# THE ROLE OF POLITICS IN THE THEORY AND HISTORY OF THE GROWTH OF THE FIRM*

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In her seminal work The Theory of the Growth of the Firm (1950), Edith Penrose provided the historian with a useful theoretical model of the large, growing firm in the modern American economy. Alfred D. Chandler, Jr., whose Strategy and Structure: Chapters in the History of the American Industrial Enterprise (1962) employed an approach much like that of Penrose,[1] stated the basic premise of this type of model as follows: "Strategic growth resulted from an awareness of the opportunities and needs--created by changing population, income and technology--to employ existing or expanding resources more profitably."[2] To explain the rate and direction of growth, both Penrose and Chandler look within the firm to determine how its existing resources respond to external shifts in the market (population and income) and in technology. This focus is adequate only if the modern firm is studied as an apolitical, strictly economic entity. To refine the Penrose-Chandler approach and to place the growing firm into a broader historical context, a third external influence, the political environment, must be added. Using a case study, this paper will attempt to integrate political factors into the theory of the growth of the firm, thereby enhancing its value as a tool for historical analysis.

To understand the implications of this addition of politics requires a more thorough knowledge of the existing theory. Penrose's firm is defined both by what it is and by what it is not. The firm she analyzes is not the familiar textbook balancer of supply and demand. It does not exist in a market characterized by either free competition or monopoly. Above all, it is not a static firm. Instead, Penrose deals with the large, diversified firm which plays an increasingly dominant role in the modern American economy. She studies the "center firm"[3] as a dynamic organization whose function is the administration of an expanding collection of productive resources.

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Growth itself is institutionalized in the center firm, since ambitious managers search for profitable opportunities to exploit. This original impulse toward expansion is heightened by the process of growth, which provides valuable experience in the managerial techniques of expansion while increasing the original pool of managers. Building from Penrose, Robin Marris' The Economic Theory of Managerial Capitalism strengthens her emphasis on internal impulses toward growth by arguing that the primary corporate goal of this type of firm has become "balanced and sustainable growth."[4]

Restraining these expansionist tendencies are two important limits identified by Penrose. First, the necessity of training and coordinating a managerial team establishes a maximum rate of growth; managerial skills represent a scarce, essential resource for which there is no substitute. The second limit arises from the fact that the center firm often encounters another growing firm within its original market. As an oligopolistic market structure emerges, the division of the market into relatively fixed shares inhibits the growth of both firms. These limits can at times be evaded by the acquisition of an existing firm, which Penrose identifies as the predominant form of expansion. Included in the resources purchased will normally be an experienced managerial team. By buying a going concern in a related yet more rapidly growing market, the firm escapes the restraints imposed by an oligopolistic situation. Since the firm can continue to diversify and to expand geographically, there need never be an absolute limit to its growth.

The value of the theory of the growth of the firm as a reference point from which to study the evolution of the modern firm is readily apparent in Strategy and Structure. Working from the records of four large firms, DuPont, General Motors, Standard Oil Company (New Jersey), and Sears, Roebuck and Company, Chandler showed that the adoption of the decentralized, multi-divisional style of organization followed strategic decisions to expand and diversify in the early decades of the twentieth century. By stressing the realtionship between the process of growth and the managerial resources of the firm, Chandler made an important departure in the study of the modern corporation.[5]

The persuasive simplicity of Chandler's dictum that "structure follows strategy" should not, however, be allowed to conceal an important omission in Strategy and Structure and in the theory of growth which underlies its argument. In discussion decisions to expand, Chandler asserts that "the market, the nature of their resources, and their entrepreneurial talents have, with relatively few exceptions, had more effect on the history of large industrial firms in the United States than have antitrust laws, taxation, labor and welfare legislation, and comparable evidences of public policy."[6] This quote, like the book from which it is taken, is probably correct, but hardly complete. The phrase "in the United States" serves the same function as the book's unspoken assumption that expansion into foreign countries is no different than expansion within the United States. Chandler avoids many of the most important political considerations raised by the growth of the modern firm by neglecting one of its significant characteristics, its internationalism. This in spite of the fact that the three manufacturing firms that he studies, Standard of New Jersey, DuPont and General Motors, were all active in foreign countries during the period on which he focuses.[7]

Chandler's chapter on Standard Oil is especially instructive in establishing the extent to which his omission of internationalism affects both his view of the firm and the underlying theory of the growth of the firm. Chandler shows that Standard's dismemberment in 1911 converted it from an integrated, crude producing, refining, transporting and marketing enterprise into essentially an American refining company with foreign markets. Its response was a strategy of vertical integration and aggressive expansion which took it throughout the world in search of supplies of crude oil. The overproduction of crude oil which resulted from Standard's rapid growth is important in Chandler's treatment because it caused the administrative crisis which resulted in the emergence of a decentralized organizational structure. Although not discussed in Strategy and Structure, the strategy of growth also resulted in the manipulation of the governments of the United States, Mexico, Venezuela, and various other countries. Looking only within the United States for evidence of the effects of public policy on Standard's growth, Chandler ignores intervention throughout the world on its behalf by the Departments of State and Commerce. His neglect of internationalism yields a distorted portrait of Standard as a corporate giant responding to the dictates of demand and technology, largely unaffected by the various political systems under which it operated.

The history of Standard Oil in the post-World War I period suggests that this third external factor, the political environment, must be added in order to explain its pattern of growth. Within the United States, World War I altered the political attitude toward Standard Oil, the oil industry, and "big business" in general.[8] Governmental, as well as public, concern about the dangers of monopoly and lack of competition gave way to acceptance of oligopoly and cooperation.[9] The sentiment that had resulted in the Standard Oil Trust's dismemberment in 1911 diminished as Standard gained a measure of respectability during the war. In the altered post-war political climate, rapid growth was less suspect than in the prewar period.

The international political environment faced by Standard also changed dramatically after the war. The early 1920's witnessed a race for oil between Great Britain and the United States. Warnings of British control of the world's oil supply and of an impending oil shortage in the U.S. created a sense of crisis which facilitated close cooperation between Standard and the government. But new political restraints also emerged after the war. The Russian Revolution resulted in the expropriation of existing Standard facilities while closing a large area of proven reserves. During the war, the Mexican Revolution coalesced around the Constitution of 1917, which altered the legal status of oil leases in Mexico. Finally, in Europe the forces of nationalism threatened Standard's operations as France and Rumania attempted to establish state controlled oil monopolies. Thus at the end of World War I, Standard faced a greatly altered political environment which presented numerous potential barriers to growth.

