Financial Missionaries to the World

The Politics and Culture of Dollar Diplomacy, 1900–1930

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HARVARD UNIVERSITY PRESS
Cambridge, Massachusetts
London, England
1999
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and public finance. Advancing these ambitious reform agendas was an objective that found implicit expression in the Theodore Roosevelt Corollary to the Monroe Doctrine and then in the government policy that came to be known as dollar diplomacy. The international spread of broad financial reforms, according to the new economic professionals and government officials, would stabilize export earnings, import costs, and the value of payments owed to foreigners (as in the case of China) or by foreigners (as in the case of Panama). Greater predictability in exchange rates and easier currency convertibility would, in turn, undermine the power of local loan sharks and exploitative elites, who profited from a depreciating silver standard or a system of inconvertible paper money, and open the way to responsible governments that would be both solvent financially and more representative politically. Currency inflation, especially to Kemmerer, was the primary cause of social injustice and instability. Instituting gold-standards and the broader financial reforms upon which this sound money rested, then, were cast as parts of a larger mission of political uplift and social benevolence.

The turn-of-the-century crusade to spread the gold standard produced a group of professionals who gained practical experience first in U.S. colonies and then elsewhere. Gold standard reformers both represented and constructed discourses about stable value (gold or gold-exchange standards), mutual uplift (from interconnected economic systems), and professionalism (the expertise to manipulate economic systems on a scientific model with little reference to geography and culture). They and other like-minded thinkers became the experts who would make dollar diplomacy seem both a possible and a progressive cause. Dollar diplomacy would emerge within the professional-managerial discourses of these new experts, discourses shared by officials in an increasingly activist government and by those U.S. bankers who were beginning embark on international lending.

The Roosevelt Corollary and the Dominican Model of 1905

In addition to foreign financial advisers and their gold standard-central bank agenda, three other turn-of-the-century developments were critical to the emergence of dollar diplomacy: the spread of cultural assumptions that linked ideas about race and manhood to the paternalistic oversight of weaker states and darker peoples; the U.S. government's new economic and strategic priorities in the aftermath of the War of 1898; and significant changes in the structure of U.S. investment banking. All of these came together in the 1905 initiative in the Dominican Republic—an initiative that would provide the prototype for President William Howard Taft's subsequent policy of dollar diplomacy.

Gender, Race, National Interest, and Civilization

Acquisition of the colonies of Puerto Rico and the Philippines after the War of 1898 sparked a contentious debate in the United States over imperialism. The long, bloody suppression of the Filipino forces, who continued their fight for independence against the United States until 1902, fueled a grassroots controversy between imperialists (arguing for colonial expansion on the basis of economic gain, the "white man's burden," and strategic imperatives) and anti-imperialists (arguing against it on the basis of economic loss, cultural inappropriateness, and strategic peril).1

Opposition to colonialism grew to be so formidable that, after about 1900, policymakers had to assume that the United States could forcibly acquire no more territory.2 Theodore Roosevelt, for example, believed
that U.S. governance in the Philippines was benevolent and wished that his compatriots would look "forward to a couple of generations of continuous manifestations of this [imperial] spirit." Like many fellow progressives, he did not see colonialism as exploitative and admired Britain's role in India. Still, he acknowledged that Filipino independence would need to come soon because "Americans had no taste for long-term rule." Once an outspoken imperialist, Roosevelt never used his presidency to acquire more colonies on the Philippine model. After encouraging Panamanians to break away from Colombia, he signed the Hay-Bunau-Varilla Treaty of 1904 with Panama, making the new country a protectorate on the model of Cuba. When a crisis loomed over governance in the Dominican Republic in 1905, Roosevelt emphasized the drawbacks of colonialism, claiming in his typically colorful prose that he would rather eat a porcupine wrong-end-to than annex the troubled island as a possession.

The arguments against forcibly acquiring new colonies, however, did not necessarily produce a constricted view of U.S. interests. President Roosevelt was a dedicated internationalist, advocated a large navy, and believed in the civilizing mission of the United States. Even most anti-imperialists agreed that national interest and international benevolence required exerting some kind of influence overseas. Secretary of State Elihu Root warned that differences in race and culture made outright acquisition of colonies undesirable, but that the United States still had a responsibility to spread its commercial and moral influence. He took seriously the country's obligations to lead the hemisphere and was the first Secretary of State to take a good-will tour of South America. During the first five years of the twentieth century, the Roosevelt administration thus developed clear and expansive policies that sanctioned the creation of dependencies but not colonies. The justifications of spreading civilization and securing a favorable economic and geopolitical position would provide the rationales for dollar diplomacy—a means of establishing some control while avoiding outright colonial possession.

Whether advocating formal imperialism or rejecting it, the leading policymakers in the Roosevelt administration shaped their views of the civilizing mission within the professional-managerial outlook that envisioned progress as the spread of markets and monetary exchange through scientific application of economic laws. These themes also intermingled with presumably scientific thinking about gender and race. Notions of gender and racial hierarchy would reinforce the civilizationist justifications for dollar diplomacy.

