

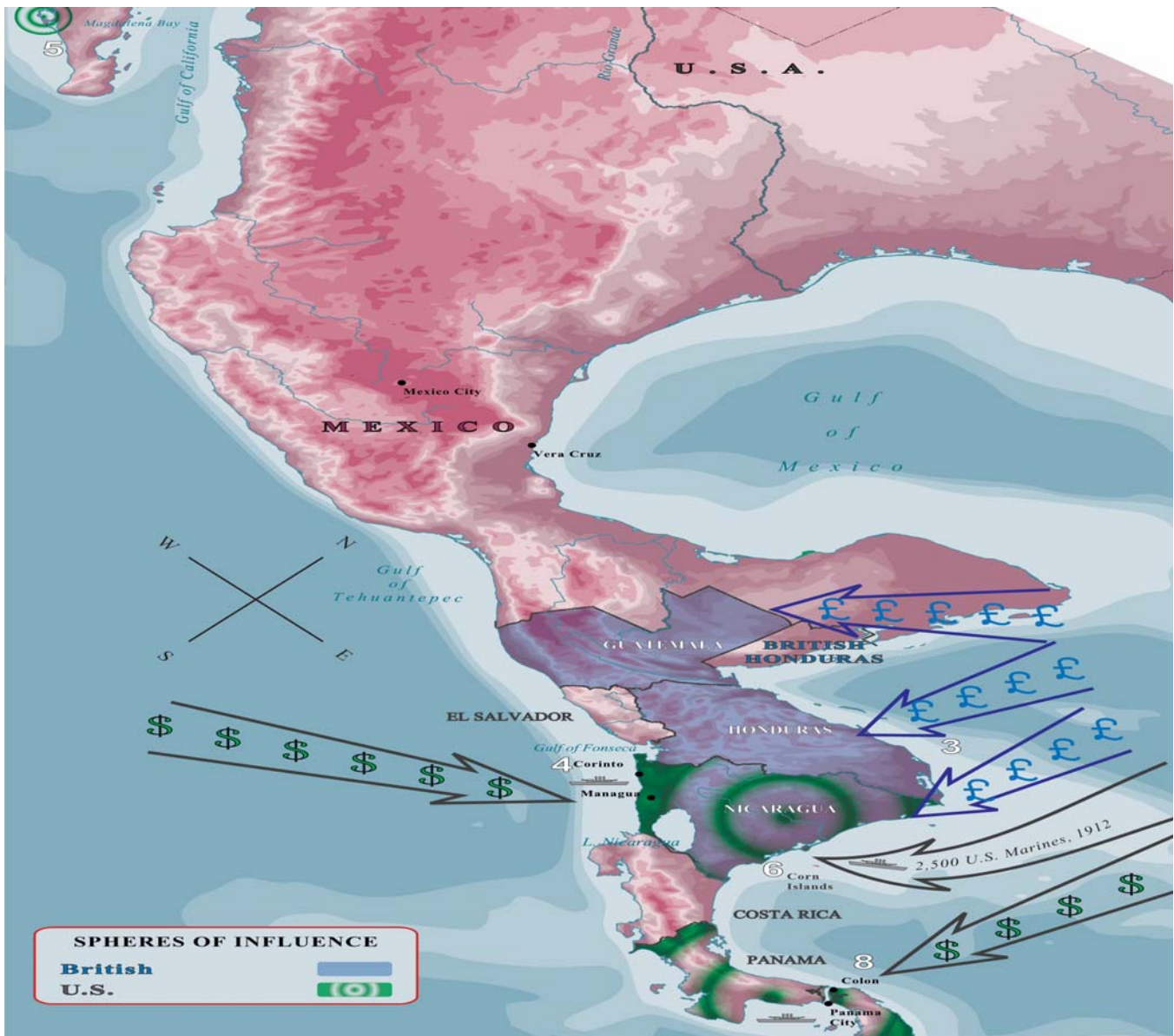
# Dollar and Muscle Diplomacy 1909-13

To fulfill the strategy of Mahan and satisfy business interests, the American Republic needed an Open Door for trade in China. Although the Japanese consented to that principle in the Root-Takahira agreement, like the French, British, Germans, and Russians, they monopolized economic opportunity within their sphere of influence. The solution Taft and Secretary of State Philander C. Knox came up with in 1909 was Dollar Diplomacy. U.S. diplomats actively promoted economic interests while America's growing industrial power served diplomatic goals.