In its efforts to remove these restraints, Standard could draw upon an imposing array of political and legal resources within its own organization. The career of E. J. Sadler, one of the most valuable of Standard's executives, illustrates the close relationship between political expertise and the managerial expertise stressed by Penrose. Beginning in 1909 Sadler served in Rumania as manager of what was then Standard's principal foreign producing and refining property; he left only days before the German invasion in December, 1916. In February, 1918, he became President of Standard's Mexican subsidiary, Transcontinental Petroleum Company. During a year of great strain between the Mexican government and the American and British oil companies in Mexico, Sadler was a leading spokesman for the united oil companies, as well as for the interests of Standard. When the Foreign Producing Department was established in 1919, Sadler was the natural choice as its director, a position which made him overseer for all of Standard's foreign properties. His subsequent activities involved him in delicate negotiations with British companies for concessions in Iraq and Persia. Finally, when Standard obtained its first major producing property in Venezuela by purchasing the Creole Petroleum Company, Sadler became Creole's new President, a position he held until 1933. Such varied experiences in volatile situations throughout the world gave Sadler a unique store of political knowledge to add to Standard's pool of managerial resources.[10]

In addition to managers like Sadler, Standard had a large assortment of foreign "representatives" who served much the same function as the lobbyists which it employed within the United States. In Venezuela, L. C. Booker, a lawyer whose early work involved the Venezuelan petroleum laws, became Standard's liaison with the government of Vicente Gómez.[11] In Colombia (and at other times throughout Latin America), Captain J. W. Flanagan, who rose from an assignment as special agent for President Teagle to become President of the Andian National Corporation Ltd. (a Standard subsidiary), maintained excellent ties with the government. His value in dealing with the President of Colombia is indicated by the fact that President Olaya Herrara presented him with the "Order of Boyaca" in recognition of "his constant demonstration of friendship towards Colombia, in the military and official class."[12]

In France, the President of Standard's affiliate, Cie Standard Franco-Americaine, was the popular French diplomat, Jules Cambon, former French ambassador to the United States.[13] Standard also had a permanent representative in Paris, Henry E. Bedfore, Jr., who maintained a close watch over pending oil legislation.[14] Booker, Flanagan, and Bedford had counterparts wherever Standard had an interest to protect. Such men gave Standard an experienced world-wide pool of talent with which to cope with the political environment.

The extent to which political considerations influenced policy was reflected in the fact that at the main office in New York, the legal department of Chester O. Swain tempered the "bold strategic plans" of President Walter Teagle.[15] Standard's subsidiaries had their own legal departments which handled local matters and cooperated with Swain's staff on major issues which involved them. As Standard expanded into nations with unfamiliar legal and political systems, men who could understand, interpret and manipulate these systems were a valuable resource.

The increasing reliance on lawyers was part of a more general trend toward the use of specialists. Standard's own specialists in taxation and antitrust, as well as foreign policy, benefitted from the advice of outside consultants who were usually prominent men in their fields. In dealing with the problems raised by foreign expansion, Standard's legal staff and its Foreign Producing Department were favored with the advice of exceptional consultants. From 1914 until the mid-1920's, Standard enjoyed the frequent counsel of John Bassett Moore, whose career included six years in the State Department as a law clerk and as an Assistant Secretary of State, 35 years as a professor of international law at Columbia, consulting work for the State Department, and a judgeship on the Permanent Court of International Justice (the Hague court of the League of Nations).[16] After resigning as Secretary of State, Charles Evans Hughes served Standard as a consultant on Middle-Eastern and Russian negotiations.[17] In addition to their special knowledge of international affairs, men like Moore and Hughes retained contacts within the State Department which were useful in bringing Standard's position to the attention of the proper government representatives.

General Palmer E. Pierce, a fulltime Standard employee as assistant to the President from 1921 to 1933, brought a different type of specialized knowledge to the company. As a retired army general who had served as an assistant to the Chief of Staff in World War I, Pierce was in charge of "a service bureau handling contacts with the foreign press, trade associations, Army, Navy, and Government authorities and various associated matters."[18] Apparently included under "associated matters" was Pierce's role as collector of information on the activities of "Soviet agencies" in Latin America and of Mexican and Venezuelan radicals. General

Pierce kept the State Department informed of his findings; on at least one occasion, he presented such intelligence information directly to the Secretary of State in a personal interview.[19]

In addition to such extensive political resources within its own organization, Standard could utilize the services of the American Petroleum Institute. Founded in 1919 as an outgrowth of the Petroleum Committee of the War Industries Board, the A.P.I. sought "to afford a means of cooperation with government in all matters of national concern" and "to foster foreign and domestic trade in American petroleum products."[20] Standard was a large contributor to the A.P.I. and the President of Standard, Walter Teagle, frequently served on its various executive committees. The A.P.I.'s impact on Standard's strategy of foreign expansion was indirect, but not to be discounted. As a spokesman for Standard and the other major American oil companies, the Institute provided valuable and authoritative arguments in favor of foreign expansion; it publicized the "impending" British monopoly of foreign oil; it provided information, statistics, and even personnel to such governmental allies as the Bureau of Foreign and Domestic Commerce. As a formidable publicist for the interests of the major oil companies and as a crusader for improved relations with government, the A.P.I. facilitated Standard's expansion by working to develop a more tolerant public and political opinion of the large oil companies.[21]

Standard's diverse political skills, including the services of such organizations as the A.P.I., comprised a valuable and often used segment of the firm's collection of productive resources. Standard's internal responses to changes in the market and in technology were obviously important in shaping its post-World War I strategy of growth. But the pace and direction of its expansion cannot be explained without also examining Standard's internal responses to a changing political environment. A review of Standard's history in three of its most important producing areas, Mexico, Venezuela and the Middle-East, confirms the importance of political factors in understanding Standard's pattern of growth.

Changes brought about by the Mexican Revolution were of immediate concern to Standard as it sought opportunities for expansion after the end of World War I. During the war the government of Venustiano Carranza had enacted a new constitution. Article 27 restored subsoil mineral rights to the government, a status which was customary in Hispanic law but which had been altered by the regime of Porfirio Díaz (1876-1910) in an effort to attract foreign capital. With the return of peace, Standard joined other American and British oil companies to prevent the implementation of Article 27, which it considered confiscatory and retroactive. A decade of dispute followed with the fate of the valuable Mexican oil fields in the balance.[22] Given the unwillingness of either the Mexican government or the oil companies to surrender on the basic issue of ownership of the subsoil rights, the crucial variable during much of the debate was the extent to which the American and British governments would push the claims of their national oil companies. In confronting the barrier to growth presented by Mexican nationalism, Standard used its own resources both to restrain Mexico and to enlist the support of the State Department.

When the political situation in Mexico denied Transcontinental (Standard's subsidiary) the stability which it needed to justify the risks involved in expansion, it sought to use its economic power to control the political environment. Taking advantage of oil's dominant rôle in the imbalanced Mexican economy, Standard cooperated with other large producers in suspending production in protest of unfavorable petroleum laws. The Association of American Producers of Petroleum in Mexico (AAPPM), formed to present a united front in the oil companies' dealings with the governments of Mexico and the United States, usually coordinated these collective economic protests.

