

The American Stake in Mexico

By ISAAC F. MARCOSSON

A EUROPEAN economist on his first trip to Mexico inquired about the status of foreign business interests there and got the following reply:

"The Americans and British control oil, land and mining; the Canadians operate the banks and tram lines; the French monopolize the dry-goods stores; the Germans conduct the hardware and drug establishments, while the Spanish run the cafés and groceries."

"What do the Mexicans do?" demanded the visitor.

"They stand in the middle of the street and yell 'Viva Mexico!'" was the answer.

Ever since the beginning of the Diaz régime in 1877, when the modern era began, foreign capital and enterprise have developed resources and brought about a widespread expansion. Yet the avalanche of new laws is frankly antforeign both in text and intent. Although lacking the financial and other equipment with which to assume the responsibilities of economic self-government, the new cry across the border is "Mexico for the Mexicans!"

With the significance and purpose of the Mexican antialien attitude we are not concerned just now. They have been disclosed in the two preceding articles and will be fully dealt with in the succeeding one. The present paper will be devoted to an explanation of the alien interests and especially the American stake of \$1,400,000,000, which is greater by far than that of any other country.

A Favored Country

IN NO other land, perhaps, have our men and money undergone such travail as in Mexico during the past fifteen years. They have been caught between the cross fires of revolution and known the depredations of bandits galore.

Though Mexico is immensely rich in resources, the Mexicans, except for silver mining, barely scratched the surface until Diaz came into power. Their wealth was principally in huge areas of undeveloped land and in cattle. Louis Terrazas at one time owned 6,000,000 ranch acres upon which 500,000 cattle grazed. Evaristo Madero, grandfather of the ill-fated Francisco Madero, who led the revolt against Diaz, was lord of 2,000,000 acres. Then, as now, the rich Mexican of the



An Aerial View of Tampico

upper class invested his money principally in houses and mortgages, in the cultivation of cactus, from which pulque and mescal, the national drinks, are made, and in loans.

In natural endowment Mexico is peculiarly favored in soil, climate, situation and resources. Bordered by the two great oceans, she is the land bridge between the two Americas, and the only Latin-American country touching the United States. Buenos Aires is eighteen days from

cerned. It remained for Porfirio Diaz to realize the potentialities for expansion. When he became president he saw the necessity for outside help to develop the country and to induce the stability which could come only from industry and commerce. The government over which he presided for thirty years invited and encouraged the alien to come in under guaranties of protection. In consequence there was an influx of Americans, British, French and Germans. The results of their initiative brought about a rebirth of the nation. In this expansion the Spaniards had no inconsiderable part. Through the great Cortés adventure, Spain conquered the Aztec and ruled until 1810. The Spanish therefore have been a factor for 300 years and outnumber all other aliens.

Upon the accession of Diaz, Mexico had only 300 miles of railway—the line between Mexico City and Vera Cruz—although railways had been in existence in the world for forty years. When Diaz was forced to flee in 1911 there were 15,000 miles and the republic led all Latin-American countries in mileage. Moreover, at that time much new railway construction was under way, the greater part of which has since been stopped because of the incessant revolutionary unrest.

During the Diaz administration the telegraph system developed from almost nothing to 50,000 miles, and tolls were much cheaper than in the United States. During 1876 there were 300 post offices in the country;



PHOTO. BY TAMPICO OPTICAL CO.

Panuco—A Typical Oil Town

New York, while Juarez is three minutes from El Paso. The Northern Mexican border line of 1740 miles is crossed by nine railroad gateways. In area Mexico equals Great Britain, France, Germany, Belgium, Holland, Denmark, Switzerland, Italy, Greece and Cuba. Their combined populations equal nearly 225,000,000, while Mexico has a bare 15,000,000.

Rebirth

NATURE has been lavish in her gifts to Mexico. The country is a vast treasure-trove. Practically everything known to the vegetable and mineral kingdoms exists, or can be produced, somewhere in the republic. With adequate irrigation, it could be made to blossom like a rose. For years it lay dormant so far as any large degree of capitalization of resource was concerned.

MEXICO

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by 1911 they had increased to 2000. In the intervening period the banking capital grew from insignificance to 250,000,000 pesos, or \$125,000,000. In 1910 Mexican Government 5 per cent bonds sold at par and often at a premium. Now they are quoted around thirty-three cents on the dollar.

The era of modern mining in Mexico dates from the advent of the foreigner, and likewise hydroelectric and similar activities. The vast wealth of oil remained an unexploited asset until the Americans and the British discovered it after spending huge sums in the search. At the high tide of petroleum output the income of recent governments from oil taxes alone equaled the total revenues from all sources of the Diaz régime.

The almost complete dependence of Mexico upon foreign interests is shown by the fact that 86 per cent of her exports come from mining of some kind, a body of industry which is exactly 96 per cent alien owned. If these foreign interests had evaded their obligations, there might be some provocation for the flood of legislation aimed at them. The reverse is true. I have already shown the preponderant place that the oil taxes have in the national income. But that is only one detail.

The work of the Americans in particular has uplifted the whole country. Through them Mexico has learned the meaning of welfare in mine and mill, and the value of safety appliances. Our undertakings give employment to hundreds of thousands of Mexicans at better pay and under more favorable working conditions than were ever known before. In a word, they have added to the general comfort and well-being. As in every other country, there have been Yankee adventurers, both individuals and as companies, who worked shroeking concessions and whose titles to property were obscure. But they have been the exception. American capital has meant solid expansion wherever employed.

Errors

THIS leads to an observation that is an essential preliminary to an examination of American interests in Mexico. Whenever Washington insists upon justice or protection for our nationals the cry is raised in various quarters that vested interests and concessionaires are seeking special favors. Even so vital and fundamental an issue as the one involved in the threatened dispossession of the oil lands is erroneously regarded as a private row between rapacious petroleum companies and the



PHOTO BY TAMPICO OPTICAL CO.

Election Day in Tampico

government. The uninformed individual is apt to feel that the factions should be compelled to fight it out among themselves.

A further misconception is born of the incessant political turmoil in which Americans are presumed to have a part either as instigators or participants. To many they appear to be a Yankee class apart.

As a matter of fact, the Americans in Mexico are no different from those in other lands. They engage in similar occupations and live in much the same way as they did before going there. On account of racial differences and the peculiar conditions of Mexican politics, foreign residents in general do not become naturalized. When

Americans in Mexico take the law into their own hands, as they have been compelled to do on many occasions, it is to safeguard their lives and their property.

We can now examine the American interests in Mexico in detail. According to a survey which was completed during my stay in Mexico, the total investment aggregates in the neighborhood of \$1,400,000,000, distributed among a considerable variety of interests.

A Contrast

CONTRARY to the general belief, oil, the most spectacular activity, does not top the list. Our largest investment is in mines, smelters and the railroads that serve them, which represent a total expenditure of nearly \$400,000,000. Petroleum, including refineries, pipe lines and terminals but excluding tankers, comes second, with an investment of \$350,000,000. Third is railroad property, in which we have \$250,000,000.

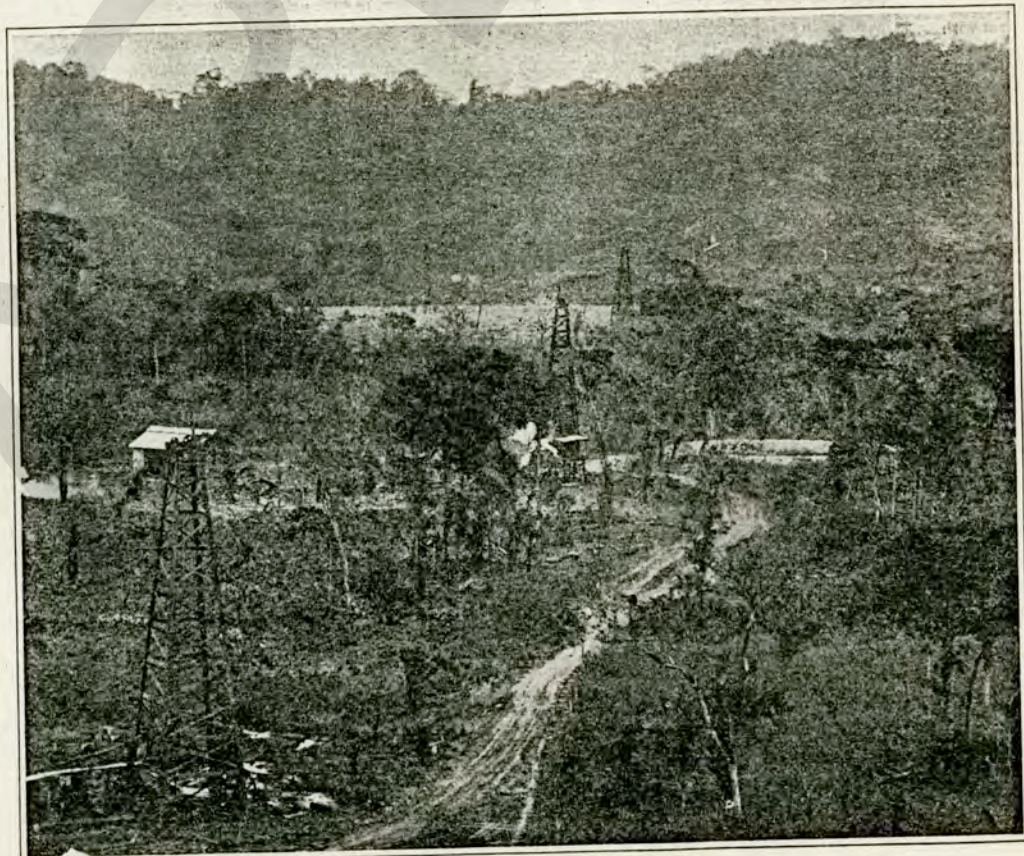
The outlay in rural property is \$142,000,000, while urban property has attracted \$31,500,000. A big item is government bonds, in which we have approximately \$100,000,000 tied up. We have \$22,000,000 in manufacturing enterprises and \$7,300,000 in merchandising undertakings. Public utilities, miscellaneous investments, banks, the railway debt, approved claims and timber account for the rest.

Our total investment in Latin America aggregates \$4,880,671,000. Our Mexican holdings, therefore, are nearly one-third of the entire American interest south of the Rio Grande.

