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DOLLAR DIPLOMACY

U.S. leaders frequently used military force to protect American interests abroad during the early twentieth century, but some preferred to rely on American economic power. Above all, the administration of President William H. Taft (1909–13) practiced what became known as “dollar diplomacy,” especially in Latin America. Under this approach, U.S. leaders sought agreements by which American firms provided economic expertise and loans while Latin American governments encouraged American investment and placed customs collection, the main source of revenue for most nations, in the hands of U.S. officials. In the following message to the Senate on January 26, 1911, President Taft asks for approval of a treaty extending a loan to Honduras in return for Honduran acceptance of substantial American control over the country’s economy.

I transmit herewith for the consideration of the Senate, with a view to eliciting its advice in regard thereto and obtaining its consent to the ratification thereof, a convention between the United States and the Republic of Honduras concerning a loan which the Republic contemplates making with citizens of the United States, to provide for the refundment of its debt and the placing of its finances on a sound and stable basis.

The weighty considerations of national and international policy which counsel the consummation of such an arrangement are so rational and just as not only to commend themselves to earnest attention, but to call for such elaboration and support as it is my duty to give in fulfillment of my constitutional obligation to consult the coordinate treaty-making power on a matter so intimately concerning the policies of this country in its relations with the neighboring nations of the Caribbean region.

From a very early period of our history it has been alike the policy and moral obligation of the United States to lend, when required, appropriate countenance and counsel to the Commonwealths of the West in all that tends to increase their stability, to promote their welfare, and to maintain and fortify their relations with one another. . . . It has been but natural that this community of sympathy and purpose should find expression, at any time of exceptional need, in trustful recourse to the impartial counsels of the United States, and that the successive administrations of this country, obeying the sentiments of the American people, should feel it appropriate in the spirit of reciprocal good will to befriend those States upon fitting occasion, within the necessary limitations of our own sound national policy. . . .

Now that the linking of the oceans by the Isthmian Canal is nearing assured realization the conservation of stable conditions in the adjacent countries becomes a still more pressing need, and all that the United States

has hitherto done in that direction is amply justified, if there were no other consideration, by the one fact that this country has acquired such vast interest in that quarter as to demand every effort on its part to make solid and durable the tranquillity [sic] of the neighboring countries. . . .

The financial embarrassment of Honduras has long been noteworthy. Insufficient revenue has induced repeated foreign loans, incurred without adequate provision for meeting the high interest exacted thereon, resulting in default of payment and in the incurrence of still more onerous debts through still more burdensome loans placed on European markets at a large discount. As a consequence, Honduras is to-day a hopeless debtor to foreign countries, tottering under a heavy obligation which is not within its power to satisfy. That Honduras is absolutely incapable of acquitting anything like the face value of its indebtedness is fortunately evident to its creditors. They have long been disposed to acquiesce in a compromise for the adjustment of their claims, upon terms which obviously would be the more favorable as the security for the refunded obligations should become more substantial through the acquirement of some tangible assurance that the normal revenues of the State, pledged for the payment of the debt, would be integrally devoted to the assigned purpose without danger of impairment by internal turbulence or external pressure. . . .

That the domestic welfare of Honduras will be assured by a sound reorganization of its fiscal system is a self-evident proposition. Wastefulness and inefficiency in the collection of revenues can not fail to decrease the income of the State in even greater ratio than economy and efficiency operate to increase it. The good results of effective and safe fiscal reform are shown in the Dominican arrangement under which the augmented revenue not only adequately provides for the governmental needs but now yields a positive surplus actually greater in amount than the total revenue of the State prior to the initiation of the present system of collection. Moreover, the removal of the collecting function from local control takes away one of the main incentives to revolutionary disturbance, when the cupidity of turbulent malcontents is often excited by the material profit to be gained by an even brief control of the customhouses. In its political aspects, too, the Republic is freed from apprehensions of intervention on the part of creditor nations. Such intervention is an inherent right of sovereignty and, if unattended by territorial acquisition of American soil by a foreign power, this Government would not necessarily oppose it, especially if our own offers of help had been put aside. It is no part of the broad national policy of the United States to champion repudiation by its neighbors or to encourage them with the prospect of immunity for the irresponsible contraction of debts which they are not in a condition to discharge; but sound policy counsels our aiding them to get out of debt and keep out of debt. It can in no wise better our good repute to turn a deaf ear to their appeals for a helping hand to lift

them from the slough of default into which misfortune may have plunged them; nor could it improve the good will in which we wish to live with our American congeners were we to leave them to make probably harsh terms with their alien creditors, with the alternative of remaining responsible to such international right of redress as the injured parties might invoke.