The changes sweeping through American life at the turn of the century seemed to provoke widespread concern with manhood. The term "manhood" should be understood as connoting neither a transhistorical, biological essence nor a unified collection of specific traits. It describes, rather, a dynamic cultural process through which men asserted a claim to certain authority as though it had a status immutably rooted in nature. In the formulation that was widespread among middle-class white men in the Victorian era, manliness emphasized strength of character, especially defined as self-control and self-mastery. According to the social evolutionary doctrine of the day, humans advanced by establishing mastery over themselves and the larger environment. The lack of self-discipline and ability to plan for the future marked a lower status. Thus, a worthy man had a duty to protect those who were weaker, self-indulgent, and less rational: women, children, and nonwhite races. Manly restraint, both in monetary and sexual matters, would bring capital accumulation and family (thus social) stability. In this view, civilization advanced as men became more cognizant of manly duties and as gender roles diverged to become almost mirror opposites.

All of the rising new professions associated with turn-of-the-century international finance were, of course, the province of men, shaping these codes of manliness along with an expanded and rationalized international market. As they imagined the gender division, femininity was associated with small-scale, face-to-face relationships, with disorganized thought and action, and with a need for supervision. For these professionals, manliness (like finance) involved impersonal exchange and supervisory abilities. Economic science became more and more gendered, as it embraced notions of specialization and division of labor. In the emerging scientific society, it was a mark of efficiency and rationality to draw categories, delineate clear boundaries between types, accentuate functional differences and hierarchies.

Gender distinctions had symbolic links to the emerging political economy that was to be organized by dollar diplomacy. Just as manhood implied restraint, self-mastery, and supervision over dependents, uncivilized peoples were marked by feminine attributes, especially lack of planning and weak self-discipline. Against the moral and financial effeminacy of unbacked, inflating paper money could be set the manly,
civilizing force of a gold standard, careful regulation by a national banking system, and supervised revenue collection and expenditure. Civilized men conserved value by restraining and regulating use; whether the currency of potential value was semen or money, civilized men kept control of the quantities produced. Manly orientations toward sexual relations and money (there was a quantity theory of both) shared discursive similarities.

The economist Irving Fisher, for example, connected his economic science to the idea that manly self-control was the prime social virtue. His *Introduction to Economic Science* (1910) was perhaps the most influential American statement of the quantity theory of money. Five years later he published a widely read manual, *How to Live: Rules for Healthful Living Based on Modern Science* (1915). Emphasizing control and self-control, he denounced immorality, prostitution, luxury, graft, government waste on armaments, uncontrolled immigration, eugenically unwise reproduction patterns—along with monetary instability.

Edward Kemmerer also exemplified this late Victorian "manly" ideal both in his professional career and in his role as international financial adviser. Struggling into the ranks of middle-class professionals by working his way through college, Kemmerer had trouble reconciling the low pay of an assistant professor at Cornell with his professional status. He worried that "my size and youthful appearance" would deprive him of prestige, and his early letters show considerable anxiety about how to maintain his status in the face of inflation. He complained that he could afford only a "girl" rather than a "maid" for his family, worried over country club dues, and felt great financial and psychological strain from hospitalization bills when his wife had a breakdown after the birth of their second child in 1910. Even after accepting a better paid position at Princeton, he continued to complain about the high cost of living.

His conception of his own duties as a man clearly involved an income that could maintain dependents as well as nurture connections with other men in his upwardly mobile professional world. Indeed, a fear of monetary inflation and its consequences for social status were general concerns among new professionals. During the long deflationary spiral of the late nineteenth century, the cost of food, clothing, and housing had dropped in comparison to real wages. But after the turn of the century, the inflationary environment worked in reverse, raising prices while leaving many salaried professionals feeling a loss. Although professors retained a fairly high economic status in the early twentieth century (roughly the top 10 percent of all families), their real income did begin to erode, and the growing gap between the professoriate and the very wealthy widened considerably. This erosion of earnings helps to explain the pervasive complaints of low pay and declining economic status among professors such as Kemmerer. As their incomes shrank, their professional contributions nonetheless brought many of them into increasing daily contact with bankers and others of the economic elite, accentuating the disparity. World War I brought even greater pressure. During the war, housing costs more than doubled; a surge of inflation followed the end of wartime price controls, and advertiser-driven aspirations for greater consumption rose throughout the decade. Kemmerer served on the Advisory Council of the Stable Money League, whose goal was "to prevent the great changes in the purchasing power of the unit of value."

Kemmerer's life-long obsession with fighting inflation was thus closely linked to what he perceived to be the moral tenets of "manliness." Inflation, he believed, penalized hard work and savings while it rewarded careless people who made no provisions for the future. Kemmerer, his son recalled, "was a very moral individual and he felt that inflation was fraud by government." Just as it eroded currency values, inflation undermined class standing and duty to family. He wanted to fashion a world of stable value, one which rewarded those who saved for the current and future support of dependents. To Kemmerer, as to many others of his age, manliness meant achievement, and unmanly traits derived from deficiencies in character, principally laziness and debauchery. His science of economics and his commitment to bringing orderly financial systems to what he viewed as disorganized, profligate territories inscribed his convictions about moral behavior and its gendered assumptions.