On several occasions the largest oil companies were able to use collective economic sanctions to weaken the position of the Mexican government. In 1918, during one of the first of many crises, E. J. Sadler, speaking for the heads of twelve of the major oil companies in Mexico, informed the State Department that the companies would refuse to pay a new petroleum tax and would resist any coercive measures by the Mexican government. Simultaneously, the companies' lawyers, including Transcontinental's legal representatives, instituted "amparo" proceedings in the Mexican courts to prevent collection of the new tax. Carranza granted a temporary reprieve.[23] In 1921, Transcontinental joined with four of the other largest producers of petroleum in Mexico to suspend production in an attempt to force a change in a new export tax. Direct negotiations between the oil companies' executives and the Mexican government resulted.[24] The petroleum law of December, 1925, brought the issue of ownership of subsoil rights to a head by providing that all companies should submit pre-1917 leases to the government for confirmation of title; 125 of 147 companies complied with this regulation. Those united in defiance, however, included the three largest producers, Huasteca, Transcontinental, and Sinclair (all American) and represented 77% of Mexico's total crude production.[25] With such economic power concentrated in so few firms, it is not surprising that cooperative economic action could often be effective in restraining the political power of the Mexican government.

The 1925 statistics also make clear the fact that non-compliance and suspension of production were tactics which only the largest companies could successfully employ in order to attempt to control the Mexican political systems. Chester O. Swain, Standard's General Consul and also at times chairman of the executive committee of the A.A.P.P.M., could honestly state that Standard was prepared to lose everything that it had invested in Mexico rather than yield on a matter of principle.[26] But smaller companies, especially those dependent solely on Mexican crude, could not do the same. Their inability to accept temporary losses in order to weaken the impact of both Mexican petroleum regulations and periods of political instability added to the already prohibitive economic costs of competition with the major oil companies; this hastened the decline of small producers in Mexico.[27] Standard's economic strength as a world-wide producer of oil cushioned the impact of Mexican public policy. Unlike its smaller competitors, Transcontinental wielded sufficient economic power to influence the political environment with a variety of tactics, ranging from temporary suspension of production to the threat of a permanent transferral of productive facilities out of Mexico.

In its disputes with Mexico, Standard and the A.A.P.P.M. could also count on the active diplomatic support of the United States Department of State. Shared goals, common sources of information, and a close working relationship made the State Department the willing ally of the oil companies. Accepting the interpretation of events presented to it by the representatives of the companies, the Department did everything short of armed intervention to force Mexico to yield.

In the early 1920's the fear of an impending oil shortage led the State Department to sponsor the efforts of Standard and other companies to expand proven sources of crude throughout the world. An aggressive oil policy helped satisfy the State Department's requirements for national defense while facilitating Standard's corporate goal of expansion. Removal of the threat to expansion in Mexico, the leading supplier of American crude imports in the early 1920's, was an area of special concern for both.

In dealing with the Mexican situation, the State Department's use of information provided by the oil companies strengthened the existing identity of interests. Much of State's knowledge of events came directly from the oil companies. This information reached Washington by several routes. The oil men maintained excellent relations with the consulate at Tampico, and the consul usually funneled their view of events up to Mexico City and then to Washington. The path taken by a confidential memo prepared by Mexican Gulf Oil Company demonstrates this process. In response to a request by the Tampico consul, Gulf, which had "special facilities for obtaining data of this nature", submitted a "List of Radical Agitators in Mexico," including 338 names of men whose radicalism consisted of membership in local oil worker's unions. The consul changed "Bolshiviki" to "Bolshevik", then sent copies of the Gulf report to the State Department, the American embassy and the consulate general. Listing the source as "a reliable local American concern", the consul suggested that the list would be helpful for visa work, "but may also be useful for other purposes."[28] The A.A.P.P.M. also provided a steady supply of information such as English translations and commentary on Mexican laws, newspaper clippings, and bulletins on the progress of court cases. C. O. Swain held conferences and kept in contact with both the Secretary of State and the Chief of the Division of Mexican Affairs. Though the oil companies' information was usually reliable, it could also be slanted and at times even distorted, as when Swain prepared a memo for the Division of Mexican Affairs which stated that "probably from time immemorial" hydrocarbon subsoil rights in Mexico had been the property of the surface owner.[29]

The identity of interests between the oil companies and the State Department probably reached its peak during the export tax dispute in 1921, when Secretary of State Hughes arranged for a committee of oil men, headed by Standard's President, Walter C. Teagle, to negotiate directly with representatives of the Mexican government.[30] But even though oil and State usually agreed on both the problem at hand and the solution desired, they could not force their views onto the Mexican government. At various times, the United States resorted to non-recognition of the Obregón government, an arms embargo during a period of civil war, the sending of battleships to Tampico, and a formal diplomatic protest against Mexican legislation which had not yet been enacted into law.[31] This pressure at times caused Mexico to exercise a tactical retreat but never to renounce the intent of Article 27.

An especially severe exchange of diplomatic notes in the fall of 1926 over the effects of the petroleum law of December, 1925, raised fears of a break in relations, an end to the United States' embargo on arms to Mexican rebels, and even the possibility of war.[32] At this point the identity of interests between State and the oil companies broke down. The dispatch of a new ambassador to Mexico, Dwight Morrow, marked a temporary end to the dispute and a change in relations between the United States and Mexico. Unlike his predecessors, Morrow, a banker with experience in dealing with the Mexican government, was skeptical of the oil men's claims. To Teagle's plea that the law in question "strikes at the very root of the system of property rights which lies at the basis of all civilized society",[33] Morrow commented "the last six months have been quite a disclosure to me of the extent to which responsible oil companies seem to believe that it is the duty of the State Department to run their business in foreign lands.[34] Given their experience in the previous decade, the oil companies could scarcely be blamed for their misunderstanding. In commenting on a letter from James R. Sloan, a lawyer for Standard, Morrow's colleague, J. Rueben Clark, Jr., finally recognized the underlying futility of the oil men's position: "The only remedy for the situation pictured in this paragraph is to kill off all the Mexicans or to eliminate them by an intervention."[35] Morrow did acknowledge that "there may be times when there will have to be physical intervention."[36] But his compromise with Mexico, which included an agreement that future oil disputes would be solved in the Mexican courts, signaled a change in U.S. foreign policy: intervention would no longer be a policy alternative except in extraordinary cases.[37]

The Morrow compromise reflected a double political failure by Standard and the other large oil companies. The immediate failure resulted from an inability to judge the extent to which the State Department would intervene. As Morrow had recognized, Standard assumed that the State Department would continue to respond to the demands of the oil companies. But the Department, unlike Standard Oil, was a public organization whose actions were restrained by the demands of Congressional and public opinion. When war with Mexico threatened in 1927, the Senate demanded (by a 79-0 vote) that the matter be negotiated.[38] The State Department could not realistically push for intervention in Mexico in the face of the Senate's unanimous vote.

A second restraint arose from within the Department. A series of reforms between 1909 and 1922 had sought to rationalize the Department in order to make it more efficient as a "diplomatic machine."[39] The subsequent upgrading of the quality of personnel through the introduction of "professional" selection, training and promotion procedures gradually altered the Department's relationship to companies like Standard. Before the reforms foreign consuls had been part-time employees of the Department who earned the remainder of their salaries as agents of companies such as Standard Oil.[40] The elevation of the consuls to full-time Department employees made their well-being and advancement dependent on performance satisfactory to the State Department, not to private concerns. Thus in becoming more efficient, the Department also became more independent. Morrow's refusal to intervene directly in Mexican affairs reflected this independence as well as a growing, though by no means unanimous, conviction within the Department that direct intervention represented the ultimate failure in the dawning age of the modern, efficient diplomatic machine.