Before we go into the concrete story it may be well to make a comparison between our Mexican and Canadian investments. Since 1910 the American stake in our northern neighbor has grown from \$300,000,000 to \$2,500,000,000. Canada has not only welcomed our money and initiative but has no fear of annexation or political complication. In consequence a safe and profitable field for financial and industrial expansion is afforded. Because of the harmony that prevails, Canada grows as the foreign interest increases.

Mexico, on the other hand, is doing all in her power to discourage foreign enterprise, and in consequence the most severe business depression perhaps in history exists. The political disorders since 1910, followed up by the recent drastic legislation, have absolutely stopped the inflow of capital. American investment, with the possible exception of oil, has stood

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An Oil Field on the Isthmus of Tehuantepec

THE AMERICAN STAKE IN MEXICO

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still or declined. In Canada it has multiplied eight times.

Until recently Mexico led all other Latin-American countries in the volume of trade with the United States. With reciprocity treaties and peace, this trade would greatly increase. Under these two stimulants the little republic of Cuba, only a little more than half as large as the single Mexican state of Chihuahua, is now first in Latin-American commercial intercourse with us. The bulk of it is in two commodities, sugar and tobacco, both of which are indigenous to Mexico. Mexico produces 150,000 tons of sugar a year while Cuba's output is 5,000,000 tons. Incidentally, Mexico's trade with all other Latin-American countries combined for one year barely equals her trade with the United States for two weeks.

Oil holds the spotlight. If the Mexican Government should sponsor the confiscation of one of the properties, the act would precipitate a show-down. Hence we will deal with the petroleum interests first.

The Spaniards went to Mexico to find gold, quite unconscious of the fact that beneath the soil of the domain they conquered was a liquid black wealth greater in ultimate value and far more useful to mankind than the glittering metal they had set their hearts upon. It was largely due to American initiative that an oil empire was opened up that now ranks second in world production. Since 1902, when real development began, the total output has been 1,406,977,000 barrels. This activity has tapped vast areas, and among other things put the city of Tampico, wherein Joseph Hergesheimer found such fictional inspiration, on the map.

There were various early efforts at development. In 1876 a Boston ship captain purchased a quantity of *chapopote*, the Indian name for oil, at Tuxpam for use on his vessel, and took some of it back home, where it attracted attention. A company was formed under his direction and a well put down under the crude methods that then prevailed. Only a small quantity of petroleum was produced. The captain committed suicide because of the failure of the enterprise. A little-known fact is that the great Cecil Rhodes, England's master empire builder, once sponsored an oil undertaking in Mexico on the Tuxpam River. He financed a London syndicate which spent \$500,000 in a series of fruitless efforts.

Prospecting de Luxe

Mexican oil exploitation in a big way was pioneered in original fashion. In 1900 A. A. Robinson, then president of the Mexican Central Railway, became interested in oil for fuel and suggested to E. L. Doheny that he open up a field in the republic, guaranteeing a contract with the railway for part of the product. Thereupon Doheny, accompanied by his old prospecting pal, C. A. Canfield, started to develop what is now known as the northern field not far from Tampico.

When Doheny first went to Mexico for oil he was already a millionaire, because he had discovered oil at Los Angeles and elsewhere in California in the early 90's. He had hunted for gold in Mexico in the early 70's. He had been a mule driver for the Geological Survey on the border and therefore knew something about the country.

Doheny's oil prospecting in Mexico was on a de-luxe basis in that he and his associates used a special train, which had never been done before. Numerous oil seepages were discovered and Doheny decided to go in. He acquired a tract of 250,000 acres, which was later augmented by an additional 200,000 acres. This comprises what is known as the Ebano field and was the scene of the first intensive drilling and production in the country. As soon as he got oil Doheny offered it to the Mexican Central Railroad, whereupon he was informed

by the new chairman of the board of directors that they had made other arrangements. At that time the Texas field was overproducing and Doheny was up against it for a market. He continued his development, however, and built a refinery at Ebano. He had oil, which means that he also had asphalt. In order to earn his overhead he organized a paving company in Mexico City. It built nearly 50 per cent of the streets in the capital that are now paved. It also built streets in Guadalajara, Morelia, Tampico, Durango, Puebla and Chihuahua.

The parent Doheny company was the Mexican Petroleum Company of California. For subsequent development in the southern field and elsewhere, the Huasteca Petroleum Company was organized. Later the Pan-American Petroleum and Transport Company took over all these holdings. In 1926 the Doheny interests which were in control were sold to a syndicate of New York bankers, acting in behalf of the Standard Oil Company of Indiana. In 1926 the properties accounted for 41 per cent of the whole output.

Mexican Production

The Ebano area marked the first outpost of Doheny penetration. In what is commonly known as the southern field he opened up another immense area. It was here that the famous well, technically known as Cerro Azul Number 4—the words *cerro azul* mean "blue hill"—and perhaps the greatest gusher in the history of oil, was brought in on February 9, 1916. Like many historic gushers, it ran wild for days, inundating the countryside. The yield during the twenty-four hours prior to its being closed in, as the phrase goes, was 260,853 barrels.

With the opening up of the northern field the rush began. This field, together with the southern field and the so-called Isthmus of Tehuantepec zone, comprises the backbone of the production area. It is located on the Gulf coastal plain which fringes the eastern side of the republic. The most important sections, both in point of early development and eventual output, are in the states of Tamaulipas, San Luis Potosi and Vera Cruz.

By 1914 nearly all the leading oil companies in the United States had Mexican corporations in active operation. In the northern area the Standard Oil Company of New Jersey is represented by the Transcontinental, which up to January first of this year had produced 91,046,000 barrels. It leads in production. Next is the Mexican Petroleum, with 67,281,000 barrels. Third comes the Mexican Sinclair, with an output of 54,316,000. Fourth is the International Petroleum Company, controlled by John Hays Hammond, with 34,341,000 barrels. Fifth is the East Coast Oil Company, operated by the Southern Pacific Railway, with 32,870,000 barrels, while sixth is the Mexican Gulf Oil Company, with 31,232,000 barrels. Other American corporations in this area are the Texas Company of Mexico; the New England Fuel Oil Company, operated by the Standard Oil Company of New York; Panuco Boston, subsidiary of the Atlantic Refining Company; the Empire Oil and Gas Company, owned by the H. L. Doherty interests; the Penn Mex Fuel Company and the Marland Oil Company.

In the southern field the Huasteca tops the list with a production up to the beginning of this year of 282,553,000 barrels. Its closest rival among the American companies is the Mexican Gulf, with 71,554,000 barrels. Here International ranks third, Penn Mex fourth. The Agwi Petroleum Company, owned by the Atlantic Gulf and West Indies Steamship Company, is fifth, with the Transcontinental sixth.

Though the ownership of oil areas by Americans in Mexico exceeds that of all

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other nationals combined—it aggregates 57.46 per cent of the total—there must be a word about the British and Dutch interests, because they have made common cause with us. The British counterpart of E. L. Doheny was Lord Cowdray, the famous engineer. He was born Weetman Pearson and is the grandson of the founder of the international contracting firm known as the Pearsons. While rebuilding the Tehuantepec Railroad, which connects the Gulf of Mexico with the Pacific Ocean, he discovered oil seepages. Fuel was scarce and he decided to drill for oil in order to obtain it.

At that time Porfirio Diaz was president of Mexico. When Pearson—he was then Sir Weetman—put the matter up to him, he approved the project and offered all territory contiguous to the railroad for exploitation, provided the Mexican Government got 10 per cent of the net profits. No commercial oil was found in the railroad area. Pearson, however, believed in petroleum, and spent \$10,000,000 before he struck it rich in the Tampico-Tuxpam region in 1907. The Pearson interests became the Aguila Company, which is the second largest producer in the southern field. A few years ago Aguila was acquired by the Royal Dutch, which operated in Mexico as the Cornona.

All the oil development that I have reviewed in brief has meant much more than merely sapping the subsoil of one of its richest treasures. To develop an oil property you must build pipe lines, tanks, refineries, railroads, highways, terminals and wharves. This has been done by the oil companies in Mexico on a lavish scale. Without the oil development, the whole Gulf coastal plain would still be a barren waste.

Instead it was converted into a thriving domain where large communities literally sprang up like magic. For years foreign capital and foreigners flowed in. Tampico, at the peak of production in 1921, when the output in the fields was nearly 200,000,000 barrels, was a boom town that rivaled Cripple Creek in its most expansive and exciting days. Money was the cheapest thing in the town, and food and good lodging the most expensive. A big gusher out in the fields was almost a daily event. The well of 5000 barrels a day was regarded as commonplace and scarcely worthy of mention. It was a contractor's paradise, because houses, plants and equipment were essential regardless of price. From a straggling town Tampico grew into a pretentious city of 130,000 inhabitants, with well-paved streets, adequate shops and every facility of a modern municipality.

From the Spanish Rule

When I visited Tampico in January the population had shrunk to a bare 70,000. The one-time bustle and animation had almost ceased and gloom hung over the place. Although the invasion of salt water had reduced the output in some sections, the primary reason for decline was the uncertainty of operation due to the attitude of the Mexican Government and the laws it has framed.

In metal mining we have duplicated the oil achievement to a very large extent, but in less spectacular fashion. Our actual investment, however, is greater than in petroleum areas. With mining we reach the realm of romance. It is linked with the glories and cruelties of the Spanish conquest and also serves to introduce various picturesque Americans who have given Mexico a tradition of courageous adventure. Mexico is the greatest of all silver producers. The value of this product extracted within her confines has passed the \$3,000,000,000 mark. None of the other silver mines has so long and rich a story, perhaps, as the Batopilas workings.

They were discovered in 1632 by Spanish prospectors, sent out by the viceroy, who were exploring the mountain region of Chihuahua and Sonora. Previous discoveries in this region had revealed ore which

could be refined only by a laborious process. The ore of Batopilas was in its native state and of such richness that it could be readily separated from the rock and melted in a simple forge. For more than a century irregular and unsystematic mining was carried on. Because of its large output, a portion of which was invariably sent as a tribute to the King of Spain, the mines became internationally known.

The war for Mexican independence in 1810 and subsequent political convulsions caused systematic work to be abandoned. The properties fell into such disrepair, due to accumulated water and lack of drainage, that they were practically abandoned. In addition, the isolated mountainous position and the lack of protection made exploitation a hazardous venture. Thus the mines lay inactive until 1860, when they were sold to John R. Robinson, an American, who formed the Batopilas Silver Mining Company. Ten years later bandits seized the property and extracted a small fortune.