Not surprisingly, then, Kemmerer would explicitly frame his economic advising in terms of manliness. Often the only qualification he specified when seeking to hire a member of his financial missions was that he be "manly." He consistently described good advising work as a "man-sized job," a typical comment being "Stabilizing the Poles seems to be a man-sized job and a perpetual one." To Kemmerer, finance was truly a manly art for the upwardly mobile middle class.

Theodore Roosevelt articulated similar notions of manly duty. Like
many others of his day. Roosevelt co-mingled the meanings of manhood, whiteness, and nationhood. His *Strenuous Life* (1899) was about manhood and the nation’s duty to be manly. One of his most famous speeches, “National Duties,” was about “the essential manliness of the American character.” Roosevelt explained that “exactly as each man, while doing first his duty to his wife and the children within his home, must yet, if he hopes to amount to much, strive mightily in the world outside his home, so our nation, while first of all seeing to its own domestic well-being, must not shrink from playing its part among the great nations without.” By using such domestic metaphors, Roosevelt made international involvements seem more familiar and natural. He wrote, “man must be glad to do a man’s work, to dare and endure and to labor; to keep himself, and to keep those dependent upon him . . . As it is with the individual, so it is with the nation.” Nations, like men, had duties to perform.

Although many middle-class men, or aspirants to that status, performed and perpetuated this particular discourse of manhood well past the Victorian age, some significant reformulations emerged during the late nineteenth century. The new immigration, the New Woman, the growth of professions and office work, and a perception of decline in economic predictability and in professional wages all challenged middle-class male identity and authority. Claims that manhood was in decline became pervasive as doctors developed heightened concerns about male homosexuality, worried about male effeminacy, and warned about growing neurasthenia (nervous strain) in men. These concerns gave rise to a relatively new word—masculinity—which gained sudden popularity and had slightly different connotations than manliness.

Neurasthenia was an illness that George M. Beard, in his *American Nervousness* (1881), had defined as “nervlessness—a lack of nerve force.” Beard traced the condition to the stresses of overcivilization—men were becoming weak and sickly by depleting their nerve force. Nerve force could be depleted by masturbation, a moral problem that Beard believed sapped masculine energy, but the disease also could stem from the cultural problem of modern civilization, as it was common among white men who did “brain work.” The neurasthenic man, exhausted by the demands of ambition, achievement, and work, was retreating into passivity and invalidism—in effect, into the feminine realm. Beard’s notion that modern life brought rampant neurasthenia in men was akin to the thinking of Georg Simmel, who also had pointed to a “secret restlessness,” “an increase in nervous life” emerging from the speed and diversity of professional life. It originated in “that increasing distance from nature and that particularly abstract existence that urban life, based on the money economy, has forced upon us.” This form of neurasthenia was a male problem because, in Beard’s and Simmel’s views, women were less evolved, less differentiated and complex. That the most advanced of the species were afflicted by nervous disorders, according to Beard, portended the decline of civilization generally. Capitalist civilization, according to this view, was creating the seeds of its own destruction because of the enervating demands of an exchange economy.

Roosevelt was very much influenced by the popularization of George Beard’s theories. His own sickly childhood, of course, made him especially susceptible to worries about a decline of vigor and life-force. Rather than despair about the future of civilization, however, Roosevelt embraced the ideas of G. Stanley Hall, who advocated countering “over-civilization” in men by restoring an element of primitivism. Hall developed the idea that primitivism was not so much the opposite of civilization as its precursor. Primitivism was a stage through which healthy, civilized adult males needed to pass in accordance with the scientific principle that the human male developed in stages that recapitulated the evolution of the species (ontogeny recapitulates phylogeny). Claiming that young boys at the onset of puberty would need to recapitulate their ancestral heritage, Hall developed Boy Scout rituals to assist the healthy passage through “savagery.” As such notions became popularized, the fears of male decline spurred a new fascination with potency, as commentators called for vigorous sports, masculinity, and military assertion. Jack London’s *Call of the Wild* both reflected and helped structure the new view that, underneath the layers of civilization, men were healthiest when able to express their natural instincts. Theodore Roosevelt became the very embodiment of these antidotes to overcivilization, constructing his vision of vigorous manhood through an identification with the legendary West.

Concerns about declining manhood and the need to restore a measure of the primitive were thoroughly intertwined with ideas about race. Notions of civilization were frequently invoked to tie male power to ideas of whiteness. Race was used to reformulate discourses of manhood in this era, at the same time that manhood was used as a way of interpreting racial difference.
The fear of neurasthenia raised a related concern over "race suicide." In the United States during the late nineteenth century, writers and speakers such as Josiah Strong, John Fiske, and others popularized Social Darwinist ideas that portrayed races as nearly distinct species in competition with each other for survival. In this competition for survival, vigorous manhood was essential. Overcivilized effeminacy would lead to a falling birth rate and racial decline. Roosevelt, the advocate for the "strenuous life," helped popularize the problem of race suicide, calling it the most important question facing the country. He used his "bally pulpit" of the presidency to preach that a person who avoided having children was "in effect a criminal against the race." Within his frequent paens to motherhood and large families, Roosevelt implicitly celebrated male passion and sexuality, breaking from Victorian conventions by making these antonyms of self-restraint more respectable, even attributes of public pride.