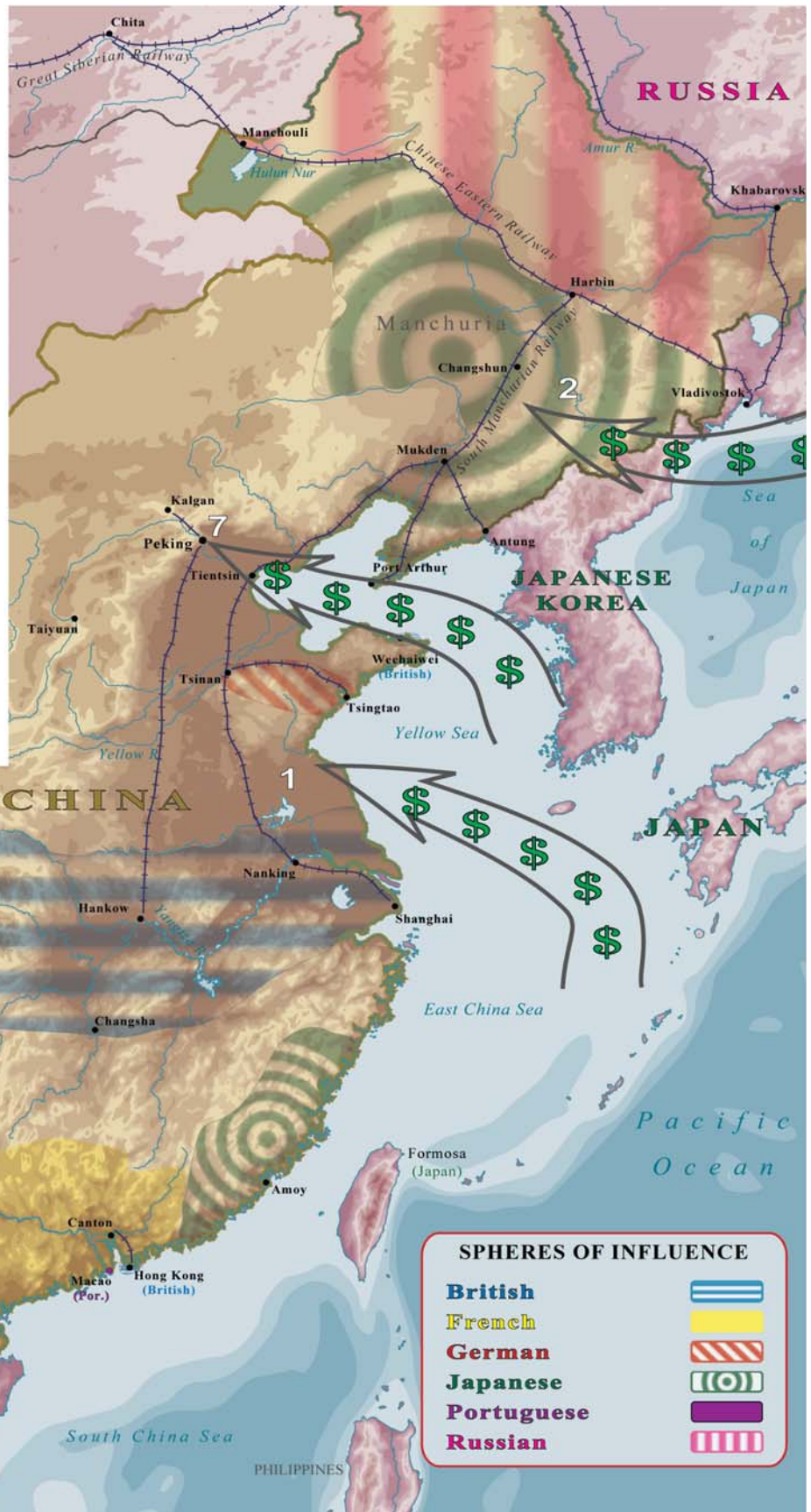
However, back in the Western Hemisphere, the traditional insistence on U.S. right under the Monroe Doctrine, strength-

ened by the Roosevelt Corollary, to dominate Latin American nations continued. Washington politicians were hardly interested in a level playing field in their own back yard. Since only London possessed naval power sufficient to intervene in the Caribbean, and since the British needed Washington's political support in light of growing strains between the Entente powers and Germany, U.S. hegemony in the Western Hemisphere was never challenged. The republic's imperial pretensions and trade opportunities advanced in tandem.

Nevertheless, the Open Door and Dollar Diplomacy revealed the growing preference of U.S. statesmen for negotia-



tion over the use of force. The nature of capitalism requires cooperation between nations rather than conflict and places constraints on the predilection of aggressive leaders for more hostile action. If prior to the industrial age wealth was most often measured in land acquired, manpower assembled, and treasure wrested from rivals by conquest, in the twentieth century an economic type of imperialism produced even more fantastic possibilities. Had Europeans not set a torch to their own continent in 1914, economic self-interest might have forestalled further resort by the American Republic to military action to advance its prosperity and security. Ultimately, the participation of Uncle Sam in the fire brigade that put out the infernos of the First and Second World Wars was required to save the Old World from destruction. No doubt in retrospect, European leaders wished they had gravitated to free trade in the first half of the century rather than the second. Because they did not, U.S.



commercial and political strategy in the Far East achieved only limited, temporary success. In the Caribbean under the shadow of American power, Washington had its way.

