by a strongman or dictator (caudillo), who also represented the interests of landowners. Oligarchs and dictators alike sought economic growth by maintaining law and order, approving land confiscations from the Church and peasantry, and most important, keeping foreign business interests happy by keeping taxes and tariffs low.

Latin America during these years is often viewed as a classic example of neocolonialism. Although the region had achieved political independence from Spain and Portugal in the early 1800s, economic relationships reminiscent of the colonial era persisted. It was still dependent on the export of primary products, mainly foodstuffs and minerals, to industrialized Europe and the United States, and was still dependent on those same regions for manufactured goods and capital for investments. The main beneficiaries of such a system were Latin America's landowning elite, European and U.S. bondholders, and foreign businesses with investments in construction, railroads, shipping, and mining. Dependency on foreign markets, capital, and manufactured goods made Latin American governments vulnerable to diplomatic arm-twisting by their wealthier and more powerful economic "partners." In the Caribbean and Central America it also led to U.S. military intervention.

By the 1930s, the neocolonial economy and the political order it supported were both in shambles, confirming the fears of individuals such as the Peruvian statesman Francisco García Calderón, who in the 1910s had warned of the dangers of the region's economic dependence on the United States and Europe. The main cause of the breakdown was the worldwide economic depression of the 1930s. Demand for Latin America's agricultural products and raw materials plummeted, driving millions into unemployment and depriving the region of the foreign exchange needed to buy manufactured goods from abroad. Loans and investments from the United
States and Europe dried up after the international banking system and stock markets collapsed. Governments faced insolvency, and capital shortages crippled plans to end the economic slump through industrialization. Latin Americans increasingly resented European and especially U.S. ownership of tin and copper mines, oil fields, railroads, banks, processing plants, and prime agricultural land. Once welcomed as a means of attracting capital and encouraging growth, foreign ownership now was condemned as a form of imperialist plunder.

As the Great Depression spread economic misery across Latin America, one government after another fell in an epidemic of election swings, revolts, military coups, and countercoups. While most of these short-lived regimes had no lasting political impact, in Brazil and Mexico political changes in the 1930s had long-term consequences for the nations themselves and for Latin America as a whole. In Brazil they were connected with the career of Getúlio Vargas, who seized power in 1930 and dominated Brazilian politics until 1945 and again from 1951 to 1954. By the end of the 1930s his Estado Novo (New State), a mixture of dictatorship, repression, anticlonialism, economic planning, nationalism, industrialization, and government-sponsored programs for housing, improved wages, and medical care provided Latin America with an authoritarian model for entry into an era of mass politics. In Mexico, changes took place during the presidency of Lázaro Cárdenas, who between 1934 and 1940 sought to rekindle the spirit of Mexico’s Revolution of 1911 through educational reform, land redistribution, and nationalization of foreign-owned businesses.

Economic Dependency and Its Dangers

Francisco García Calderón,
LATIN AMERICA: ITS RISE AND PROGRESS

During the late nineteenth century the United States became deeply involved in Latin America. Until then the United States had few economic ties with the region in comparison to Great Britain and France, and the U.S. government pursued a foreign policy more concerned with keeping foreigners out of Latin American politics than with extending its own influence. The foundation of its Latin American policy was the Monroe Doctrine, announced by President James Monroe in 1823, which warned European powers that the United States would not tolerate any attempts to re-establish their authority over the newly independent states in the Western Hemisphere. U.S. interests in Latin America focused almost exclusively on Mexico, whose territories in Texas, California, and New Mexico became part of the United States by virtue of the Treaty of Guadalupe Hidalgo, negotiated after the U.S. victory over Mexico in the Mexican War of 1846–1848. Other schemes to annex Cuba, Nicaragua, and the Mexican provinces of Yucatán and Lower California (mainly advanced by politicians interested in increasing the number of slave states) proved impractical or failed to generate support.