But Roosevelt was concerned with enhancing the quality as well as the quantity of the white race. He gloried in the stories of the West, as heroes achieved both manhood and race progress in kill-or-be-killed competitions with Indians and nature. And he shaped his four-volume history, Winning of the West, in these terms. It portrayed how an American nation and a distinctive American race were forged from a mass of disparate European immigrants by a frontier war against Indians. By celebrating the defeat of primitives, even on their own ground, Roosevelt echoed some of Hall's ideas (as did the Buffalo Bill Wild West Shows popular at the same time): having been tested in primitive competition, the manly American race could now put its adolescence behind it and move ahead to take up the task of civilizing less mature races. Later, in his accounts of his celebrated Battle of San Juan Hill in the Spanish American War, race again functioned as the crucible of male-coded nationhood. Roosevelt's influential and popularized historical accounts set out to prove that the United States sprang from both vigorous manhood and racial superiority.

Although prominent discourses of race drew upon the contemporary science of biological difference and competition, they also drew upon a Lamarckian view of culture: that cultural change would become cumulatively embedded in biological heritage. In the Lamarckian view, inferior races could become uplifted over time by culturally improving the character traits of individual men and women. This view, which was scientifically discredited by genetics early in the century, continued to echo in popular expressions and provided justification for imperial missions. In popular presentations of race throughout the early twentieth century, such as those constructed in museums and world fairs, entire racial groups were given attributes of age: whites were represented as adults (male, of course); nonwhite races were children who needed discipline and education. G. Stanley Hall, who had developed the idea of adolescence in people, also advanced this notion of adolescent races. In 1910 Hall helped begin the Journal of Race Development, which promised to explore "the general subject of the control of dependencies."

Within this metaphor of age, the mission of adult races or nations needed no elaboration or justification. Kemmerer, after his stint as chief of the currency in the Philippines, for example, returned to Cornell University and in 1907 delivered a lecture on the lessons of his experience before the American Academy of Political and Social Sciences in New York. He explained that three centuries of Spanish rule had "developed children, not independent self-reliant men." Filipinos "have yet to learn the lessons of political honesty, of thrift, and of self-reliance," and before achieving self-government had to embark upon "the development of these sturdy moral virtues." The speech provoked a "storm of protest" from Filipino students studying at Cornell.

Roosevelt brilliantly molded all of these associations of manliness, whiteness, adulthood, and nationhood into a powerful projection of the civilizing mission. In his person he embodied the two (somewhat contradictory) models of manhood: civilized manliness (representing duty and self-mastery) and primitive masculinity (representing primitive urge toward assertiveness, spontaneity, and battle). As a young president at the start of a new century, he persuasively claimed these attributes not just for himself but for the white American race in its relationship to the world. The Roosevelt Corollary reflected this mix of manly duty, masculine threat of force, and the white race's destiny to organize and uplift child-like races.

The Roosevelt administration marshaled these images to shape a new vision of the U.S. presidency. Political leaders were to pursue high-minded goals, especially in foreign affairs, without paying too much attention to possibly ill-informed public clamor. Although popular opinion might set certain boundaries for policy, it should never guide it. As Roosevelt's brash action in Panama suggested, his presidency elevated
the power of the executive branch, while new civil service requirements, organizational specialization, and a stronger navy made it operate more effectively. A proponent of expertise and the cult of efficiency, Roosevelt also advanced the professional-managerial faith in the civilization power of monetary exchange and envisioned a strong working relationship between government and large, efficient businesses to transform backward groups, whether at home or abroad. The modern presidency, he believed, should be an activist office, mobilizing public and the private sectors to operate on behalf of an expansive view of the public good.  

To Roosevelt, a strong navy was essential. Influenced by Alfred Thayer Mahan's geopolitical theory of sea power, the Roosevelt administration determined to accumulate bases and secure sea lanes. Building the Panama Canal became the centerpiece of this "big navy" strategy, because it facilitated a two-ocean commercial and military posture. Military capabilities attained by a canal and surrounding bases would help secure the growing international economic stake of the United States, and enlarging economic ties would, in turn, improve its strategic position. The objective of securing the region around the Canal would lead directly to the Roosevelt Corollary to the Monroe Doctrine and mark a major turning point in U.S. relations with countries bordering the Caribbean. The Caribbean, Roosevelt and his strategists concluded, should become an "American lake." 

Blending its cultural (including gender and racial) assumptions, its economic and strategic justifications, and a new executive branch activism, the Roosevelt administration constructed a foreign policy that was both assertive and restrained, both imperialist and anti-imperialist. Throughout the world, in Roosevelt's view, the United States should help maintain a balance of power in which virile, advanced nations would amicably share the tasks of civilizing disorderly states. Europe and Japan would have predominant interests in Africa and Asia; the United States would police and uplift the western hemisphere. But it would assert this power through formulas other than forcibly seizing colonies. 