In response to move in 1909 by a British-French-German banking consortium to finance railways in central and south China, Taft and Knox insisted that American banks be permitted to join the enterprise. When they were refused, the President personally appealed to the Chinese prince regent to stall the contract until American finance gained entry, which it did in 1911.

The most prosperous province in China was Manchuria, divided by the Russians and Japanese into spheres of influence north and south. To force an Open Door for trade, Knox concocted a plan in 1909 for U.S. and European banks to give loans to the Chinese imperial government to buy control of the Russians' Chinese Eastern Railway and the Japanese' South Manchurian Railway. However, the Japanese reacted negatively to such interference and the Russians balked as well. American pressure, including a scheme by Knox to have the Chinese solicit a loan for currency reform and industrial development in Manchuria, merely persuaded them to sign, ironically on American Independence Day 1911 a treaty formalizing their spheres of influence.

Taft had not the power to enforce his will in the Far East. He did in the Caribbean but tried to use financial leverage first to uphold the Monroe Doctrine and protect the approaches to the Panama Canal, due for completion in 1913. When first Honduras in 1909, then Guatemala, and finally Nicaragua came under pressure from British creditors to pay interest and principle on outstanding government bonds, Knox negotiated a treaty in 1911 with the former providing for repayment of debt from customs duties secured by a receivership under American supervision. However, the Senate delayed ratification.

The situation in Nicaragua became most grave when the anti-American government of dictator José Zelaya was faced with a revolt backed in part by U.S. business interests. The Taft administration feared that Britain or some other power might eventually use unpaid debts as cause to wring from Nicaragua the right to build a canal route in competition with the Panama project. Thus, Knox used intimidation, in the form of a U.S. warship anchored in Corinto harbor, to help persuade the friendlier government of president Adolfo Diaz to conclude the Knox-Castrillo Convention of June 6, 1911 along the lines of the Honduran agreement but giving the U.S. an explicit right of intervention to see that Nicaragua's debt was repaid. Before the Senate could say yea or nay, on July 1 Nicaragua defaulted on a British loan. Immediately, Knox stepped in to arrange \$1.5 million in American financing to repay the British. U.S. bankers controlled the National Bank of Nicaragua and a government-owned railway until customs receipts, collected under U.S. supervision, paid off the loan.

American determination to rule the roost in the Western Hemisphere was stimulated yet again when the Senate discov-

ered that a Japanese company, believed to be a front for the Japanese government, negotiated in 1911 with an American real estate group to purchase land near Magdalena Bay in Mexico's province of Lower California. Because the bay might serve as a naval base, a brief hysteria whipped up by the Hearst newspaper chain provoked anti-Japanese feeling and intervention by the State Department to dissuade the buyer and seller from consummating the deal. However, Massachusetts Republican Senator Henry Cabot Lodge decided that a more formal statement was needed to prevent private companies possibly acting as agents of foreign governments from purchasing locations deemed to be of strategic value for military or naval operations. His Senate resolution to that effect approved in August 1912 came to be known as the Lodge Corollary to the Monroe Doctrine.

Blaming the Diaz government for the national humiliation of having an American in charge of customs collections, Nicaraguans rebelled. Armed with an unratified treaty right of intervention, Taft ordered in 2,500 U.S. Marines on August 14 to protect U.S. lives and property. But to alleviate Nicaragua's financial distress and eliminate the possibility of a **rival canal** being built by a foreign power, Knox negotiated a new treaty paying the Nicaraguans \$3 million in exchange for exclusive right in perpetuity to any such canal and leasing for 90 years not only the Great and Little Corn Islands but a naval base on the Gulf of Fonseca. Despite Senate rejection of the Knox-Castrillo Convention and refusal to ratify the 1912 treaty, a garrison of U.S. Marines remained to guard the U.S. legation and act as an intimidating force.

Taft and Knox achieved superficial success in China with a tentative agreement June 20, 1912 for U.S. participation in a six power banking consortium to make loans to the Chinese government. However, opposition from the Great Powers was so great that U.S. bankers told Woodrow Wilson in March 1913, a few days after he replaced Taft in the White House, that they wanted out of the arrangement. He agreed on March 18, ending Dollar Diplomacy efforts in the Far East.

But of course, American determination to dominate Latin America only increased. On August 24, 1912, Congress passed the Panama Canal Act which exempted U.S. ships from paying tolls. Because this provision violated the Hay-Pauncefote Treaty of 1901 providing for equal treatment of ships from all nations, the British protested. Although London got nowhere with the Taft administration, Wilson persuaded the Senate to repeal the exemption on June 11, 1913. Even so, the opening of the canal through the ten mile wide, American-controlled canal zone on August 15 with the *Star-Spangled Banner* waving was symbolic of U.S. power in the Caribbean. In word anxious to transform U.S. policy from a *real politik* emphasis on power and control to one consistent with the ideals in the American Constitution, in actual fact Wilson was reluctant to abandon that now well established position of preeminence.