Besides the considerations of propriety, expediency, and interest which make the present arrangement with Honduras alike desirable and mutually advantageous, its wisdom as an evolution in the direction of far-sighted international policy is to be borne in mind. Honduras is not alone in financial embarrassment. The continual disturbances of other Central American States put them, also, although to a less degree, in the category of prospective borrowers. Within a year past, Guatemala has sought the friendly counsel of the United States regarding the terms of a projected foreign loan, and it is announced, as part of the program of national recuperation put forth by the newly installed constitutional Government of Nicaragua, that the aid of the United States will be asked in effecting a readjustment of the debts of that Republic. It needs no profuse argument to show that the financial rehabilitation of the greater part of Central America will work potential good for the stability and peace of all, and lead to that development of internal resources and expansion of foreign commerce of which they are all capable, and of which they all stand in need.

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MANAGING PUBLIC ATTITUDES

The outbreak of the Mexican Revolution in 1910 alarmed U.S. officials, who feared that turbulence across the border imperiled American investments and lives. After taking office in 1913, President Woodrow Wilson ordered military incursions to tilt the balance of political power in Mexico. In 1914, U.S. troops occupied the port of Veracruz. Two years later, American soldiers attacked across the Rio Grande after Mexican guerrillas raided Columbus, New Mexico. As the latter campaign progressed, Secretary of State Robert Lansing sent the following letter to Wilson on June 10, 1916, warning that the United States faced a growing public-relations problem in Latin America by engaging in acts that were widely condemned as imperialistic "interventions." Lansing worried especially that U.S. behavior violated the Democratic Party platform, which asserted that "intervention" was "revolting to the people of the United States."

As there appears to be an increasing probability that the Mexican situation may develop into a state of war I desire to make a suggestion for your consideration. It seems to me that we should avoid the use of the word

"Intervention" and deny that any invasion of Mexico is for the sake of intervention.

There are several reasons why this appears to me expedient:

First. We have all along denied any purpose to interfere in the internal affairs of Mexico and the St. Louis platform declares against it. Intervention conveys the idea of such interference.

Second. Intervention would be humiliating to many Mexicans whose pride and sense of national honor would not resent severe terms of peace in case of being defeated in a war.

Third. American intervention in Mexico is extremely distasteful to all Latin America and might have a very bad effect upon our Pan-American program.

Fourth. Intervention, which suggests a definite purpose to "clean up" the country, would bind us to certain accomplishments which circumstances might make extremely difficult or inadvisable, and, on the other hand, it would impose conditions which might be found to be serious restraints upon us as the situation develops.

Fifth. Intervention also implies that the war would be made primarily in the interest of the Mexican people, while the fact is it would be a war forced on us by the Mexican Government, and, if we term it intervention, we will have considerable difficulty in explaining why we had not intervened before but waited until attacked.

It seems to me that the real attitude is that the *de facto* Government having attacked our forces engaged in a rightful enterprise or invaded our borders (as the case may be) we had no recourse but to defend ourselves and to do so it has become necessary to prevent future attacks by forcing the Mexican Government to perform its obligations. That is, it is simply a state of international war without purpose on our part other than to end the conditions which menace our national peace and the safety of our citizens, and that it is *not* intervention with all that that word implies.

I offer the foregoing suggestion, because I feel that we should have constantly in view the attitude we intend to take if worse comes to worse, so that we may regulate our present policy and future correspondence with Mexico and other American Republics with that attitude.

In case this suggestion meets with your approval I further suggest that we send to each diplomatic representative of a Latin American Republic in Washington a communication stating briefly our attitude and denying any intention to intervene. I enclose a draft of such a note. If this is to be done at all, it seems to me that it should be done at once, otherwise we will lose the chief benefit, namely, a right understanding by Latin America at the very outset.