The Venezuelan crisis of 1902 helped define Roosevelt's approach and prompted the formulation of his Roosevelt Corollary. In Venezuela, European intervention over defaulted debts provoked difficulties. The global economic depression of the mid-1890s, which had been preceded by a tremendous volume of Latin American borrowing in European markets, had brought widespread defaults throughout the area and made financial irresponsibility a major diplomatic concern. As Roosevelt saw it, European gunboats sent against Venezuela diminished the prestige of the Monroe Doctrine. Moreover, the Hague Court decision that helped resolve Venezuela's dispute with England and Germany implied preferential treatment in debt settlement to states that used armed force, a precedent that, Roosevelt feared, might encourage more European military interventions against defaulted states in the Western Hemisphere.  

In his Corollary to the Monroe Doctrine (1904), Roosevelt stated that when nations of the Western hemisphere conducted their economic affairs irresponsibly enough to raise the possibility of European intervention, the United States would assume the role of an "international police power." Roosevelt wrote privately to his son that the United States "should assume an attitude of protection and regulation in regard to all these little states in the neighborhood of the Caribbean." 

The doctrine blended discourses about manhood, race, adulthood, managerial expertise, and national interest into a program for spreading civilization.

The Dominican Model

It was initially unclear how Roosevelt planned to implement the Corollary. Widespread anti-imperial sentiments prevented acquisition of new colonies. Cuba and Panama provided models of protectorates—that is, nations bound by treaty obligations to be "protected" by the United States from external threats or internal disorder—but Congress and the public were reluctant to acquire more protectorates. In 1904 the Dominican Republic became, in effect, a laboratory for working out the question of how other forms of dependency might be devised.

The governments of both the United States and the Dominican Republic, for different reasons, saw advantages in developing a supervisory-dependent relationship between the two countries. The Dominican Republic became the first of what might be called dollar diplomacy dependencies (others would be Nicaragua, Liberia, and Haiti). Here, the term "dependency" is not used to invoke the tradition of "dependency scholarship," a framework often used during the 1960s and 1970s to interpret United States-Latin American relations, but simply to signify the status of a country that was not a political colony or protectorate of the United States, yet was bound to it by specific, contractual bonds of supervision.
Deeply in debt to European bondholders and threatened by European warships, the Dominican Republic in 1904, with its harbor at Samaná Bay and its proximity to the Panama Canal, seemed of strategic importance to President Roosevelt. The credibility of the Roosevelt Corollary also appeared to rest on how the United States would handle the Dominican case. Although Roosevelt would later claim to Congress that he had to act because European intervention was imminent, Europeans were probably less eager to intervene themselves than to force action by the United States on their behalf. If European governments were to live with the Caribbean as a U.S. sphere of influence, then they wanted assurance that the United States would uphold what they perceived as their legitimate interests in the area. As Roosevelt told the Senate in 1905, U.S. handling of the Dominican crisis afforded “a practical test of the efficiency of the United States Government in maintaining the Monroe Doctrine.”

The Dominican government, eager to protect itself from both internal and external foes, had been encouraging U.S. overtures. A private U.S. company, the Santo Domingo Improvement Company, had already gained a prominent place in Dominican economic and political life. The Dominican President, Ulises Heureaux, had strengthened his ties with the company, seeing it as a counterweight to European financial interests and as a possible entry to political influence in Washington, where trade and tariff policies could substantially affect his and his country’s fortunes. After 1892 the company bought the debt that the Dominican government owed to a Dutch company, floated new loans to European creditors, and took over customs collection as a means of repaying it. The company remained beholden to Heureaux, however, and never exerted effective control over Dominican revenue. In the aftermath of the War of 1898 and President Heureaux’s assassination in 1899, U.S. economic policies began to favor Cuba, the new sugar-growing protectorate, to the detriment of the Dominican Republic. Consequently, the Dominican government grew ever more worried about its economic fortunes, particularly its sugar industry, and courted U.S. favor. Dominican officials recognized that new loans and a closer relationship with the U.S. government could arrest the country’s slide toward bankruptcy, alleviate the demands of European creditors, solidify the export sector, and enhance their political position vis-à-vis their internal opposition by bringing in new money.

Believing that the Santo Domingo Improvement Company had only contributed to instability in Dominican finance, in 1904 Roosevelt sent Assistant Secretary of State Francis B. Loomis to Santo Domingo to discuss the possibility of instituting an outright U.S. protectorate with control over currency and revenue. A protectorate on the Cuban model, however, quickly seemed just as inadvisable as colonialism itself. In fact, observers reported that rumors of protectorate status for the Dominican Republic were generating such resistance against its government that further action would result in more, not less, instability.37 How could a dependency relationship that would stave off bankruptcy and political turmoil be established without offending those in both countries who objected to imperialism?

In devising what policymakers would subsequently view as the Dominican model of rehabilitation, the State Department turned to investment bankers and to Jacob Hollander, the financial expert who had guided the gold-standard currency reform in Puerto Rico. The Dominican model became the first major effort to forge the kind of partnership that would continue to be at the heart of dollar diplomacy: a triangular relationship among financial advisers wishing to practice their new profession of fiscal rehabilitation of foreign countries; investment bankers seeking higher interest rates in foreign markets; and activist governmental officials eager to assert international influence.38 These were the groups that had come together in the 1890s to mobilize support behind the gold standard both at home and abroad.