American Prospectors

It was not until 1879 that they came under the control of Alexander R. Shepherd, one of the most virile and dominating Americans in all Mexican economic history. Shepherd, who had started life as a plumber, became the center of a storm at Washington, where he was governor of the District of Columbia under President Grant. He rebuilt the American capital, carrying out many of the ideas of L'Enfant, who laid it out. Because of his large expenditures and the hostility that his rough-and-ready methods provoked, impeachment proceedings were instituted against him. His public service had dissipated much of his private fortune, so he went to the then new land of Mexico to forget and to recoup.

Shepherd organized the Consolidated Batopilas Silver Mining Company and turned his vast energy and organizing skill loose, with the result that he made the mines prosperous, and they have been so ever since. Long before his death in 1902 he received complete vindication from the District of Columbia. His statue, erected by popular subscription, now stands before the District Building on Pennsylvania Avenue.

Another romantic figure was the late Col. W. C. Greene, better known throughout Northern Mexico as Fighting Bill Greene. With him we reach the really turbulent days of mining. In this case it happened to be copper.

Greene was born in New York. His early life, however, was intimately associated with the rough days of Arizona, where he was a cowboy and subsequently cattleman on his own. While protecting his life he became involved in such a serious difficulty that he decided to cross the border and start a new career. He arrived in Sonora a simple prospector. When he died at the age of sixty from the effects of a runaway accident, he was one of the best-known mining men in Mexico and his fame had spread through a considerable portion of the United States.

Colonel Greene's name is inseparably associated with that of the Cananea Consolidated Copper Company, which he founded, and around which grew the town of Cananea. Here are located smelters, concentrating plants, the headquarters of a privately built and owned railway, and all the appurtenances of a completely equipped mining center. It is said that Greene was the first man in Mexico to raise the workers' pay from one peso a day—that is, fifty cents—to three pesos.

But all this was not achieved through a period of piping peace. In the early days of Cananea development serious labor troubles arose, inspired by the first I. W. W. agitators who went to Mexico. When these radicals sought to foment trouble within his confines, Greene drove them out at the point of a pistol. Subsequently the agitators organized a force to storm the camp, whereupon Greene armed his men

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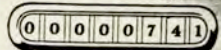
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and a pitched battle ensued. Greene himself was always in the thick of the mêlée. When he was not subduing labor insurgents he was fighting bandits.

The Cananea enterprise represents only part of the Greene accomplishment. He organized and owned outright the Greene Cananea Cattle Company, the Sonora Packing Company and the Greene Gold and Silver Company. He also established a smelter at Guaymas; he built the railroad line between Cananea and Nico which afterward became a part of the Southern Pacific of Mexico, and established a huge lumbering industry in the state of Chihuahua. In every sense Greene left the impress of his personality and performance over a wide area.

One of the conspicuous American copper enterprises in Mexico is that of the Phelps Dodge Corporation, which owns the Moctezuma Copper Company at Nacoziari, in the state of Sonora. Nacoziari is about seventy-five miles from the border. One property consists of mineral lands in the Nacoziari and Arispe districts of Sonora, including Pilares, where the principal mines of the company are located. The town of Nacoziari is about six miles from Pilares and is connected with it by a narrow-gauge railroad, which brings the ore from the mines to the concentrating mill at Nacoziari. The headquarters of the company are also at that point, as well as the shops, power plant and stores. Schools are maintained by the corporation at both places for the children of employees; also a well-equipped hospital, library and recreation halls.

The property has been operated by the company since 1897. At the present time 2000 tons of ore are being treated daily and approximately 2100 men are employed in various operations.

Mining provides the largest single American industry in Mexico. I refer to the activities of the American Smelting and Refining Company, which employs 20,000 workers and artisans and whose Mexican interests extend from the Texas border to the Isthmus of Tehuantepec. A whole empire of production, with many ramifications, is embraced within its control and ownership.

With this huge undertaking we arrive at the far-reaching operations of the Guggenheims. Their entry into mining grew out of an interesting incident. In the late 80's Meyer Guggenheim, founder of the well-known house that bears his name, was a lace importer in Philadelphia. In exchange for a bad debt he received a controlling interest in a silver mine in Colorado. For a time he operated it as a side issue. After a year he came to the conclusion that the cost of smelting his ore was excessive. Upon investigation he discovered that the profits were large. He thereupon built his own lead smelter at Pueblo.

Pill Boxes for Protection

From this plant, which he operated under the name of the Philadelphia Smelting and Refining Company, grew the Guggenheim domain of mining and smelting which now extends to Bolivia and Chile. The American Smelting and Refining Company was the result of various combinations, including the original Philadelphia concern.

As the Guggenheim field expanded, it became necessary to seek sources of ore supply outside the United States. Mexico was the first logical base. At first the lead and zinc ore was transported to this country. In the early 90's the first Mexican plant, a lead smelter, was erected at Monterrey. This was followed by a copper smelter at Aguascalientes. These two plants launched operations south of the border on a large scale.

Near the city of Chihuahua the American Smelting and Refining Company operates the largest lead-smelting plant in the world. It has a capacity for smelting 60,000 tons a month and produces approximately 10,000 tons of lead bullion every thirty days. These works were started in 1907,

during one of Villa's worst bandit outbreaks, and were enlarged in 1917. Because of Villa's antagonistic attitude toward the American Government, and his threats to destroy all mining property, the Chihuahua plant was strongly fortified with every known modern agency, including concrete pill boxes such as the Germans subsequently used in the World War. For years the place was under strong military guard. I cite this episode to show the kind of hazard and handicap under which American industrial operations were carried on for years in Mexico.

In Chihuahua the American Smelting and Refining Company has built a model town for its 5000 employees. Elementary schools are provided for the children and there is a night industrial training school for the workers. For those who desire to better their station in life, free instruction in mechanical drawing, electrical engineering, stenography, music and English is available.

In the cafeteria a substantial meal can be obtained for the equivalent of seven and one-half cents. As in all the other works, a motion-picture theater and a well-equipped hospital are maintained.

Metal From Gases

At San Luis Potosi the company has just completed the second largest smelting unit in Mexico. It consists of a lead and copper smelter and the largest arsenic plant yet constructed. The arsenic comes as a by-product in the fumes from the copper and lead smelting operations. Under present-day metallurgy, the fumes no longer escape from the stack, but are caught either by means of bag houses or electrical precipitation plants. These fumes carry lead, arsenic and a small amount of gold and silver. In order to recover the lead and precious metal values, it is necessary to eliminate the arsenic, although the latter has practically no commercial value under present prices. The arsenic plant was started two years ago at San Luis Potosi with native labor. Due to close scrutiny and careful operations, the company has been able to avoid sickness or any ill effects in the handling of this very poisonous commodity. Approximately 700 tons of 99.5 per cent arsenic are produced and shipped monthly. It is used mainly as an insecticide and especially for fighting the boll weevil in the South.

The Chihuahua and San Luis Potosi plants are the most modern in Mexico. With the works at Monterrey and at Matuhuala, the output each month aggregates some 2,000,000 ounces of silver, 12,000 tons of lead, 1500 tons of copper and considerable gold.

These plants comprise only a part of the American Smelting and Refining scheme. The company acquired the extensive Rosita coal mines formerly owned by the Madero family, and have just completed their rehabilitation. In connection with this operation is the recent construction of a coke and by-product plant, the first of its kind in Mexico. The mines produce all the coal and the 16,000 tons of coke consumed each month by the smelters. Near Rosita is located Mexico's first zinc mine, also a company asset, which uses as fuel the by-product gases from the coke ovens. The company also owns and operates mines of various kinds in half a dozen other Mexican states. Its extensive exploration campaign to develop mines in remote parts of Mexico goes on all the time.

One final detail is further illustrative of how American companies have not only overcome the dislocation due to incessant Mexican political tumult but contributed to stabilization so far as it was possible to do so. In Mexico, as in China, one of the first agencies to suffer from insurrection is the railroad. Tracks are torn up by bandits or equipment seized for troop movement. All this demoralizes traffic.

In 1917, when Carranza established a central government and dominated most of the territory, the American Smelting and

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Look for the name Iver Johnson when you buy a sidewalk bicycle, and assure your child's safety. Get the famous Iver Johnson features of strength and lasting quality. Equipment includes New Departure Enderse water brake, full one inch non-skid cushion rubber tires, strong steel stand, and mudguards front and rear. Bicycle-type ruby refractor attached to rear guard.

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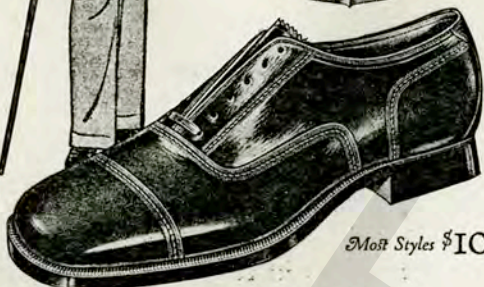
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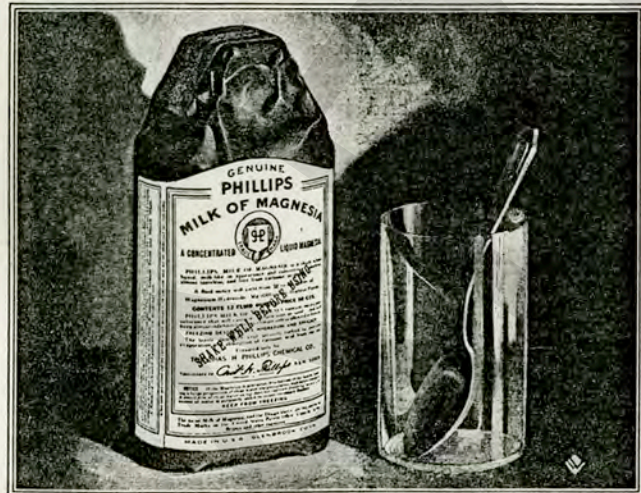


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(Continued from Page 194)

French, Swiss, Belgian and Dutch representatives. From this you can get some idea of the extent of the holdings.