Standard's inability to recognize the restraints placed on the State Department by public opinion and by its internal evolution resulted in a mistaken notion that common goals would automatically yield agreement on methods. In 1928, Swain and Teagle blamed the unfavorable solution to the Mexican dispute on the absence of the State Department's "traditional firmness". But the refusal of Standard to take into account the emergence of a new "tradition", characterized by the end of direct intervention as a normal policy alternative in Latin America, constituted a failure of the political resources of Standard, not of State.

The failure to come to grips with Mexican Nationalism represented a deeper failure of political perception. Lack of experience in dealing with radicalism was at least partially responsible for the oil companies' misconception of Mexican nationalism: "Nationalist is the name most commonly used in the different Latin American countries for Bolshiviki. There is no difference in tendencies between the 'nationalist movement' and those of Soviet Russia."[41] The Mexican ambassador's description of Mexico's President Calles as "by nature a Latin and by temperament a Bolshevik"[42] indicates that the oil companies' view found sympathy within the State Department. With this perspective and with the example of the confiscation of its properties in the Soviet Union, Standard couched a hardline approach to the Mexican government in terms of anti-Communism, the sanctity of property rights, and respect for international law. Such lofty principles floated easily to the surface of the vast amounts of oil involved, and Standard assumed a position which would allow no compromise on the underlying issue of ownership of the subsoil rights. The result was an insurmountable political barrier to the growth of the firm, a barrier which existed in spite of market and technological imperatives for growth.

A more realistic appraisal of the means and ends of Mexican nationalism might have enabled Standard to pursue a modified strategy of expansion in Mexico. The leaders of Mexico could not abandon Article 27 without seriously undermining their political position. The oil companies had become symbols around which to unify Mexican nationalism. The legitimacy of the government demanded that its political leaders exercise control, or at least the appearance of control, over the foreign oil enclaves. By their open contempt for the sovereignty of the Mexican government, the oil companies made harsher measures inevitable. A continued attitude of intransigence made political sense only if Standard and its colleagues could force the United States government to intervene or the Mexican government to surrender Article 27. Neither course was politically possible. With insufficient political resources to properly understand the Mexican environment, much less to successfully respond to it, Standard chose instead to abandon plans for expansion in Mexico, liquidate existing investments and transfer its resources into areas which were more stable and therefore more promising for growth.[43]

Fortunately for Standard, such an area was available. Venezuela, ruled by Juan Vicente Gómez, a dictator whose regime (1908-1935) resembled that of Mexico's Díaz, offered two important enticements: oil and political stability. Standard escaped the limit to growth raised by Mexican nationalism by transferring both experienced managerial personnel and investment dollars to Venezuela. The oil companies in general and Standard Oil in particular found the Venezuelan political and economic environment much more conducive to growth. By 1928, Venezuela's production surpassed that of Mexico; by 1932, Standard of

Venequela had taken its place along side Gulf and Royal Dutch Shell (British) as one of the big three in Venezuela.[44]

The establishment of a smooth working arrangement between the oil companies, the State Department, and the Gómez government helped make such rapid expansion possible. The framing of the Venezuelan petroleum law of 1922 illustrates the coalition in action. In October, 1921, representatives of American oil companies interested in the development of Venezuelan oil informed the American consul in Caracas, Preston McGoodwin, that they would make a united effort to obtain more favorable oil legislation. McGoodwin forwarded this information to Washington, where the Assistant Secretary of State relayed it to the Secretary of Commerce, Herbert Hoover. The Bureau of Foreign and Domestic Commerce (BFDC) then sent letters requesting criticisms of the existing law and suggestions for its revision to the home offices of interested American companies. William Warfield, a lawyer in Standard's Foreign Producing Department, responded with a detailed critique "made by attorneys in our service who are familiar not only with the laws themselves but also with their application on the ground. The most prominent authorities on petroleum legislation in the United States have also been consulted before the drafts were completed."[45] Along with Hoover's assertion that "these papers deserve the careful scrutiny of the proper officials of your Department",[46] the criticisms were returned to the State Department, which then transmitted them to the American Legation at Caracas. Standrad also worked within Venezuela to influence the new law. Another of its attorneys, Frank Dawson, was one of three American oil representatives who gave "daily assistance and suggestions" to the Venezuelan Minister of Development in the drafting of the law.[47] When the "best petroleum law in Latin America" was finally enacted in June, 1922, the State Department's "official" translation and commentary were provided by Standard's Venezuelan subsidiary.[48]

The process of writing Venezuelan petroleum laws had been somewhat simplified by 1928. After severe leakages covered the surface of Lake Maracaibo with oil, making shipping dangerous and giving rise to fears that sections of the lake might actually catch fire, an anti-pollution bill appeared in the Venezuelan legislature. The American consul related the course of the bill:

> Upon being informed by several American oil companies that such a bill had been introduced and that is contained provisions that the companies considered unreasonable....the Legation mentioned the matter informally to the Foreign Office (of Venezuela) and was assured that the objections raised by the interested parties would be given careful consideration. ...The Legation was told at the Foreign Office two days before the law

> was passed that the matter had been taken care of, and I understand that the American oil companies think the Act is fair and reasonable.[49]

This informal system of cooperation was possible because of a community of interests which did not exist in Mexico. Unlike the Mexican political leaders, Gómez had absolute political control within Venezuela. Since the money which he received from the oil companies strengthened his personal power, he had a stake in their expansion.[50]

In the important matter of obtaining choice petroleum lands from the Venezuelan government, Standard moved away from reliance on the State Department as it became more adept in its dealings with Gómez and his coterie of oil-rich friends and relatives. Standard developed the political influence necessary for success in Gómez's Venezuela through a gradual learning process. Its initial attempt to secure concessions in 1922 was inauspicious. After apparently amicable discussions with Gómez and his Minister of Development, Standard's representative watched, surprised and helpless, as the concessions he desired were awarded to Gómez's son-in-law, who then sold them to a rival American oil company.[51] In 1923, the same minister prevented Standard from implementing an agreement to develop a concession in cooperation with British Controlled Oilfields Ltd., whose claim to the concession was disputed by the minister. In response, Standard appealed to the American Legation and finally to Secretary of State Hughes for aid. At Hughes' request, the American consul at Caracas introduced Standard's representative to Gómez's personal secretary. A personal interview with Gómez brought a quick, favorable ruling on the ownership of the disputed concession.[52]

The next year Standard returned the favor by coming to Gómez's aid. In the process it gained the special favor of the General. In disposing of the national reserves, Gómez had adopted a policy which was personally rewarding though illegal under the existing constitution. The American oil companies collectively refused to buy the leases, and Gómez threatened to grant exclusive rights to these valuable properties to German interests. While the State Department indignantly protested the proposed monopoly, Standard decided that the illegality of the concessions was outweighed by their value. Undermining the efforts of the State Department, Standard set about attempting to gain its own monopoly over Venezuela's federal reserves. After Standard broke the solid front, the opposition to Gómez rapidly disintegrated and the illegal leases were purchased.[53]

Gómez's appreciation of Standard's aid helps explain the firm's subsequent success in acquiring choice concessions in Venezuela.