Between 1904 and 1907, U.S. emissaries incrementally pieced together a plan for rehabilitating the Dominican Republic. In the spring of 1904, the new U.S. minister, Thomas C. Dawson, a veteran of the diplomatic service in Brazil and author of a two-volume history of South America, reported that fiscal insolvency was the basis of the endemic political disorder. He recommended “a radical change in the system of collecting revenue and a great reduction in current expenditure.”39 The Dominican government requested readjustment of the country’s current outstanding debt so that bankruptcy and intervention could be avoided.40 Dawson worked out a protocol that reflected both of these goals: the U.S. government would take over collection of Dominican customs, applying up to 55% of the receipts to debt service; it would also review the internal and external debt claims and work out private bank refinancing. Jacob Hollander was hired to put the plan together. To help convince the Domini-
can government to allow the United States to "establish an orderly and businesslike administration" through the protocol, the Secretary of State ordered a visit by naval commander Albert C. Dillingham. In the meantime, the Dominican government officially established a gold standard, based on the U.S. gold dollar, to facilitate the proposed reforms.

When Roosevelt took Dawson's protocol to the Senate for ratification, he hit a roadblock. The president appealed to senators to uphold the credibility of the Monroe Doctrine, do a service to humanity, and increase "the sphere in which peaceful measures for the settlement of international difficulties gradually displace those of a warlike character." But many senators questioned the idea that the U.S. government could bind itself to refund private debts. Sufficient support for the protocol seemed so unlikely that the measure was not brought up for vote.

The president who had bragged about taking the canal while congresses debated remained undeterred. Feminizing his opponents as prattling pacifists, proponents of inefficiency, and reactionaries, Roosevelt simply took over Dominican customs collection without the consent of Congress. He encouraged the Dominican president, who was increasingly desperate about his empty treasury and eroding power base, to issue by decree a modus vivendi under which the U.S. government was invited to assume control of the customs houses. A retired army colonel and veteran of the colonial customs service in the Philippines took over as General Receiver of customs. Roosevelt claimed that these measures were only temporary stopgaps until Congress formally consented to the protocol. "The Constitution," Roosevelt explained, "did not explicitly give me the power to bring about the necessary agreement with Santo Domingo. But the Constitution did not forbid me."

Meanwhile, he forged ahead to resolve the issue of Dominican debt, instructing Hollander to continue working with private bankers on a refunding plan. Who employed Hollander was not entirely clear. He was paid $1,000 a month by the U.S. government but also received the huge sum of $100,000 from the bankrupt Dominican treasury, a questionable arrangement that prompted a congressional investigation when it was discovered three years later.

Roosevelt's announcement of a "fiscal protectorate" formed by the modus vivendi prompted some criticism, especially among Southern Democrats. Senator Augustus Bacon of Georgia charged that the action eclipsed the "advise and consent" clause of the Constitution, and he warned about the growth of executive power. Isador Raynor of Maryland admonished that Roosevelt's new Corollary was "strictly a financial doctrine" to support those who "look upon national misfortunes as so much merchandise," and would auction the liberties of mankind to the highest bidder. He claimed that it disgraced the spirit of the original Monroe Doctrine, and he demanded to know "under what clause of the Constitution do we derive the right to act as receivers and take possession of the custom-houses of other countries? . . . The flag does not follow a contract." In newspapers, opposing editorials frequently stressed the dangers of trying to arrange the affairs of "black republics." The New York World expressed fear that the receivership would be the first step in a hemisphere-wide policy that raised the horrible prospect of keeping "order among nearly sixty million people, of mixed Spanish, Portuguese, Indian, and negro blood, divided among twenty sham republics which have had at least three hundred revolutions in eighty years."

On the whole, however, anti-imperialist opposition was muted because Roosevelt's plan itself could be cast as anti-imperial: extending assistance without annexation. The Philadelphia Ledger greeted the plan with the notice that "President Roosevelt has undertaken to give the island of Santo Domingo an honest government, economically administered. Philadelphia next!" Even traditionally anti-imperialist papers often presented the move as benevolent and progressive, as the United States sought no territory nor protectorate treaty. The strong antibanking discourses that would later be mobilized against international lending with governmental supervision were only beginning to appear.