As a result of this conference, Mexico acknowledged a debt of \$517,000,000, which included government bonds and the National Railways debt, and also arrears of interest aggregating \$207,000,000. Under the agreement reached, \$87,000,000 in bonds maturing between 1923 and 1928 were extended until 1933. The item of \$207,000,000 of accrued unpaid interest was exchanged for scrip upon which payment was postponed until 1928. Typical of the generosity of the terms was the fact that the railway bondholders waived the right of foreclosure.

In exchange the Mexican Government agreed to restore the properties to private ownership in good condition.

The Mexican Government further obligated itself to pay \$15,000,000 in 1923, \$17,500,000 in 1924, \$20,000,000 in 1925, \$22,500,000 in 1926 and \$25,000,000 in 1927. As guaranty it pledged the entire oil export tax, 10 per cent of the gross revenue of the National Railways and the entire net operating revenues of the roads. After 1927 there was to be complete resumption of service on the debt.

Mexican Subdivisions

By early January, 1924, the government remitted \$14,638,565 as the oil export tax of 1923. The advices received by the committee showed that it had really been \$19,220,000. Moreover, the government failed entirely to remit to the committee the 10 per cent on the gross earnings of the railways and also neglected to send in the net earnings. In the face of all this, Obregón succeeded in getting a cash advance on account.

The usual thing now happened, because the De la Huerta revolt against Obregón began. Once more the country was plunged into fiscal confusion and the arrangement entered into in 1922 broke down.

In 1925, and after Calles had become president, his Minister of Finance, Alberto J. Pani, went to New York and made what is known as the Modified Agreement with the International Committee of Bankers. One of the most important features was the separation of the government debt from the railway debt. The Mexican Government agreed to remit the entire oil export tax and also \$416,667 out of the oil production taxes for service upon the direct debt, in monthly installments. In case of deficiency, the government bound itself to pay the deficit out of other oil or additional government revenues. The government was relieved of one responsibility imposed by the 1922 agreement in that the railways were required to remit their entire net revenue to the international committee direct. There were various other details, but these indicate the trend of modifications.

It is to the credit of Calles that since he came into power the government has met the terms of the Modified Agreement. The same has not been true, however, of the National Railways. Only a nominal sum has been remitted for the service of the obligation.

Up to July 1, 1926, it was not sufficient to meet six months' interest on the bonds. The international committee thereupon asked the government to make up the deficit on this interest, and it agreed to do so.

In the extent of landholdings Americans lead all other aliens. The \$142,000,000 that our nationals have invested in rural properties embrace ranches where thousands of head of cattle, sheep and goats graze, and also cotton and sugar plantations. Among the largest landowners are the Southern Pacific Railway of Mexico, John Hays Hammond and William Randolph Hearst.

Americans are also largely responsible for what we call subdivision development in and about the cities, and especially the capital. In Mexico, subdivisions are called

colonias. The American idea of selling lots and houses on the installment plan is carried out. Through these projects the Mexicans of moderate income have been enabled to live in modern comfort and convenience. Some of these subdivisions have golf and country clubs.

Ownership of land in Mexico these days is fraught with much hazard. The new agrarian law, the pet hobby of Calles, ruthlessly expropriates developed areas without regard to the needs of the owner and with little thought of adequate compensation. All this, however, will be dealt with in a succeeding article devoted to the Mexican land problem and its ramifications.

One American land development must be mentioned here because it may eventually affect the control of an essential commodity—rubber. I allude to the cultivation of guayule, the shrub from which a rubber is extracted. Mexico is the only known region where it grows wild. The Intercontinental Rubber Company, founded by the late Senator Nelson W. Aldrich and Thomas F. Ryan, acquired immense areas in the north and built factories at Torreón, Cremos, Rancho, Cedral and Visca. Development had reached a large scale when it was interrupted by the inevitable revolution. Meanwhile scientists made an extensive study of the propagation of the wild shrub and laid out experimental tracts. These were fought over by warring factions, but enough seed was salvaged to start plantations in California and Arizona, where guayule is now being produced in commercial quantities. The company still owns 1,800,000 acres of shrub land in Mexico. With peace, operations there will be resumed.

American technical skill is having the major part in the expansion of the Calles irrigation program. The bulk of the investigation and construction work is being done by the Mexican branch of an American engineering company that operates in various parts of the world. The company has a service contract with the government and works under the direction of the Minister of Agriculture and the National Commission of Irrigation.

One Peaceful Revolution

Twenty irrigation projects have been or are being investigated, in the states of Michoacán, Nuevo León, Durango, Chihuahua, Lower California, Tamaulipas and the Valley of Juarez. At Guatimape, in Durango, actual work has begun. The existing dam has been strengthened and a canal is under way. Another project upon which work is under full progress is on the Santiago River, thirty kilometers from the city of Aguascalientes. This development will open up 75,000 acres of land. A third undertaking, also in course of construction, is on the Salado River in Nuevo León, seventy-five miles from Laredo. Here a huge earthen dam 100 feet in height will be built. Its capacity will be 35,000,000,000 cubic feet of water, or enough to irrigate 150,000 acres. All together Calles expects to spend \$15,000,000 a year in his irrigation scheme. So far all the contracts have been with Americans.

With one essential public utility—the telephone—American inventiveness and resource are bringing about a real revolution. Contrary to the general Mexican rule, this one is peaceful and constructive.

In the use of the telephone, Mexico occupies first place, chronologically, among Spanish-speaking countries. In 1880, exactly four years after Bell perfected his historic invention, a system was commercially operated in Mexico City. Apparently the country soon recovered from its first attack of telephone enterprise, because at the end of 1925 there were only 50,000 telephones in the entire republic. Of this number, 28,000 were in the Federal District, which is Mexico's District of Columbia.

Mexican telephone development, such as it was, was similar to that in Spain and Italy. There were numerous small companies financed by local business men or

capitalists with little knowledge of the telephone business. By 1924 fifty of these companies had sprung up, some owning only 200 telephones. Anything like long-distance communication was out of the question.

The under-telephonization of the country was well-nigh incredible. Tampico, which exported 13 per cent of the world's supply of oil and with a population of more than 100,000, had less than 200 telephones, while business demanded 10,000. Torreon, the center of the cotton industry, struggled along with two minor telephone companies without interconnection.

The first attempt at expansion was made by the Ericsson Telephone Company, a Swedish concern, which received a concession to install service in the Federal District. It made no effort to go in for long-distance service, however.

Realizing the opportunities for a nationwide development, the International Telephone and Telegraph Corporation, an American enterprise which had already put the telephone on the map in Spain, Cuba and Porto Rico, obtained a concession in 1925 to establish both local and long-distance service. For operation in Mexico it acquired the name and the properties of the Mexican Telephone and Telegraph Company, which had been in existence since the 90's. The government is a partner in the enterprise, receiving a percentage of the gross receipts.

As in Spain, the company is bringing about a complete reversal of the antiquated policies and service. The old equipment of the Mexican Telephone Company in the Federal District, as well as in the states of Querétaro, Guanajuato, San Luis Potosí, Coahuila, Nuevo León and Tamaulipas, is being rebuilt in some parts and replaced in others by new material. In each locality an active expansion movement is taking place. In Mexico City, for example, a new central exchange of the automatic type is being constructed, while at Tampico a modern underground installation, with a central automatic office having a capacity for 20,000 lines, is nearing completion.

One of the early difficulties encountered by the company was the lack of sufficient trained workmen to splice the aerial and underground lead cables, some of which contain as many as 2400 wires in a single lead-sheath. To meet this need a school for cable splicers was started in April of last year under the direction of American experts. A similar training school for linemen was also established. Telephone expansion has become a sort of free industrial college which is making a body of the population more efficient and therefore more contented. In such enterprises as this the real antidote for unrest is being set up.

International Communication

What is happening in Mexico City and Tampico marks the beginning of a transformation which will affect nearly every section of Mexico. The general construction program of the Mexican Telephone and Telegraph Company provides for the building of twenty-two central exchanges in fifteen of the largest cities of the republic, most of them engineered and constructed for a capacity of 10,000 lines. All these will have intercommunication by means of a modern long-distance network. Connecting circuits between Mexico City and Querétaro, a distance of 154 miles, are already in operation. This is the first leg of the long-distance circuit. Before the end of this year Mexico City, Querétaro, San Luis Potosí, Tampico, Ciudad Victoria, Saltillo, Monterrey and Nuevo Laredo will be joined.

Once the American border is reached, international connections will be made with the entire Bell system of the United States, which serves 17,000,000 telephones; with the Bell and other systems in Canada and their 1,000,000 telephones; and also with the 70,000 telephones of the Cuban Telephone Company in Cuba, via the submarine telephone cable laid in 1921 between Key West and Havana. Thus the International

Telephone and Telegraph Corporation will link the individuals of four nations and bring about what will be the greatest unified area of telephonic communication on the globe before the end of 1927.

On the borders of this area will lie Mexico City, Los Angeles, San Francisco, Seattle, Vancouver, Chicago, Ottawa, Montreal, Quebec, Boston, New York, Philadelphia, Washington, Havana and Santiago. If a similar area, approximately circular in form, should be stretched on the map with its edge at London, England, the outer limits would extend well south of the Sahara Desert into the Gulf of Guinea, touch the northern borders of Abyssinia, include practically the whole of Persia, reach to the western borders of India and China, and cover a large part of Siberia. The diameter of this area measured by air line would be practically 3500 miles.

Any estimate of the American stake in Mexico must include a reference, at least, to the claims for damages resulting from revolutionary outbreaks between 1910 and 1920. Under a convention between the United States and the Mexican Government, signed in September, 1923, a Special Claims Commission composed of a Mexican, an American and a neutral presiding commissioner was established to sit upon 3000 claims aggregating a total of more than \$400,000,000. These figures show the extent of devastation to American property during the course of ten years.

Ambassadors of Business

The commission heard only one case. It was the so-called Santa Isabel incident. Fifteen American mining experts who had been asked by the Carranza government to reopen their properties in Chihuahua in order to provide work for the starving peon population, and who had been guaranteed protection, were taken from their train by Villa and his men and foully murdered. The claim made in behalf of the widows, orphans and other relatives aggregated \$1,290,000. The presiding commissioner—a Brazilian—voted with the Mexican member against its admission on the ground that the government was not responsible because Villa was a bandit. The American representative refused to concur and no sessions have been held since.