Other factors were undoubtedly involved. Edwin Lieuwan suggests in his history of Venezuelan oil that Standard used bribery to obtain these concessions.[54] New Horizons, the third volume of the official history of Standard Oil, reports that the President of Standard of Venezuela maintained a close relationship with the "ruling clique".[55] Both agree that Standard received preferential treatment in the intense competition for concessions; and Standard's political influence, whether given in friendship or purchased, certainly translated into an economic advantage over rival companies.

Its success in manipulating Venezuelan politics and the underlying stability of the political environment itself were reflected in Standard's growth. In 1928 the firm purchased Creole Petroleum Company. In 1932 Lago Petroleum Corporation was acquired from Standard of Indiana. The combined cost of between $150 and $200 million suggests that Standard was not displeased with the political and economic situation in Venezuela.[56] In contrast to the unfamiliar, unpredictable and uncontrollable political situation in Mexico, Gómez's dictatorship provided an excellent political climate for growth. Although such an observation may seem so obvious as to be truistic, the authors of New Horizons, a detailed and extremely useful company history, find it "ironic" that Standard's "relatively secure position" in Venezuela "was under an ironhanded military dictatorship".[57] Future business historians might avoid such political naivete by approaching the growing firm from a perspective which includes a systematic appraisal of the effects of political factors on expansion.

Venezuela remained Standard's largest foreign producing area until World War II, but during the 1920's Standard also made its initial expansion into the Middle-East, an area which has since become increasingly important to the company. After World War I, Britain attempted to close to American oil companies the old Turkish empire, which had been made a British protectorate by the Treaty of Versailles. Diplomatic negotiations between the State Department, the British Foreign Office, and the Middle-Eastern governments were protracted and often bitter, but ultimately successful for Standard.[58]

Standard initiated and guided the diplomatic assault on British dominance in the Middle-East. The ever-present Sadler worked through the United States' High Commissioner to Turkey, and the American ministers in Persia and in London. In Washington, John Bassett Moore prepared extensive memoranda on Persia and Mesopotamia and held extended conferences with the State Department, enjoying especially close contact with the Foreign Trade Advisor, A. C. Millspaugh. President Teagle and former President A. C. Bedford made their views known in letters to Secretary of State Bainbridge Colby and his successors. William Warfield and Sadler corresponded frequently with the Third Assistant Secretary of State, F. M. Dearing. Finally, the commercial attaches of the Bureau of Foreign and Domestic Commerce supplied Warfield with "strictly confidential" information concerning the internal affairs of the various Middle-Eastern countries.[59]

Standard failed in its efforts to enter Persia. But in 1928, after six years of negotiation, it gained entry into Mesopotamia (Iraq) as a member of the Turkish Petroleum Company, a joint venture among British and American oil companies. The Resurgent Years, the second volume of The History of Standard Oil Company (New Jersey), concludes that

> Failure in the one venture and success in the other seem, in the final analysis, to have derived from the attitude of the State Department and the Foreign Office....In the Iraq controversy Teagle had successfully appealed to the State Department for assistance in overcoming the intransigent attitudes of foreign powers which stood in the path of Jersey Standard's ambitions. After some initial encouragement, however, American diplomatic support for Jersey in Persia was not forthcoming.[60]

In the Middle-East, Standard encountered a barrier to growth raised by the changing political environment. The extent to which it was successful in using its political resources, including its excellent contacts within the State Department, to remove this barrier determined the limits to its expansion.

This interaction of Standard with the State Department and with the BFDC suggests a political corollary to Penrose's "receding managerial limit" (that is, the process of growth adds experience and knowledge to the pool of managerial resources, thereby facilitating further growth). Standard's international growth created numerous opportunities for cooperation with both State and the BFDC. As a result, Standard was able to establish diverse points of contact between its own evolving decentralized organizational structure and the expanding governmental bureaucracies. John Bassett Moore's close relationship with Foreign Trade Adviser A. C. Millspaugh was duplicated on several levels throughout the structures of each organization as Standard's representatives established working contacts with their equivalents in the government. Such contacts were strengthened and virtually institutionalized through frequent use.

Standard's relationship with the Bureau of Foreign and Domestic Commerce illustrates the process by which bureaucratic methods of cooperation were established in the 1920's. The Bureau aided primarily those corporations such as Standard which were entering international markets. In 1922 Herbert Hoover improved the usefulness of the BFDC to business firms by reorganizing the bureau into 18 divisions based on specific commodities while retaining such technical staff services as the international commercial law section.[61] Within the large "petroleum" division, smaller divisions by country facilitated the dispersal of information by enabling companies to request facts concerning both the specific country and the specific commodity in which they were interested. During the reorganization, the large oil firms not only helped select the director of the petroleum division, they also defined new tasks for the section.[62] After 1922, Standard maintained excellent relations with the BFDC. As the two organizations learned through experience, the BFDC even began to bypass President Teagle, learning instead to send confidential information and pertinent statistics to the appropriate member of the Standard hierarchy.[63]

Standard's communications with the State Department also became more routinized during the 1920's. In a time of crisis, President Teagle still intervened directly with the Secretary of State, but the bulk of the contact between the two organizations was handled at lower levels. The reorganization of the State Department included the introduction of geographic divisions, an innovation which enabled Standard's representatives in various regions of the world to solve disputes in cooperation with their regional counterparts in State. Thus during a dispute in France, H. E. Bedford, Jr., Standard's representative in Paris, could send information to C. O. Swain who could then relay it directly to "My dear Bill", William Castle, Chief of the Division of Western European Affairs in the State Department. Information also flowed in the opposite direction, from the Paris consulate to Castle to "My dear Majro" Swain.[64] In its dealings with the "modern" State Department, Standard increasingly substituted the maintenance of a multitude of continuing bureaucratic contacts for its earlier reliance on ad hoc intervention from the top during times of crisis. Nineteenth-century methods were still useful in the less complicated world of Gómez's Venezuela, but the adjustment of more complex international legal and diplomatic claims called for the bureaucratic methods of the twentieth century.[65]

In estimating the relative importance of public policy on the growth of the firm, Chandler ignores such bureaucratic interaction. His use of "antigrust laws, taxation, and labor and welfare legislation" as examples of "public policy" isolates statutes as the focus of investigation. Just as "in the United States" must be broadened to take into account the political implications of internationalism, "public policy" must also be expanded to include the roles of those government bureaucracies which provide services to the firm as well as those which administer statutes. The resulting perspective is broader than that of Chandler and offers a more realistic appraisal of the giant firm's relationship to its national and international political environment.