Because a U.S. government obligation for Dominican debt had been the stumbling block to the protocol's ratification, Hollander turned to bankers to work out refunding. If the plan proved successful, the U.S. government would then only need to oversee revenue collection, not assume responsibility for debt. Hollander was asking investment bankers to use a process similar to that employed with bankrupt domestic companies: provide new money to pay off creditors and to reorganize fiscal affairs in return for assurances of some control over future management (in this case the Dominican government) so that the problems that had produced the crisis in the first place would not recur. The creation of a receivership, a common practice in the domestic business sector during the late nineteenth century, provided a ready technique for dealing with foreign bankrupt governments. With Secretary of State Root's personal
encouragement, Hollander finally obtained Kuhn, Loeb, and Company's cooperation and worked out an adjustment of past debts with the Protective Committee of Bondholders in Antwerp and others.31

During the course of these negotiations in 1906, Hollander put together a plan involving two separate documents. One was a convention between the U.S. government and the Dominican Republic, under which Dominican customs houses would be administered by a U.S. receiver appointed by the president of the United States (but paid as an employee of the Dominican Republic). This part was, in effect, already operating. The convention would stipulate additionally that the public debt of the Dominican Republic could not be increased without consent of the president of the United States. The second document was a loan contract between the Dominican government and the investment banking house of Kuhn, Loeb. The bankers offered to handle $20 million in 50-year bonds carrying a relatively high rate of interest (5%). This loan was conditioned upon the ratification of the convention that guaranteed servicing by U.S. government collectors. Morton Trust Company, for which Root had previously served as counsel and Conant as Treasurer, became the fiscal agent and depository for the repayments. The Senate quickly ratified the convention in 1907 by a 43 to 19 vote because, unlike the previous protocol, it committed the United States only to collecting and administering the debt, not to adjusting or assuming it. The bankers, in parallel action, signed the loan contract.32

The convention and the contract were interdependent documents. The Dominican government accepted the foreign receivership in order to get the loan; the bankers extended the loan only because the convention's guarantee of government involvement minimized the risk; and policymakers used the loan to force the type of financial rehabilitation they felt would advance U.S. interests in the Caribbean. This model of government-bank cooperation, using what would be called a "controlled loan" brokered by a professional consultant in international finance, seemed to offer the possibility of guiding a dependent state through a process of fiscal reform without the United States having to assume the burdens and risks of political sovereignty. It became central to the process that, under President Taft, would be called "dollar diplomacy."

In one sense the Dominican loan and receivership plan was a novel turn in the conduct of U.S. foreign policy; in another sense, it was just an extension of some current practices. Bond issues that imposed substan-
tial supervisory obligations on the borrower were widely used both in the domestic financing of corporations and by European governments in their relations with some foreign states. The Dominican model, linking a U.S. government-run receivership to Kuhn, Loeb's bond issue, evolved within this broader context. The structure of investment banking in the United States, together with contemporary European practice, provide significant background for understanding the origins of dollar diplomacy.

Development of Investment Banking

During the late nineteenth century, the United States experienced dramatic changes in its political economy. Three of these were particularly relevant to dollar diplomacy: the development of investment banking and a bond market; the trend toward "managerial capitalism"; and government's reliance on the mobilization of capital by private financiers.

Modern investment banking in the United States grew in association with railroad financing. Jay Cooke, who had mass-marketed government bonds during the Civil War, formed the first syndicate of eight financial houses to underwrite Pennsylvania Railroad bonds in 1870. A year later, the new firm of Drexel, Morgan, and Company took over Pennsylvania's account, and together, the financial managers of the railroad and the investment bank refined techniques of raising money. Selling $87 million dollars worth of securities between 1869 and 1873, the Pennsylvania system raised more money faster than any U.S. business had ever done.33

Other investment banking houses quickly joined Morgan in the scramble to provide railroad financing. Capital markets gradually became centralized in New York around a number of strong houses, including J. P. Morgan, Kuhn Loeb, J. and W. Seligman, Speyer, and Kidder Peabody. Kuhn, Loeb became the principal banker of the Pennsylvania Railroad in 1880; in 1895 it allied with National City bank to reorganize the Union Pacific. By 1910 Kuhn, Loeb had become the leading specialist in railroad securities, handling issues for at least ten major domestic railroads.34

Financial markets in the United States grew rapidly during the late nineteenth and early twentieth centuries, and the demand for credit burgeoned regardless of business conditions. During depressions, large industries relied on investment bankers to reorganize and refinance de-
faulted debt; during economic upswings investment houses provided capital for expansion. At the same time, more money seemed available for investment. Banking and insurance assets more than doubled during the first decade of the twentieth century; country banks in the Midwest and West began to interest themselves in investments other than farm loans; and the number of individual investors grew rapidly. Investment bankers both responded to and cultivated the new interest among small investors, developing networks of brokers through which to sell bond issues directly to the public.\textsuperscript{55}

The profits to be realized in arranging and selling bonds were substantial. Because bankers and brokers earned profits as a percentage of bonds sold, promoters expanded the market steadily, bringing out issues as large and as fast as buyers might absorb. Partly instigated by financiers and speculators, an industrial merger movement swept the country; the creation of new holding companies layered new debt on top of old. In 1898 and 1899 total capital issues far outstripped any previous amounts. By 1900 virtually all railroads and many of the largest industrial corporations looked to their relationship with particular investment bankers to fulfill long-term capital needs by brokering securities to the public.\textsuperscript{56}

During the first decade of the twentieth century, although railroad securities still dominated exchanges, industrial and utility bonds steadily increased in importance. Deal-makers also began diversifying into foreign bonds.