The commercial watchdog of American interests in Mexico is the American Chamber of Commerce of Mexico. Most Yankee chambers of commerce in foreign countries accept natives of the country for political and financial reasons. The body in Mexico is one of the few that receives into its membership only companies in the two countries the majority of whose stock is owned by Americans, or native or naturalized Americans as individual members.

The chamber has many members on this side of the border. Each group has a chairman. In New York, Philadelphia, Chicago, St. Louis, San Francisco and Los Angeles these groups hold regular meetings in which trade possibilities with Mexico are discussed. The central office in Mexico City receives reports of the conferences, with suggestions as to how the deliberations can be capitalized into actual commerce. In Mexico there are member groups in the states of Jalisco and Vera Cruz and in the city of Tampico.

The American Chamber of Commerce in Mexico has long been recognized by the Mexican Government as the representative of American business interests in the country and is consulted by the authorities when they desire to reach our nationals. When the government held the celebration of the centennial of Mexican independence in 1921, it called upon the chamber, as it did upon organizations representing other foreign colonies, to do something to make the occasion more brilliant. The Spanish and French communities gave balls and open-air fiestas. The Chinese put up a street clock on one of the leading avenues. The Assyrians illuminated a business block on a downtown thoroughfare. The American colony raised \$10,000 and presented

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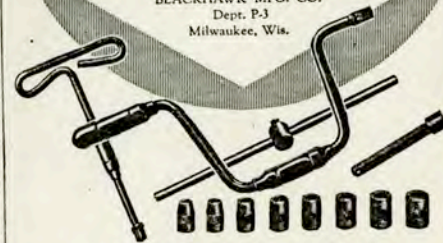
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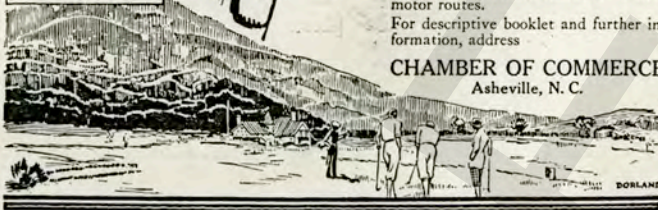
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THE New Blue-jay

THE SAFE AND GENTLE WAY TO END A CORN

Mexico City with a fully equipped American playground. When the carnival of 1925 was held the American Chamber of Commerce, at the request of the State Department, put a float representing American ideals in the parade. The queen and her maids of honor who sat on it were taken from the graduating class of the American School.

The American School in Mexico City is really an international institution. Though all the teachers are American, the Mexican children predominate among the pupils. When De la Huerta revolted against the Obregón government in 1924 the offspring of both leaders were in the school at the same time.

To round out the story of American cultural influence, the American residents have been especially active in promoting the work of the Y. M. C. A. There are branches in Mexico City, Tampico, Monterrey and Chihuahua.

From this has developed the movement in field sports and general athletics that is becoming country-wide. It is also providing an effective agency for civic training as well.

There remains the vital matter of our trade across the border. In no other country of this Western world has the foreign commerce had such a romantic background as in Mexico. Its most colorful epoch was the Colonial era prior to 1777. It was during this period that the China ship, as it was called, made its annual voyage from Manila to Acapulco. The galleon left Manila in mid-July loaded with spices, silks, chinaware and finely wrought articles of gold and silver and was five or six months on the way. When the news reached Mexico City that the vessel had been sighted off the coast the road to Chilpancingo was soon alive with merchants with the burro trains loaded with strong chests, travelers and connoisseurs, all eager to be among the first at the port of arrival. The galleon started on its return voyage in February or March. The principal cargo, according to

the current saying, was "plata y frailes," which means silver and monks.

During this picturesque period, and for many years later, the Spanish crown maintained a monopoly of the trade of her colonies. The United States did not get a look-in until after the war of independence, which began in 1821. The first year for which there are authentic records is 1826, when we exported to Mexico goods worth \$1,900,000 and imported merchandise worth \$3,100,000. Then, as now, we bought more from Mexico than we sold in that country.

At the present time United States exports to Mexico practically cover every important article known to commerce. The two principal items, however, are automobiles and lard. These are likewise the outstanding commodities in the total Mexican imports. We have a dominant part in Mexico's foreign trade because there is a common frontier, and transport is easy except during the persistent revolutionary outbreaks.

The difference in climatic conditions is such that the products of the two countries are complementary rather than competitive. In 1901 we furnished 60 per cent of Mexico's imports. The peak was reached in 1918, during the war, when we attained 90 per cent of the total. With the restoration of normal conditions our percentage has declined until now it is about 70 per cent. Last year the value of our exports to Mexico was \$137,000,000, or nearly one-sixth of our entire trade with Latin America.

Thus the American effort extends to every activity. Instead of being aggressively imperialistic, it has worked for larger social and economic advancement. Relieved of the incubus of adverse legislation and the burden of official animus, it could assist Mexico to a commanding place among the Latin-American republics.

Editor's Note—This is the third of a series of articles by Mr. Marcosson dealing with Mexico. The next will be devoted to oil and kindred issues.



DRAWN BY NATE COLLIER

First Tourist: "Wonderfully Cool Climate in Holland"

Second Ditto: "Yeh. No Wonder—Look at the Big Electric Fans"

MEXICO FOR THE MEXICANS

By ISAAC F. MARCOSSON

IN THE present article an attempt will be made to analyze Mexican legislation with special reference to that part which brought Mexico into sharp conflict with the United States. Whatever view you may have of this legislation, one thing is certain—the Mexicans have done the job completely. In their lawmaking they have covered "heaven above . . . the earth beneath" and "the water under the earth." The range is from the church to sub-soil rights.

Fully to comprehend the scope and significance of the new Mexican laws, and especially the oil and alien land statutes which have caused all the trouble, we must first briefly review Mexican constitutional history. The constitution of 1857 was adopted under the leadership of Benito Juarez, the Lincoln of his country and the outstanding national hero, with the possible exception of Miguel Hidalgo, who first raised the standard of revolt against Spain. This document separated church and state and established a form of government which was, in the main, practical, progressive and liberal. In outline it followed quite closely the Constitution of the United States. As with ours, it provided for amendments. One of its provisions was: "No retroactive law shall be enacted."

As originally written, the constitution stipulated that no president could serve more than one term. When Porfirio Diaz came into power he amended it so as to bring about his rule of more than three decades. Although it is running a little ahead of the story, Calles and Obregón, late in 1926, put through a similar amendment to the 1917 document to enable Obregón, Calles' predecessor in office, to become also his successor, and permit their continued rotation in office.

An Expression of the New Order

PRIOR to May 1, 1917, the Juarez constitution was the fundamental law of the land. It made no specific mention of petroleum. There was an indirect reference in the provision which gave congress the right to issue a mining law. Three mining laws were subsequently promulgated during the period within which the 1857 constitution was enforced. Each made a sharp distinction between metals and mineral fuels, whether liquid or solid. Metals were construed as the property of the nation and exploitable only under concession from it. Mineral fuels—that is, oils—belonged to the owner of the land, who, under proper police regulations, could work deposits as he saw fit.

Two important facts must be emphasized here. The first is that under these laws all the oil properties now in controversy—they constitute 99 per cent of the oil lands owned by foreigners—were acquired by the companies either by direct purchase from the landowner or by oil and gas leases which paid the owner an annual rental, and in most cases a royalty upon the petroleum products extracted. The other is that they became the property of the alien companies before the 1917 constitution became effective. At the start the oil holdings were developed without hindrance from the government. In fact they had active official support

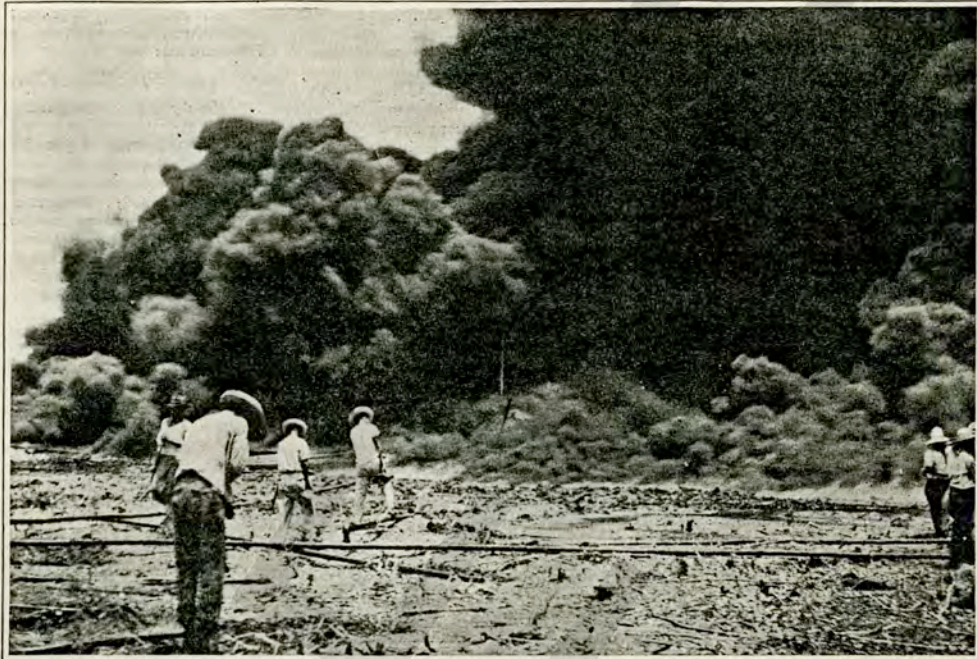
and coöperation, because, largely due to American initiative, they meant a new industry for the country.

It was not until the Carranzistas gained political control through premature recognition of Carranza by President Wilson that the train of trouble was laid. The concrete expression of the new order—I might add that it remains the order of the day—was the now-famous constitution of 1917.

In every respect it is a unique document. The Constitution of the United States is the frame of the government. The bulwark of liberty fashioned under the



TAMPICO OPTICAL CO.
Excavating for Underground Telephone-Conduit System at Tampico



An Oil Well on Fire in the State of Vera Cruz, Mexico

supervision of Carranza at Querétaro not only set up a form of government but included a pronouncement of social and political theories as well.

The promulgation of the constitution of 1917 was typical of Mexican political methods. The Carranzistas went through the motions of electing their delegates to the Constituent Assembly and declared the constitution duly in effect. The people as a whole were not consulted. As a matter of fact, it was never submitted to them.