The history of Standard Oil in the years from 1918 to 1932 in three of its most important producing areas indicates that such political considerations were a determining factor in the rate and direction of growth and were of sufficient importance to warrant inclusion in the theory of the growth of the firm. Standard's ability to use political influence to gain an economic advantage over other large firms in Venezuela and in the Middle-East suggests that one limit to growth identified by Penrose, the rise of an oligopolistic market structure, was partially avoided by non-market, political competition between the oligopolists. Standard's vast collection of political resources also gave it advantages over its smaller competitors, the government of countries like Venezuela and Iraq, and even the evolving government bureaucracies within the United States. As a counterweight to such growth-encouraging political factors, Standard's experience in Mexico reveals an important political restraint to growth. Despite strong economic and political pressure and the assistance of the United States government, Standard was unable to deal successfully with the economic nationalism of a Mexican state intent upon controlling its own economy. The inclusion of these and other political considerations arising from the interaction of the firm, its national government, and their hose governments seems essential if the growth process of the international firm is to be properly understood.

The inclusion of such factors within the theory of the growth of the firm requires a recognition of several important differences between the political and economic environments. The Mexican revolution represents an extreme example of the political instability faced by the firm; Gómez's Venezuela represents the opposite extreme of political stability. But between these two extremes, the firm must react, often simultaneously, to a wide variety of political situations and political changes. These changes frequently appear to be more rapid, more radical, and therefore less predictable than changes in the market or in technology. This is not to say that such factors are beyond understanding. Through a gradual learning process, the firm can gain a substantial degree of temporary control over certain political variables. But changes beyond the command of the firm--the appointment of Dwight Morrow, the death of Gómez--can easily weaken this control, forcing the firm to adjust to new political realities. Even if the firm perceives the new political situation and reacts properly, its task may not be completed. Political systems are also sensitive to changes by the firm, and their reactions to the firm's initial adjustment may therefore require additional accommodations by the firm. The result is a continuous series of minor adjustments interrupted at uncertain intervals by more dramatic changes.

Adjustment is made difficult by several limitations on the firm's ability to employ its existing political resources in response to change. Unlike the firm's economic skills, its political talents are acquired within a specific national context and under specific political leadership--two factors which have a significant effect on the nature of these skills and their rate of obsolescence. Such skills are often difficult to maintain under new national leadership, to transfer to another national political context, or to obtain through acquisition of another firm.

In the 1920's one other important limit to adaptation resulted from the firm's attitude toward politics. Even while attempting to pressure the Mexican government to refrain from enforcing the provisions of its constitution, Standard maintained the position that it was a strictly economic organization which was above politics except when forced to defend itself against unwarranted political interference. The fact that Strategy and Structure, written with heavy reliance on the internal records of several large firms, makes almost no mention of political factors is in part reflective of the managers' own attitude that politics was peripheral to the main business of the firm. As Standard spread throughout the world and as the various host governments assumed a more active and important role in economic affairs, this attitude became increasingly untenable. Standard's executives in the 1920's were slow to accept the importance of the international political environment, but their experiences in Mexico, Venezuela, the Mid-East, and other areas made this acceptance unavoidable. More recently, theorists of the growth of the firm have been equally slow in learning the same lesson.

The inclusion of politics certainly makes the received body of theory more valuable as an analytical framework for the writing of business history. Standard's experience suggests several phases of political development which might be useful in studying other center firms.[66] Before World War I Standard is best described as a national firm. Although it had spread into Canada and Mexico and had sales outlets in Europe, Standard's primary political concerns involved issues such as antitrust which were decided within the United States. In its foreign affairs, Standard operated within a relatively more favorable environment which was largely free of the political restraints which accompanied the increasing economic nationalism of the post-War period. When disputes did occur, Standard relied on its own resources and, if necessary, top level intervention at the State Department.

The change from national to international corporation involved a transition period marked by more direct involvement on behalf of the firm by the parent government, the United States, in the internal affairs of the host countries. Standard's rapid expansion of its crude producing capabilities in foreign nations facilitated greater firm-parent government cooperation by weakening the effects of United States anti-trust and taxation regulations while encouraging the bureaucratization of close working ties between the firm and the Departments of State and Commerce. After establishing its place within the host's political economy, Standard deemphasized its nationality. But the political contacts within the United States which had been strengthened during the entry into the foreign nation could later be used by the firm in times of severe dispute with the host government. Thus in political affairs, Standard's internationalism meant merely that its interests, which were usually shared by the United States government, were now spread more evenly throughout the world. Standard could attempt to plan its foreign activities in order to control or to avoid political difficulties. However, when problems did arise, the firm could usually rely on strong support from its parent government. In an era characterized by rapid foreign expansion of the firm and by the growth of economic nationalism throughout the world, the international firm, Standard Oil, both caused and reacted to a variety of such national political disputes.

Within such a scheme, the modern period in the history of the growth of the firm could be dealt with strategically as "the Era of the International Firm" as well as structurally as "the Era of the Decentralized Managerial Firm."[67] Stressing as it does the interaction of political and economic factors in determining the firm's capacity for growth, this approach would perhaps deprive the business historian of opportunities for irony. But in exchanging irony for political realism, business history would gain both a better understanding of the large international firm and an increased relevance in a time of much uncertainty concerning the relationship between economic and political power.

Footnotes

[1]Chandler did not read The Theory of the Growth of the Firm until after he had completed his book. But he notes that "Dr. Penrose's findings have many similarities with mine." He cites as particularly relevant to his work Chapter 5, "Inherited Resources and the Direction of Expansion" and Chapter 7, "The Economics of Diversification". See Alfred D. Chandler, Jr., Strategy and Structure (Cambridge, Mass., 1962), p. 453.

[2]Ibid., p. 15.

[3]In The Dual Economy (New York, 1968), Robert Averitt refines Penrose's distinction between large growing firms and other, less dynamic firms. Averitt's center firm is characterized by its large size and unlimited growth potential. His peripheral firm is smaller and identifiable by its limited potential for growth. See also Edith Penrose, The Theory of the Growth of the Firm (Oxford, 1959), Chapters 10 and 11.

[4]Robin Marris, The Theory of Managerial Capitalism (London, 1964), p. 118. Penrose reluctantly clings to profit maximization as the primary goal of the firm.

[5]Ralph Hidy cites Strategy and Structure as "one of the two most meaningful recent books in the history of business from within." See Ralph Hidy, "Business History: Present Status and Future Needs" Business History Review, 44 (Winter 1970), pp. 483-497. See also James P. Baughman's discussion of Chandler's work in "New Directions in Economic and Business History", in George Billias and Gerald Grob (ed.), American History, Retrospect and Prospect (Free Press, New York, 1971), pp. 302-313. For a good example of Chandler's continuing influence on the writing of economic history see Bruce R. Scott, "The Industrial State: Old Myths and New Realities", Harvard Business Review, March-April, 1973, pp. 133-148.

[6]Chandler, p. 384.