U.S.–Latin American relations changed dramatically after 1880. As the United States developed into a major industrial power, it gradually replaced Great Britain
as the region's main purchaser of exports and supplier of manufactured goods. By 1910, the United States purchased 30 percent of Latin America's exports and provided it with 25 percent of its imports. By then U.S. investments had increased to $1.6 billion, almost all of it "new money" invested since the end of the Civil War in 1865. As U.S. businesses expanded their operations in Latin America, successive administrations in Washington encouraged their efforts and pledged to protect their interests. In 1905 President Theodore Roosevelt announced the Roosevelt Corollary to the Monroe Doctrine, which stated that the United States reserved the right to intervene in the internal affairs of any state in the Western Hemisphere that was guilty of "chronic wrongdoing," a euphemism for a failure to pay its debts or maintain law and order. Roosevelt's successor, William Howard Taft, was even more explicit. He stated that his foreign policy would include "active intervention to secure our merchandise and our capitalists' opportunity for profitable investment." These were not idle words. Between 1898 and 1934, the United States annexed Puerto Rico and intervened militarily in Cuba, Mexico, Guatemala, Honduras, Nicaragua, Panama, Colombia, and the Dominican Republic.

Condemnation of Latin America's economic dependence on foreigners and denunciations of "Yankee imperialism" became commonplace with the onset of the Great Depression, but such criticisms began earlier. One of the first such critics was the Peruvian diplomat and author Francisco García Calderón. Born into a wealthy and politically prominent family in Lima in 1883, García Calderón entered the Peruvian foreign service soon after graduating from the University of San Marcos. A career diplomat with postings to London and Paris and ambassadorships to Belgium and Portugal, he authored numerous essays and books on Latin America and its place in the world. His most widely read book by far was *Latin America: Its Rise and Progress*, which ranged over the region's history and discussed a number of contemporary issues, including immigration, the state of the economy, and Latin America's foreign relations. First published in 1912, it remained in print until the 1920s, having gone through numerous editions in several languages.

**QUESTIONS FOR ANALYSIS**

1. According to García Calderón, how has U.S. foreign policy toward Latin America evolved since the time of the Monroe Doctrine?
2. How does he explain these changes?
3. According to García Calderón, what benefits have accrued to Latin America as a result of foreign investments? How has Latin America been hurt by such investments?
4. How does García Calderón characterize Latin Americans, and how do they differ from the "Anglo-Saxons" of the United States?
5. How have the Latin American states contributed to their own economic problems?
6. If one accepts the premises of García Calderón's arguments, what would the Latin American states have had to do to overcome the problems connected with foreign economic dependency?
To save themselves from Yankee imperialism the [Latin] American democracies would almost accept a German alliance, or the aid of Japanese arms; everywhere the Americans of the North are feared. In the Antilles and in Central America hostility against the Anglo-Saxon invaders assumes the character of a Latin crusade. Do the United States deserve this hatred? Are they not, as their diplomats preach, the elder brothers, generous and protecting? And is it not proper to vocation in a continent rent by anarchy?

The nation which was peopled by nine million of men in 1820 now numbers eighty million — an immense demographic power; in the space of ten years, from 1890 to 1900, this population increased by one-fifth. By virtue of its iron, wheat, oil, and cotton, and its victorious industrialism, the democracy aspires to a world-wide significance of destiny; the consciousness of its powers is creating fresh international duties. Yankee pride increases with the endless multiplication of wealth and population, and the patriotic sentiment has reached such an intensity that it has become transformed into imperialism.

This expansion is opposed to the primitive simplicity of the Monroe doctrine. In 1823 President Monroe upheld the republican integrity of the ancient [former] Spanish colonies. The celebrated message declared that there were no free territories in America, thus condemning in advance any projected establishment of European colonies upon the unoccupied continent of America, and that the United States limited their political action to the New World, and renounced all intervention in the disputes of Europe.