Nationalization

IN VIEW of the prevailing illiteracy, which approximates 80 per cent, it would have made very little difference anyhow. Once promulgated, the constitution became the mandate for the existing regulatory laws.

Although various provisions of the constitution will be dissected later on, it may be well to get an idea of its general character. The storm center is the much-discussed Article 27, which has the nationalization features. Among its preliminary statements is the following:

The nation shall have at all times the right to impose on private property such limitations as the public interest may demand, as well as the right to regulate the development of natural resources, which are susceptible of appropriation, in order to conserve them and equitably to distribute the public wealth. For this purpose necessary measures shall be taken to divide large landed estates; to develop small landed holdings; to establish new centers of rural population with such lands and waters as may be indispensable to them; to encourage agriculture and to prevent the destruction of natural resources, and to protect property from damage detrimental to society. Settlements, hamlets situated on private property and communes which lack lands or water, or do not possess them in sufficient quantities for their needs, shall have the right to be provided with them from the adjoining properties, always having due regard for small landed holdings. Wherefore, all grants of lands made up to the present time under the decree of January 6, 1915, are confirmed. Private property acquired for the said purposes shall be considered as taken for public utility.

In the nation is vested direct ownership of all minerals or substances which in veins, layers, masses or beds constitute deposits whose nature is different from the components of the land, such as minerals from which metals and metalloids used for industrial purposes are extracted; beds of precious stones, rock salt and salt lakes formed directly by marine waters, products derived from the decomposition of rocks, when their exploitation requires underground work; phosphates, which may be used for fertilizers; solid mineral fuels; petroleum and all hydrocarbons, solid, liquid or gaseous.

The reference to the decree of January 6, 1915, in the first paragraph of Article 27 that I have just quoted, requires elucidation. This was the famous decree by Carranza which provided for the restoration of communal lands, commonly known as *ejidos*, to the villages. During the Diaz and preceding régimes many of these areas were seized under various pretexts and became the property of private owners. The constitution of 1917 raised the Carranza decree to the status of a constitutional provision.

Another part of Article 27 reads:

Only Mexicans by birth or naturalization and Mexican companies have the right to acquire ownership of 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,

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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 kilometers from the frontiers, and of 50 kilometers from the seacoast, no foreigner shall under any conditions acquire direct ownership of lands and waters.

At this point it may be well to explain that a provision of the Mexican constitution is not in itself effective. A so-called regulatory law and specific regulations are required to make it operative. Thus the Petroleum Law and the Alien Land Law are the regulatory laws of Article 27, while the Labor Law, which will be discussed in a subsequent paper, performs the same service for Article 123 of the constitution. A parallel to this procedure in the United States would be the Eighteenth Amendment and the Volstead Act.

We can now get down to the heart of the present business. The principal issue between the American and the Mexican governments grows out of the fact that the Petroleum Law is held by the former to be retroactive. That this point is well taken is shown by the reproduction of Article 14 of the constitution of 1917, which says:

No law may be made retroactive to the prejudice of any person. No one may be deprived of life, liberty or his property, possessions or rights except by trial before courts previously established, in which the essential formalities of the case are complied with in conformity with laws enacted prior to the act.

You will recall that practically all the oil lands owned by foreigners in Mexico were acquired prior to the enactment of the 1917 constitution. Contrary to the general impression, not one of the areas involved is held under a concession. Hence the talk indulged in by Mexicans that oil concessionaires have sought to exploit the country is without a basis of fact. It follows, therefore, that any step taken to deprive the owners of oil lands under a regulatory law based on the constitution of 1917 is retroactive. Article 14, which I have just quoted, provides that these lands should be immune from seizure.

The Mexican Way to Stop Everything

HARDLY was the ink dry on the constitution—it was effective from May 1, 1917—before Carranza, with a series of decrees, attempted to carry out the drastic provisions of Article 27. Under these decrees it became mandatory for owners of oil property to take out denouncement titles—that is, set up new claims for their property as if it were the property of the government instead of their own. The fact that they already actually owned these properties made no difference. Failure to set up new claims laid the properties open to denouncement—in other words, claim by any outsider. This procedure provided the precedent for the so-called confirmatory concession which the Calles regulatory law today seeks to impose upon alien owners of oil lands.

The Carranza decrees brought about a situation which led to the organization of the Association of Producers of Petroleum in Mexico in an effort to obtain recognition of preconstitutional rights through concerted action. The

companies refused to manifest their lands. Immediately a flood of denouncements of their property by outsiders started. Some of the best holdings of the producing companies were claimed by these interlopers.

The companies then filed what is known in Mexico as a writ of amparo. Since this legal step has lately been taken to test the efficacy of the new Petroleum Law, and will therefore lead to a final show-down in the latest crisis, it must be explained here.

In the United States we have no precise kindred legal procedure. The nearest approach is an equitable action for injunction. When a Mexican believes that his individual constitutional rights have been violated he can resort to a writ of amparo. So widespread is its use, however, that, as one American lawyer in Mexico City put it to me, "You can get a writ of amparo to stop anything from the chirp of a robin to the roar of a waterfall."

This writ is obtainable only against a federal, state or municipal official. Its essence is to restrain him from proceeding with the act alleged to constitute the violation of the individual right involved. It is divided into two parts, which might be called preliminary injunction and permanent injunction. All this means that if the Mexican Ministry of Commerce, Industry and Labor, for example, seeks to issue on behalf of a third person a concession upon lands upon which you have a preconstitutional and paramount right, you get the writ of amparo against the Minister and not against the offending person.

Among the American interests filing writs of amparo in 1918 was the Texas Company of Mexico. After this case had been heard, the supreme court, in 1921, handed down a decision to the effect that lands acquired before the promulgation of the 1917 constitution, upon which the owner had performed some positive act showing his intention



Typical Native Life in Mexico

to exploit the petroleum deposits of the subsoil, were not subject to denouncement by outsiders under the Carranza decree. The court further held that the denouncement decrees violated vested rights.

The positive act referred to in the Texas case, as it came to be known, was the leasing of land to an oil company for gas exploration and exploitation. It was implied that the drilling of wells, the hiring of geologists to study subsoil possibilities, or the buying of land from another at a price higher than its normal value, the enhanced price being due to the possibilities for oil development, would constitute positive acts.

The Texas case gave the oil companies a breathing spell. The menace of an adverse construction of the constitution of 1917 still hung over their heads, however.

Reassurance

MEANWHILE recognition by the United States automatically died with Carranza. After the brief provisional rule of Adolfo de la Huerta, Obregón became president on December 1, 1920. Without American recognition, his administration was more or less sterilized. Let me emphasize again the fact that despite all Mexican bombast to the contrary, the friendly attitude of the United States is absolutely indispensable to progress and prosperity in the republic; nor can any Mexican president stand up very long without it.

Lack of recognition impeded business traffic on both sides of the border. Strong pressure was therefore brought to bear upon Washington from many quarters to find some way out of the impasse. In 1923 Charles Beecher Warren, former ambassador to Tokio, and John Barton Payne were sent as commissioners to Mexico for the purpose of entering into negotiations that would be the preliminary to recognition.

One of the most vital matters for discussion was the possibility of retroactive action through the constitution of 1917. While the commissioners were deliberating with their Mexican conferees, Obregón made this definite statement:

All rights of private property acquired prior to May 1, 1917, the date on which the present constitution was promulgated, will be respected and protected. That famous Article 27, one of the clauses whereof declares the petroleum deposits of the subsoil to be the property of the nation, will not have any retroactive effect.

This statement, together with the decision in the Texas case, naturally led the American commissioners to assume that the Mexicans meant what they said. Furthermore, the Mexican commissioners themselves signed an agreement that both the letter and the spirit of the Obregón and supreme-court assurances would be maintained. After the return of the American commissioners to Washington,



A Traffic Policeman, Mazatlan, Sinaloa



A Mexican Ranchman in Gala Dress

(Continued on Page 193)

MEXICO FOR THE MEXICANS

(Continued from Page 23)

Obregón formally ratified the assurance given on behalf of the Mexican Government by its commissioners.

In consequence, Obregón was formally recognized by Washington, and on September 3, 1923, diplomatic relations between Mexico and the United States were resumed. Various other matters of importance, including the setting up of two claims commissions to hear and adjudicate American claims for damages in Mexico, were requisites to recognition, but the interpretation of Article 27 was the most important.

Obregón is an extensive landowner and a capitalist on no mean scale. He knew perfectly well that once he got busy with socialistic regulatory laws his own interests would be impaired. So he passed the buck to his friend and successor Calles, whose succession to the presidency in 1924 was agreed upon between them at the time of Carranza's overthrow in 1920.

Calles is canny as well as courageous. As I pointed out in a previous article, he made a splendid start. He launched a good-roads program, cut down the deficit that he inherited, curbed agitation and inspired business confidence.

In October, 1925, when he had been in power for exactly ten months, Calles sent to congress the first legislative proposals to make permanently effective the provisions of the new constitution, and the trouble began. First among them, so far as the interest of this article is concerned, was the Petroleum Law around which the existing controversy largely rages.

This law starts out by reasserting the government ownership of petroleum deposits and states that petroleum works can be carried on only under concessions from the federal executive. Under it the oil industry is declared to be a public utility in all its branches. The government accordingly claims the right to regulate it in every detail. In order to obtain concessions, foreigners must renounce protection of their governments.

Confirmatory Concessions

The sections that have made trouble demand that every owner of oil land, acquired prior to 1917, must obtain what is called a confirmatory concession to operate the property. This concession can run for only fifty years from the date of acquisition or the performance of the positive act. Failure to take out one of these confirmatory concessions within a year from the date of the enactment of the law results—so the law provides—automatically in forfeiture of all rights to the property.

The law became effective December 31, 1925. At once the oil companies were up

and doing. Most of them filed writs of *amparo* against the operation of the law within fifteen days after it became effective. Practically all were dismissed by the courts on the ground that the action was premature and that there was "no wrong in the mere promulgation of the law."