[7]Dupont's international activities in Canada and Chile are recorded in Mira Wilken's The Emergence of Multinatonal Enterprise (Boston, 1970), p. 216. G. M. established an export division in 1911. By 1929 it supplied a foreign demand of 1.4 million vehicles per year. 19 assembly facilities in 15 overseas countries were established between the years 1923-28. See Frederick Donner The World-Wide Industrial Enterprise (New York, 1967), pp. 11-21. Standard's foreign activities are catalogued in the three volume History of Standard Oil Company (New Jersey). [Throughout this paper, "Standard" will be used to refer to Standrad Oil Company (New Jersey).] The company records used in writing this "official" history were destroyed after the completion of the volumes and were therefore not available for my use.

[8]George Gibb and Evelyn Knowlton, The Resurgent Years 1911-1927 (Harpers and Brothers, New York, 1956) pp. 237-247. Gerald Nash, United States Oil Policy 1890-1964 (University of Pittsburgh Press, 1968), p. 244. Standard Oil reenforced these new attitudes with the publication of a company newspaper, The Lamp, beginning in May, 1918. The Lamp's primary purpose was to spread news concerning Standard's operations and personnel. But its reporting often took it into the political arena. For example, when a Senate investigating committee headed by Robert LaFollette published a report which accused Standard of unfair gasoline pricing, The Lamp responded by devoting its entire May, 1923, issue to a fierce, point-by-point rebuttal.

[9]See Alfred Eichner, The Emergence of Oligopoly (Baltimore, 1969), pp. 1-26, and Ellis Hawley, The New Deal and the Problem of Monopoly (Princeton, 1966), pp. 3-19, 472-494.

[10]Sadler to Dawson, May 11, 1918, Department of States' Consular Records, General Correspondence-Tampico, vol. 863 in

National Archives. See The Resurgent Years, pp. 36, 56, 276, 315, 388. Also Henrietta Larson, Evelyn Knowlton and Charles Popple, New Horizons 1927-1950 (New York, 1971), p. 42. Apparently Sadler's wide experience in foreign affairs tempered his once vigorous expansionism. In the late 1920's (as a member of the Board of Directors) he "vehemently objected to expansion of company interests in areas where violent political conflict could be expected." (Resurgent Years, p. 609).

[11]New Horizons, p. 135. Booker to Thomas Palmer (Standard) dated December 2, 1922, as reported in Caracas to Secretary of State (hereafter S/S), October 15, 1928, in State Department Record Group 59, Document number 831.6363/403 in the National Archives (hereafter SD).

[12]The Lamp, vol. 15, #6, April, 1933, p. 20. The Resurgent Years, pp. 86, 101, 370, 378-80.

[13]French Ambassador to S/S, December 6, 1920, SD 851.6363/31.

[14]Paris to S/S, April 30, 1920, SD 851.6363/18.

[15]The Resurgent Years, p. 614.

[16]Ibid., p. 615. See also Moore MSS, Library of Congress, Moore Biography, Box 262.

[17]Ibid., p. 615. Also Nash, Oil Policy, pp. 89-90.

[18]The Lamp, v. 16, no. 1, June 1933, p. 15.

[19]Memo of Conversation between S/S and General Palmer E. Pierce, May 1, 1929, SD 831.00/Revolutions.

[20]Leonard Fanning, The American Petroleum Institute (New York, 1951). American Petroleum Institute, Charter & By-Laws of the A.P.I. (New York, 1926), p. 1.

[21]The public relations division of the American Petroleum Institute grew from an initial $100,000 per year budget in 1925 to become "the outstanding source of authoritative information concerning the oil industry."

[22]This dispute is discussed in detail in Robert Nash Smith, The United States and Revolutionary Nationalism in Mexico 1916-32 (Chicago, 1972) and in Howard F. Cline, The United States and Mexico (New York, 1963), part III.

[23]Sadler to Claude Dawson (American Counsul at Tampico) May 11, 1918; Dawson to S/S, May 11, 1918; Sadler to S/S, May 12, 1918, in General Correspondence (GC) Tampico, Mexico, 1918, v. 863. An "amparo" has much the same effect as an injunction issued by a U.S. court.

[24]Dawson: Report for July, 1921, August 6, 1921, GC, Tampico, 1921, v. 442. Transcontinental's exports dropped from 3.7 million barrels in June, 1921, to 25,500 in July, and finally to zero in August. After settlement of the dispute, September exports rose to almost 3.2 million barrels.

[25]Vice Consul to Consul, "Review of 1926", February 1, 1927; GC, Tampico, 1927, v. 619. AAPPM fact sheet, January 24, 1927; GC, Tampico, 1927, v. 619.

[26]Memo--Division of Mexican Affairs, May 19, 1928 (p. 7), SD 812.6363/2570 1/2.

[27]Interview with Mr. Tompkins, manager of Mexican Gulf, December 23, 1925, Department of States' Consular Records, Confidential Correspondence, Tampico, 1924-32, in National ARchives.

[28]H. K. V. Tompkins to Arthur C. Frost, July 11, 1927; Frost to S/S, August 11, 1927; Confidential Correspondence, Tampico, 1924-32. Apparently Standard possessed similar intelligence gathering facilities, although I have been unable to determine the extent of its activities. See memo cited in footnote 19.

[29]Swain to Gunther, December 14, 1925, SD 812.6363/1636. Before 1876, Mexico followed the Hispanic legal tradition in ascribing sub-soil rights to the state. During the regime of Porfirio Díaz (1876-1910), leases granting sub-soil rights to individuals were written in an attempt to attract foreign investment. The Mexican Constitution of 1917 reclaimed sub-soil rights for the government.

[30]Fletcher to Watriss, August 31, 1921, <u>Foreign Relations of the United States</u> (FR), 1921, Vol. II., p. 451.

[31]For non-recognition see: Eugene Traui, "Harding's Recognition of Mexico," <u>Ohio History</u>, LXXV (Spring-Summer, 1966) pp. 137-48. The arms embargo is discussed in: Fletcher to Summerlin, April 11, 1919, FR, 1919, v. II, p. 594. Battleships were sent on several occasions. See especially: Secretary of the Navy to S/S, July 2, 1921, SD 812.00/25070. For the diplomatic protest, see: Summerlin to S/S, November 17, 1922, FR, 1922, v. II, p. 203.

[32]Kellogg to Swain, January 2, 1926, SD 812.6363/1622 1/2. See also, <u>New York Times</u>, January 24, 1926, p. 1.

[33]Teagle to S/S, April 27, 1928, SD 812.6363/2558.

[34]Morrow to Olds, May 8, 1928, SD 812.6363/2563 1/2.

[35]Clark to Morrow to Olds, February 13, 1928, SD 812.6363/2501 1/2.

[36]Morrow to Mellon, April 21, 1928, SD 812.6363/2521.

[37]Robert Freemand Smith agrees with Morrow's accessment that 1928 marked a shift in policy. He labels the new attitude "finance diplomacy". See Chapter 9.

[38]Samuel Flagg Bemis' The Latin American Policy of the United States (Harcourt, Brace and Co: New York, 1943) p. 217, cites this vote "as the really revealing feature of the Mexican policy, indeed of the Latin American policy of the United States." It was the symbolic end of intervention. Also New York Times, January 22, 1947, January 30, 1927, p. 1.