The Monroe doctrine has undergone an essential transformation; it has passed successively from the defensive to intervention and thence to the offensive. From a theory which condemned any change of political régime among the new democracies under European pressure, and which forbade all acquisitions of territory, or the transfer of power from a weak to a strong nation, there arose the Polk doctrine, which, in 1845, decreed the annexation of Texas for fear of foreign intervention. In 1895 Secretary of State Olney, at the time of the trouble between England and Venezuela, declared that the United States were in fact sovereign in America. From Monroe to Olney the defensive doctrine has gradually changed to a moral tutelage.

Interventions have become more frequent with the expansion of frontiers. The United States have recently intervened in the territory of Acre, there to found a republic of rubber gatherers; at Panama, there to develop a province and construct a canal; in Cuba, under cover of the Platt amendment, to maintain order in the interior, in San Domingo, to support the civilising revolution and overthrow the tyrants; in Venezuela, and in Central America, to enforce upon these nations, torn by intestine disorders, the political and financial tutelage of the imperial democracy. In Guatemala and Honduras the loans concluded with the monarchs of North American finance have reduced the people to a new slavery. Supervision of the customs and the dispatch of pacificatory [peace-keeping] squadrons to defend the interests of the Anglo-Saxon have enforced peace and tranquility: such are the means employed.

1A loosely used term, Anglo-Saxon usually refers to people of English descent.
2President James Polk in 1845 announced that the United States would not tolerate any action by a European power designed to hinder any peoples in North America from "deciding their own destiny." By this Polk meant the right to be annexed by the United States.
3Richard Olney (1835–1917) served as secretary of state under President Grover Cleveland between 1895 and 1897.
4A state in western Brazil.
5The Platt Amendment refers to a series of provisions sponsored by Senator Orville Platt of Connecticut and approved by the U.S. Congress that was attached to Cuba's constitution in 1901. It limited Cuba's treaty-writing capacity, restricted its right to contract public debt, gave the United States the right to maintain naval bases, and provided for U.S. intervention in Cuba if an unstable government failed to protect "life, liberty, and property."
6John Pierpont Morgan (1837–1913), founder of the investment bank J. P. Morgan and Company, was one of the wealthiest and most powerful financiers in the United States in the late nineteenth and early twentieth centuries.
of Latin America by a vast network of Yankee banks. Chicago merchants and Wall Street financiers created the Meat Trust in the Argentine. The United States offer millions for the purpose of converting into Yankee loans the moneys raised in London during the last century by the Latin American states; they wish to obtain a monopoly of credit. It has even been announced, although the news hardly appears probable, that a North American syndicate wished to buy enormous belts of land in Guatemala. The fortification of the Panama Canal, and the possible acquisition of the Galapagos Islands in the Pacific, are fresh manifestations of imperialistic progress.

Unexploited wealth abounds in [Latin] America. Forests of rubber, as in the African Congo; mines of gold and diamonds, which recall the treasures of the Transvaal and the Klondike; rivers which flow over beds of auriferous [gold-bearing] sand . . . coffee, cocoa, and wheat, whose abundance is such that these products are enough to glut the markets of the world. But there is no national capital [for investment]. This contrast between the wealth of the soil and the poverty of the States gives rise to serious economic problems . . .

Since the very beginnings of independence the Latin democracies, lacking financial reserves, have had need of European gold . . . The necessities of the war with Spain and the always difficult task of building up a new society demanded the assistance of foreign gold; loans accumulated, and very soon various States were obliged to solicit the simultaneous reduction of the capital borrowed and the rate of interest paid. The lamentable history of these bankrupt democracies dates from this period.

For geographical reasons, and on account of its very inferiority, South America cannot dispense

7In 1861 Spain, Great Britain, and France sent troops to Mexico to force the Mexican government to pay its debts. After gaining assurances of future payments, Spain and Great Britain withdrew their troops, but Emperor Napoleon III of France went forward with a plan to establish a new Mexican government under French protection. The French-with the influence of the Anglo-Saxon North, with its exuberant wealth and its industries. South America has need of capital, of enterprising men, of bold explorers, and these the United States supply in abundance. The defence of the South should consist in avoiding the establishment of privileges or monopolies, whether in favor of North Americans or Europeans.