A year of grace was given to the companies in which to file applications for the confirmatory concessions. This meant that the zero hour broke at midnight on December 31, 1926. As the crucial time approached, a number of smaller companies bowed to the law. The eight largest and most important units, whose output is approximately 70 per cent of the total Mexican production, stuck by their guns and thus laid themselves open to confiscatory action. The Mexican Government has made the point that the yielding companies represent the bulk of the acreage. This, however, is not so in respect to the acreage which alone is involved in the international controversy—namely, that held by foreigners prior to May 1, 1917.

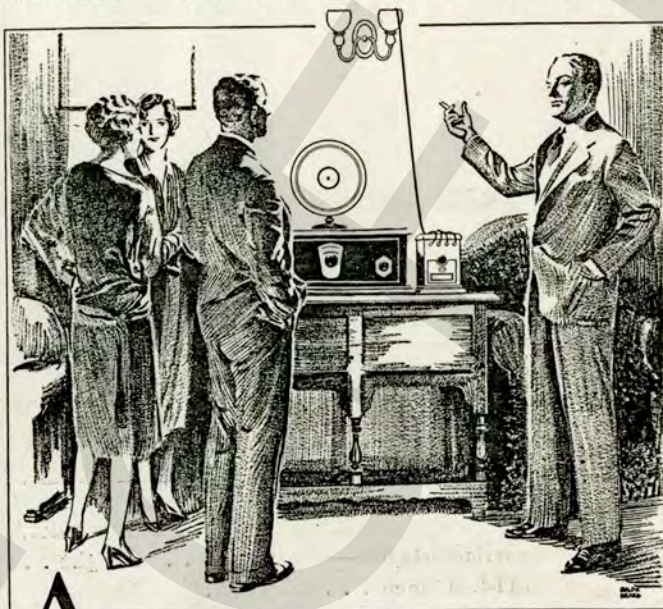
Up to the Supreme Court

Moreover, the acreage now under confirmatory concession is largely owned by Mexican and unimportant foreign interests which in the main have done little or no exploitation. The companies that hold out for the integrity of international property rights—and this is the supreme issue involved—are the great enterprises with vast networks of pipe lines, tanks, refineries, railways, terminals, wharves, tank steamers and all the other essentials to oil development on a big scale.

One of these companies—the Transcontinental, which is the Mexican subsidiary of the Standard of New Jersey—is making a final test of the efficacy of the Petroleum Law in the matter of the confirmatory concession. On January twenty-eighth last it obtained a writ of *amparo* in the state of Vera Cruz, where many of its oil lands are located, against the Secretary of Commerce, Labor and Industry, restraining the application of the Petroleum Law. The court granted the writ and it is now up to the supreme court to make a final decision.

Upon this decision depends a considerable portion of future alien oil development in Mexico. If the lower court is affirmed, there will be a breathing spell. If it is reversed, it means practically the end of private rights in Mexico except as they may be protected by the governments of the foreign owners. In the interim, the Mexican Government has refused to issue drilling permits to the companies and has canceled upward of 200 drilling permits previously granted. The usual stagnation

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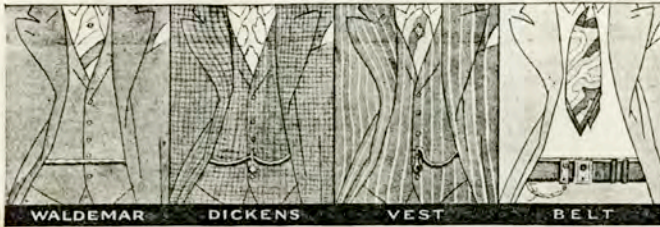
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which follows political interference with commerce and industry has begun.

Since the Petroleum Law is retroactive, it not only violates the agreement made between the American and Mexican commissioners in 1923 but is in direct conflict with Article 14 of the constitution. It is now quite evident that all those 1923 concessions, as well as Obregón's declaration, were made by the Mexicans solely with the idea of obtaining the much-needed recognition by us.

In connection with the refusal of the important companies to acquiesce in the Petroleum Law is a fact that has not hitherto been pointed out. It shows that even if these organizations had conformed to the law, they would be up against it and for the following reason:

Under the Petroleum Law, all rights held before May 1, 1917, must be turned over to the government and confirmatory concessions taken out in lieu of them, as I have already pointed out. You have seen how all the property involved was acquired before 1917. Now for the nigger in the woodpile. Under the law itself, and the constitution, foreign corporations cannot be granted any concessions for the development of petroleum deposits. Therefore American and other alien corporations are legally barred from receiving the confirmatory concessions. It means that they are not in a position to obtain anything in return for their previous private rights once they surrender them. Private ownership of petroleum is thus wiped out.

A Choice of Deaths

Putting this in another way, if the alien corporations claiming preconstitutional petroleum rights should apply for and receive confirmatory concessions, these concessions would be technically illegal and the Mexican courts could so declare them at any time. Hence the alien oil companies, in the picturesque phraseology of one of the victims, "have to choose between committing suicide and being murdered."

So much for what might be termed the historical sequence of the oil controversy. Two aspects remain to be analyzed. One is the effect of the petroleum legislation, the other is the international significance of the issue involved.

Since 1917 the oil industry in Mexico has been in jeopardy, because there was always the likelihood of retroactive action. Despite this constant menace, the oil companies poured millions into the country, until the American stake in petroleum alone reached more than \$350,000,000. This huge investment represented far more than a succession of oil wells. It has meant development of many square miles of territory upon which cities, towns, tanks, pipe lines, refineries, highways and railroads sprang up. It further meant employment of tens of thousands of people and the betterment of their mode of life. Oil was a new industry, and the foreigner, especially the American, made its development possible.

The government has had from the start a big interest in oil in that its largest income from any single source is from the oil taxes. In 1922, when the oil output had just passed the peak, the national revenue from the oil export and production taxes alone was \$43,000,000. For that year the entire Mexican budget was nominally \$191,829,304.21, but actually probably much less. The production and export taxes form only part of the heavy oil taxation. There are various other direct and indirect taxes that increase the toll of the companies by millions. In some years the oil companies contributed nearly one-third of the entire amount of money that streamed into the national treasury. Apropos of this, let me reproduce a statement made to me by the head of one of the great American companies in Mexico. He said: "A great deal of misinformation has been heard ever since the first American oil boiler was trekked over the southern border of Mexico about the riches taken from that country without leaving behind a fair

recompense to the Mexicans. But the oil companies knew only one way to go about it, and that was on the basis of proper compensation to landowners and governments."

Already the effects of the legislative program are disastrous. Work on about two-thirds of the oil wells has been suspended as a result of the cancellation by the government of 279 drilling permits. This, in turn, has caused widespread unemployment in the fields.

On the day I write this paragraph, a statement, inspired by the cancellation of drilling permits and the subsequent increase of unemployment in the fields, was issued by the Association of Producers of Petroleum in Mexico. Among other things it said:

Thus effect upon effect is flowing naturally and by inexorable law from the primary cause, the government's avowed purpose of enforcing its confiscatory constitution and Petroleum Law.

When it is considered that oil production in Mexico is still almost entirely confined to properties acquired before the new constitution went into effect in 1917, that by far the larger part of those properties is owned by the so-called rebellious companies, and that those rebellious companies have been producing approximately 70 per cent of all the oil produced in Mexico, the government's apparent anxiety regarding unemployment in the oil fields may be readily appreciated.

During the past five years, by the working of the same inexorable law of cause and effect, oil production in Mexico has declined from 185,000,000 barrels in 1922 to 150,000,000 in 1923, to 142,000,000 in 1924, to 116,000,000 in 1925, to about 90,000,000 in 1926.

In the same period the government's revenues from petroleum export and production taxes alone have declined, in approximate figures, from \$43,000,000 in 1922, to \$30,000,000 in 1923, to \$27,000,000 in 1924, to \$21,000,000 in 1925 and to \$18,000,000 in 1926.

Similarly, the number of employees in the Mexican petroleum industry has declined from approximately 40,000 to substantially less than half that number. The companies, however, realizing the hardships which must almost inevitably follow loss of employment, particularly under present economic conditions in Mexico, have undertaken so far as possible to find other work for those employees normally engaged in the drilling which the Mexican Government has ordered stopped.

But the oil and kindred legislation reaches much further. In Mexico, the bulk of all commercial and industrial enterprises is in foreign hands, because the Mexicans themselves lack the financial and technical equipment with which to promote large enterprises. They go in for land, mortgages and cattle. The attitude of the present government is such as to stifle initiative throughout the republic. Investment is at a standstill. As I pointed out in a preceding article, the drastic legislative program has caused the worst business depression that Mexico has ever known, even during the revolutionary periods.

Secretary Kellogg's Answer

The fundamental as well as the international significance of the oil issue has escaped the notice of the majority of the American people. They believe that it is merely a private row between rapacious oil companies and drastic governmental regulation. It is a much bigger proposition.

Intimately involved is the integrity of private property rights. If the oil companies accepted confirmatory concessions they would exchange unqualified and inalienable rights of ownership now held for concessions to operate by the precarious grace of the government. I know no better statement of the case than to reproduce an extract from the note of Secretary of State Kellogg to the Mexican Minister of Foreign Affairs which entered official objection to the Petroleum Act as a violation of faith, law and precedent. In referring to the confirmatory concessions and the Mexican usurpation of vested rights as expressed in actual ownership, he said:

The foregoing conception of the nature of vested interest, with the results to which it leads in practical application, as I have indicated, cannot be accepted by my Government. It strikes at the very root of the system of property rights which lies at the basis of all civilized

(Continued on Page 197)

(Continued from Page 194)

society. It deprives the term "vested" of any real meaning by limiting it to a retrospective significance. The very essence of a vested interest is that it is inviolable and cannot be impaired or taken away by the state save for a public purpose upon rendering just compensation. No title can be secure if it is to be deemed vested only in the sense that it has been enjoyed in the past and that it is therefore subject to curtailment or destruction through the enforcement of laws enacted subsequent to its acquisition.

On the subject of the confirmatory concession the secretary said:

The Mexican Government claims the right to convert unqualified ownerships into terms for years by the simple device of requiring the existing titles to be exchanged for concessions of limited duration. Owners of the soil who acquired their titles prior to May 1, 1917, are, by the provisions of Article 14 of the Petroleum Law and of their regulations issued thereunder, required, under penalty of forfeiture, to apply within one year for confirmation of their titles and to accept concessions for not more than fifty years from the time the exploitation works began. In these circumstances American nationals who have made investments in Mexico in reliance upon unqualified titles would be obliged to file application virtually surrendering these vested rights and to accept in lieu thereof concessions of manifestly lesser scope and value. The use of the word "confirmation" in this relation is, to say the least, misleading. The operation would be nothing but a forced exchange of a greater for a lesser estate. That a statute so construed and enforced is retroactive and confiscatory, because it converts exclusive ownership under positive Mexican law into a mere authorization to exercise rights for a limited period of time, is in the opinion of my Government not open to any doubt whatever.