[39]See Jerry Israel, "A Diplomatic Machine: Scientific Management in the Department of State", Building the Organizational Society, [Jerry Israel (ed.)] (Free Press, 1972), pp. 183-196. Also John P. Harrison "The Archives of the U.S. Diplomatic and Consular Posts in Latin America" Hispanic American Review: (February 1953) 33: pp. 168-183 and Waldo H. Heinrichs, Jr. "Bureaucracy and Professionalism in the Development of American Career Diplomacy," in John Braeman, ed., Twentieth-Century American Foreign Policy (Ohio State University Press, 1971), pp. 119-206.

[40]Ralph W. and Muriel E. Hidy, Pioneering in Big Business 1882-1911 (New York, 1955), p. 135.

[41]H. K. V. Tompkins to Frost, July 11, 1927, p. 2, Confidential Correspondence, Tampico, 1924-1932.

[42]James Sheffield (American Ambassador) to Frost, March 17, 1927, Confidential Correspondence, Tampico, 1924-1932.

[43]Standard did not lose money in Mexico, despite its disclaimers that it would never be able to recoup its original investment. The Resurgent Years reports that "Standrad had been able to amortize roughly three-fourths of its investment (of about 32 million dollars), after recording on that investment total net earnings for the 1918-27 period of $45,592,000. (p. 365).

44 The following table shows the rise of Venezuelan production and the corresponding decline in Mexican production:

| YEAR | MEXICO | VENEZUELA |
|---|---|---|
| 1918 | 64 | --- |
| 1919 | 87 | --- |
| 1920 | 157 | --- |
| 1921 | 193 | 1 |
| 1922 | 182 | 2 |
| 1923 | 150 | 4 |
| 1924 | 140 | 9 |
| 1925 | 116 | 20 |
| 1926 | 90 | 37 |
| 1927 | 64 | 63 |
| 1928 | 50 | 106 |
| 1929 | 45 | 137 |

(Oil production in millions of barrels)

Source: Edwin Lieuwen, <u>Petroleum in Mexico</u> (Berkeley, 1954), p. 121.

During the same period, Standard's oil production in Mexico was as follows (in barrels per day):

| | | |
|---|---|---|
| 1919 - 21,236 | 1922 - 13,236 | 1925 - 45,570 |
| 1920 - 38,640 | 1923 - 58,713 | 1926 - 19,079 |
| 1921 - 36,499 | 1924 - 50,234 | 1927 - 9,784 |

Source: Gibb and Knowlton, Appendix 2, Table VII, pp. 676-677.

45 Hoover to Hughes, November 30, 1921; Hoover to Hughes, January 30, 1922; Dearing to Hoover, March 4, 1922; Bureau of Foreign and Domestic Commerce (hereafter BFDC), Record Group 312, "Mexico-Petroleum", in the National Archives.

46 <u>Ibid</u>., Hoover to Hughes, January 30, 1922.

47 <u>O'Shaugnessey's South American Report</u>, January, 1928, pp. 6-8.

48 Cook to S/S, June 22, 1922, SD 831.6363/185.

49 Cook to S/S, July 20, 1928, SD 831.6363/391. Heroy to Nelson, June 19, 1928, Mexico-Petroleum, BFDC.

50 See Lieuwen, Chapters 4 & 5.

51 <u>The Resurgent Years</u>, p. 367.

52 S/S to Thomas Voetter (Consul-Caracas), October 23, 1923, SD 831.6363/142. See also SD 831.6363/143-148 and 231.

[53]The Constitution prohibited the acquisition of concessions by the President, but Gómez sought to circumvent this law with a transparent scheme which involved the establishment of a national company through which he could profit from the sale of concessions. See SD 831.6363, 176, 177, 178, 196. Also, Lieuwen, pp. 34-38.

[54]Lieuwen, pp. 61-62.

[55]New Horizons, p. 136.

[56]The exact cost cannot be determined because the acquisition of Lago was part of a larger deal including other properties. See Ibid., pp. 38-50.

[57]Ibid., p. 133.

[58]Accounts of this diplomatic battle are found in Joan Hoff Wilson, American Business and Foreign Policy, 1920-1933 (University of Kentucky, 1971) and in F.T.C., The International Petroleum Cartel (Washington, 1952).

[59]The Resurgent Years, Chapter 11. SD 867.6363/20, 69. SD 891.6363/St Oil/1-216, see especially 17. Morris to Sadler, November 14, 1922, January 27, 1923 and Warfield to Morris, January 29, 1923, in Turkey-Petroleum, Box 1665, BFDC, Record Group 151.

[60]The Resurgent Years, pp. 315-6.

[61]Joseph Brandes, Herbert Hoover and Economic Deplomacy: Department of Commerce Policy 1921-1928 (Pittsburgh, 1962), Chapter 1.

[62]Ibid., ppl 5-6. Also J. W. Furness (Chief of the Minerals Division) to Lacey Walker (API), July 23, 1932, 312-General, Box 1653, BFDC.

[63]For example, in May, 1920, the Bureau sent confidential information concerning the intentions of the Peruvian government directly to Teagle (BFDC to Teagle, May 7, 1920, Petroleum-Peru, Box 1662, Record Group 312, BFDC). After the reorganization, the same type of material was sent to Sadler and Warfield (see footnote #59).

[64]Swain to Castle, January 8, 1926; Castle to Swain, March 12, 1926; SD 851.6363/98.

[65]Approaching these same bureaucratic relationships from within the political system rather than from the perspective of the individual firm, Robert Wiebe has suggested that the 1920's was a crucial period in the forming of "firm bureaucratic traditions." Standard's dealings with the State Department and the BFDC during the 1920's lend support to both his approach and his conclusions. Robert Wiebe, The Search for Order (New York, 1967), pp. 286-302.

[66] In the Large International Firm and the Developing Countries, Edith Penrose has written that: "The development of the modern capitalist system is epitomized by the international petroleum industry; in the international sphere at least, the issues that their operations pose for both economic analysis and public policy are, in large part and on an enlarged scale, the fundamental issues associated with the general role of the large firm in the modern economy." (p. 19) For a virgoour dissent, see the review by Charles Wilson, Business History Review, LXIV, 1970, #2, pp. 273-277. The debate is important in its implications for this paper, since it concerns the representativeness of Standard Oil as a case study. However, whether Standard is taken as representative of the oil industry, of extractive industries in particular, or of the large international firm in general, its history is suggestive of the general political problems faced by corporations, although perhaps on "an enlarged scale".

[67] Louis Galambos, "Business History and the Theory of the Growth of the Firm", Explorations in Entrepreneurial History, Second Series, v. 4, #1, 1966, p. 9, argues for the structural lable. Committee on Finance, U.S. Senate, Implications of Multinational Firms for World Trade and Investment and for U.S. Trade and Labor (Washington, 1973), pp. 89-106, shows that although Standard might well have been a leader in international expansion, it was by no means alone in seeking such growth in the inter-war years.