The descendants of the prodigal Spanish conquerors, who knew nothing of labor or thrift, have incessantly resorted to fresh loans in order to fill the gaps in their budgets. Politicians knew of only one solution of the economic disorder — to borrow, so that little by little the Latin-American countries became actually the financial colonies of Europe.

Economic dependence has a necessary corollary — political servitude. French intervention in Mexico7 was originally caused by the mass of unsatisfied financial claims; foreigners, the creditors of the State, were in favor of intervention. England and France, who began by seeking to ensure the recovery of certain debts, finally forced a monarch upon the debtor nation. The United States entertained the ambition of becoming the sole creditor of the American peoples: this remarkable privilege would have assured them of an incontestable hegemony over the whole continent.

In the history of Latin America loans symbolise political disorder, lack of foresight, and waste. . . . Old debts are liquidated by means of new, and budgetary deficits are balanced by means of foreign gold . . .

The budgets of various States complicate still further a situation already difficult. They increase beyond all measure, without the slightest relation to the progress made by the nation. They are based upon taxes which are one of the causes of sponsored candidate for emperor of Mexico was Archduke Ferdinand Maximilian of Hapsburg, brother of Austrian emperor Franz Josef. Maximilian served as emperor from 1863 to 1865, when the threat of U.S. intervention convinced Napoleon III to abandon his Mexican project.
the national impoverishment, or upon a protectionist tariff which adds greatly to the cost of life. The politicians, thinking chiefly of appearances, neglect the development of the national resources for the immediate augmentation of the fiscal revenues; thanks to fresh taxes, the budgets increase. These resources are not employed in furthering profitable undertakings, such as building railroads or highways, or increasing the navigability of the rivers. The bureaucracy is increased in a like proportion, and the budgets, swelled in order to dupe the outside world, serve only to support a nest of parasites. In the economic life of these countries the State is a kind of beneficent providence which creates and preserves the fortune of individual persons, increases the common poverty by taxation, display, useless enterprises, the upkeep of military and civil officials, and the waste of money borrowed abroad.

To sum up, the new continent, politically free, is economically a vassal. This dependence is inevitable; without European capital there would have been no railways, no ports, and no stable government in [Latin] America. But the disorder which prevails in the finances of the country changes into a real servitude what might otherwise have been a beneficial relation.

**Economic Nationalism in Mexico**

105 - Lázaro Cárdenas, SPEECH TO THE NATION

Following the overthrow of dictator Porfirio Díaz in 1911, instability and conflict among aspiring leaders marked the first decade of Mexico's revolution, and it was unclear whether the revolutionary movement would survive. In 1917, however, a constitutional convention drafted a new charter for the nation that confirmed the principles of free speech, religious toleration, universal suffrage, the separation of powers, and the inviolability of private property. It also committed the government to social reform and greater control over foreign corporations.

Little changed, however, until the presidency of Lázaro Cárdenas from 1934 to 1940. In a series of bold steps he confiscated millions of acres of land from large estates for redistribution to peasants, introduced free and compulsory elementary education, and sponsored legislation to provide medical and unemployment insurance. His most audacious step, however, was the nationalization of Mexico's oil industry. In 1936 a dispute between unions and the U.S. and British oil companies erupted into a strike, and in the ensuing legal battle, seventeen oil companies refused to accept the pro-union ruling of an arbitration board appointed by Cárdenas, even after the Mexican Supreme Court upheld the decision. In response, on the order of Cárdenas, the government seized the property of the oil companies. Cárdenas announced his decision on March 18, 1938, in a radio speech to the nation. In the following excerpt, Cárdenas, after recounting the events in the labor dispute, comments on the role of the oil companies in Mexico's economic and social development.

**QUESTIONS FOR ANALYSIS**

1. In the account of Cárdenas, which actions by the foreign oil companies forced him to nationalize the oil industry?