Indications are not lacking that the Mexicans are preparing to swoop down and file concessions on American-owned oil properties the moment there arises a situation in the present involved controversy that will give them the slightest excuse for alleging to officials that the foreign owners have jeopardized their titles by not accepting the confiscatory laws.

As a matter of fact, efforts were made to seize the alien-owned oil properties directly the year of grace allowed for the filing of confirmatory concessions expired. On January seventh, a small Mexican company which had been constituted in the previous December denounced the rich properties of the Huasteca Petroleum Company in the state of Vera Cruz. Within this area is located the famous Cerro Azul Number 4, the greatest gusher in all oil history. The Secretary of Commerce, Industry and Labor refused to permit the denouncement, however.

Oil the Irritant

The refusal indicated no friendly feeling for the oil companies. For one thing, the company was too small for consideration. Refusal also left an avenue available for retreat. By an opposite course, the secretary would have burned the bridge which, before the international controversy is over, the Mexican Government may find it discreet to use. Arbitration has been suggested. But the Mexican Government has maintained all along that the constitution of 1917 is a sacred and inviolable document and therefore immune from arbitration. How then, you may well ask, can any issue that is a by-product of that constitution be the subject of arbitration?

Many persons have wondered why the American oil companies have actively taken up the challenge of the Mexican Government when big British and Dutch concerns also are involved. The reason lies in the Monroe Doctrine. Adequately to oppose Mexican aggression and confiscation, it might be necessary to employ force. This would run afoul of the principle involved in the policy enunciated by our Government that there can be no armed intervention by a foreign power on the Western continent. The British and the Dutch companies are making common cause with the Americans, however.

To round out this section a pertinent comment may not be out of place. The petroleum controversy with Mexico is just another evidence that since the World War,

oil has failed of its traditional soothing purpose. It has become, perhaps, the principal international irritant. From the San Remo Conference, where the Allies allocated the petroleum spoils of the great struggle and rubbed Uncle Sam the wrong way, to Mosul, which brought Britain and Turkey almost to grips, flowing gold has stirred up strife. The Bolshevik seizure of the rich Baku fields contributed a diverting chapter to the greasy serial of conflict. Hence oil diplomacy almost ranks first in the anxieties of chancelleries.

Full mate to the Petroleum Law in anti-alienism is the Alien Land Law. Though less spectacular than the petroleum act, it is significant of the Mexican policy toward the foreigner. He can acquire land henceforth only by being a man without a country.

Only Minority Stockholders

The Alien Land Law is another regulatory law of the constitution of 1917. It was enacted on January 21, 1926. As with the Petroleum Law, a year of grace was allowed to take advantage of its provisions. The oil statute leaves no doubt as to its purport. The Alien Land Law, on the other hand, is so nebulous as to baffle the most astute international lawyers. On one point it is clear—namely, the antagonism to alien ownership of property, especially for agricultural purposes.

Article 1 of the law enforces the provision of the constitution that no foreigner may acquire ownership over lands and waters within a strip 100 kilometers wide along the frontiers and 50 kilometers wide along the seacoast, nor can he be interested in Mexican companies which may acquire ownership within these limits.

Typical of the Mexican legislative state of mind is Article 2, which reads:

In order that any foreigner may form part of a Mexican company which holds or may acquire ownership of lands, waters and their accretions, or concessions for the exploitation of mines, waters or mineral fuels, within the territory of the republic, he must satisfy the requirement set out in Fraction 1 of Article 27 of the constitution—that is, to agree before the Department of Foreign Relations to consider himself a national with respect to that part of the property which pertains to him in the company, and therefore not to invoke the protection of his government so far as such property is concerned, under penalty, in case of failure to observe the agreement, of forfeiting to the nation such properties as he may have acquired as an associate in the company in question.

This section is worth emphasizing. It means that no foreigner can be a member of a Mexican company that acquires lands or mining concessions anywhere in Mexico without renouncing his citizenship rights in relation to the property.

Aliens who, prior to the promulgation of the law, owned 50 per cent or more of the total interest in any kind of company possessing properties for agricultural purposes may retain them until their death. Their heirs must dispose of them within five years of the inheritance. Foreign corporate bodies, however, are required to surrender their properties within a period of ten years. Failure to conform to this limitation renders the properties subject to sale at public auction. In the future no more than a minority of the stock of a Mexican corporation possessing lands for agricultural purposes may be held by foreigners, either individual or corporate.

Like the Petroleum Law, the Alien Land Law encroaches upon vested property rights. Just how this works was set forth by Secretary Kellogg in the same note to the Mexican Minister of Foreign Affairs from which I have already quoted. Referring to the Mexican demand that the oil companies take out confirmatory concessions for what they already owned outright, he said:

On the same theory it is sought to justify the provision of the Alien Land Law calling upon foreign absolute owners of stock in Mexican corporations holding rural property for agricultural purposes to dispose of their corporate interests in excess of 49 per cent within the term of ten years. Here again a plainly vested interest through ownership of stock is divested

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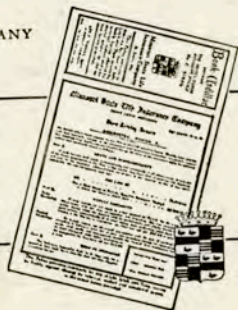
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by compelling the holder, without his desire or consent, to dispose of the same within a limited time under conditions which may or may not be favorable to the transfer.

The point that the secretary makes must also be enlarged, because it shows the economic injustice of the law and the way it plays into the pockets of the Mexicans. In the first place, after the expiration of the time limit, the alien-owned property must be sold.

The owner, in such circumstances, cannot choose his market, and this entails financial sacrifice. Secondly, he can sell it only to a Mexican.

Limitations of space prevent a detailed analysis of the many other laws that followed thick and fast once Calles got his Mexico-for-the-Mexicans campaign under full swing. Everywhere the rights and holdings of foreigners are curbed and curtailed.

The new Forestry Law, for example, enables any Mexican as well as the Mexican Government to denounce privately owned land for forestry purposes. The Irrigation Law has drastic powers of expropriation. In line with all this preemptory regulation is the new Mining Law, which bristles with handicaps.

Under it the beneficiary of any kind of mineral concession must employ at least 90 per cent Mexican labor. Compensation for Mexicans must be on a pro-rata basis with that of highly skilled foreigners. The small prospector or miner on a limited scale is penalized almost to extinction.

Equally drastic is the Immigration Law. The regulations imposed on foreigners entering Mexico today are almost as searching as those enforced on the frontiers of belligerent countries during the World War.

Some of the worst offenses are being committed in the name of the Agrarian Law,

which is the pet Calles hobby. This statute really has a high purpose, because it seeks to give the peon the opportunity to work out his own destiny. But enforcement of the law has frequently become a medium for extortion and injustice. The whole agrarian procedure, however, will be dealt with fully in the next article.

The natural consequence of all this crystallization of anti-alien sentiment under the guise of regulatory laws is an impaired business confidence and the almost complete stifling of enterprise among the agencies that have given the country its progress and prosperity. The big agricultural companies, as well as individual landed proprietors, refuse to plant crops, because they do not know when their lands will be seized for colonization or irrigation schemes.

Industrial undertakings are at the mercy of antagonistic construction of the statutes under which they live and work. Tourist traffic has practically ceased on account of the endless red tape which the simplest journey entails.

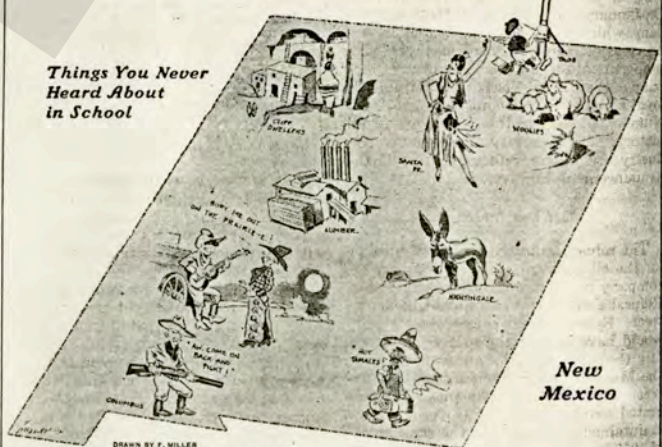
One final observation: There is a disposition in various uninformed but emotional uplift quarters in the United States to regard the Calles legislative program as a phase of what is termed the Mexican social and economic revolution.

Nothing is more remote from the truth. In intent and purpose it is entirely political. Since the Madero revolt in 1910 politics has constituted the principal business in Mexico. As a result there has been no practical theory of government, certainly so far as justice to the foreigner is concerned.

Editor's Note—This is the fourth of a series of articles by Mr. Marcosson dealing with Mexico. The next will be devoted to the land problem.

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New Mexico

NEW MEXICO is the complex state. It is a land of snowy peaks and sunny valleys, where the twentieth-century tourist parks his flivver to gaze in wonder at the tenth-century pueblo. The pueblo was the original American apartment house.

An apartment house is a multifamily dwelling place where you know your neighbor's dinner menu but not her name. New Mexico is rich in history, both written and unwritten, and is a great field for archaeologists. An archaeologist is a scientist who can find a tooth and build a prehistoric animal to match.

The state is noted for its great sheep ranches, its pure healthful atmosphere, and as a setting for many of the he-man novels in which the strong, silent son of the sand-swept spaces rescues the headstrong Eastern heiress in dire distress and a pair of knickers. It is the home of the Spanish rancho and the Santa Fé fiesta.

By means of irrigation the state produces much cotton, grain, alfalfa, sugar beets and potatoes. Other products are Indian pottery, turquoise, the famous Mexican jumping bean and hot tamales. A hot tamale is a cross between the cook's mistake and vengeance for '48. It sometimes is eaten after a too liberal imbibition of mescal has brought about a blissful lack of concern in subsequent happenings.

WILLIAM P. ROWLEY.