The mature infrastructure and robust growth of financial markets in the United States began to establish New York as an international as well as domestic money power. Although the United States remained, on balance, a debtor nation until World War I, its status as a leader in world markets was changing. U.S. bankers extended huge loans to Canada after 1879; J. Pierpont Morgan became co-manager of its first major international loan in 1899 (to Mexico). In 1900 Kuhn, Loeb and National City Bank underwrote an issue of German imperial bonds; the government of Sweden issued bonds through Kuhn, Loeb in 1904; and a syndicate headed by this firm distributed $75 million of Japanese war bonds in 1905. The financial strength of U.S. banks got instant global recognition when J. P. Morgan and others extended large loans to Britain during the Boer War, thus becoming creditors to Europe's own leading creditor nation. Significantly, these large foreign issues were often dramatically oversubscribed. The Mexican bonds of 1899, for example, sold so fast that Morgan believed twice the amount could have been placed in the U.S. market. The Japanese loan attracted applications amounting to $500 million for a $75 million issue. Clearly, there was a ready market for solid foreign loans, and investment bankers were eager to develop such business, both because of its profitability and because of the considerable prestige it conferred.\textsuperscript{37}

These early foreign loans were largely detached from the political concerns and processes of the U.S. government. In this sense, they were not examples of dollar diplomacy. But they whetted bankers' appetites for more foreign business and convinced the U.S. bond-buying public that foreign issues could be viable investments. It was just after the Japanese war loan of 1905 that Kuhn, Loeb agreed to the Dominican issue.

Interest in foreign bonds especially increased after 1903, as the issuance of domestic industrial securities began to slump. The decade-long gush of industrial bonds was slowing for a variety of reasons. Some of the new consolidations clearly had poor performance records. Moreover, a court decision in the Northern States Securities case suggested that the Sherman Antitrust Act might be applied to industrial holding companies. Kuhn, Loeb, for example, had undertaken to finance a $500 million merger of the giant meat-packing companies into a single holding company but backed out by 1903, worried about possible legal antitrust action by government and apparent market saturation by the industry.\textsuperscript{58}

The general convergence and decline of interest rates domestically also helped to stimulate interest in higher-yield foreign bonds. Nineteenth-century capital markets had been largely segmented and dominated by large regional banking institutions. In the late nineteenth and early twentieth centuries, however, institutional changes brought rapid integration of regional capital markets, contributing to a greater convergence in interest rates nationally and to the primacy of New York as the major capital center. At the same time, the growth of correspondent banking and the rapid increase in the number of state banks brought greater competition to the banking industry and exerted a downward pressure on interest rates.\textsuperscript{59} Uncertainty over domestic issues and declining interest rates, combined with the promotional mentality by now entrenched within investment banking and brokerage houses and a strong international economic upturn from 1903 to 1906, provided optimal conditions for a surge of interest in the bonds of foreign governments.

In addition to the condition of markets, the late-nineteenth-century
trend that Alfred Chandler called "managerial capitalism" was another important contributor to the policy of dollar diplomacy. Increasingly, most investment banking houses became involved in the management of the companies they served. Such an interest was hardly surprising, given the prestige and money that was at stake in underwriting a large railroad or industrial bond issue. Financier-dominated boards of directors began to wield their influence in selecting professional managers to supervise corporate operations and by demanding more centralized operating structures. Sometimes investment bankers even stipulated the specific expenditures that they would allow for money raised in bond issues. They nearly always assumed power to vote the majority of the stock for a period of years.40

In short, investment bankers during the last decades of the nineteenth century were gaining experience not only in organizing financial resources but in providing managerial guidance as well. Even before venturing abroad, they had developed a variety of ways to assume operational oversight over clients, if their assessment of the financial risk seemed to warrant such control. This managerial capitalism reinforced the professional-managerial orientation of the economic professionals and offered the relevant structures for dollar diplomacy's exchange of loans for some degree of administrative control.

The patterns emerging in large-scale domestic finance, then, bore close similarity to those that would soon characterize dollar diplomacy. The sequence of events was the same: financial reorganization (perhaps managed through a receivership); increased working capital through bond issues that exceeded the refinanced obligations; establishment of fiscal oversight; centralization and rationalization of operations. Just as bankers and railroad officials alike encouraged visible ties between them to improve investors' perceptions about the quality of the securities, so bankrupt foreign governments would often willingly seek an investment banking partner for the same practical reason. Dollar diplomacy was managerial capitalism taken offshore.

But there were two great differences between managerial capitalism at home and dollar diplomacy abroad. In dollar diplomacy, investment bankers were dealing not with companies that had stockholders but with countries that had citizens. To prescribe for the latter in the same manner as for the former was bound to be troublesome. Corporations, after all, existed primarily to make profit; governments existed for other purposes, including the supervision of some kind of social order. The appropriateness of shaping a governmental structure by adapting corporate techniques and priorities would lie at the heart of debates over dollar diplomacy in the decades to come. Moreover, the U.S. government played a major role in foreign debt reorganizations, bond issues, and customs receiverships. Although government was not entirely absent on the domestic front, as the growing importance of the Interstate Commerce Commission in rate-setting illustrated, government officials actually coordinated and, in the Dominican Republic's prototype of dollar diplomacy, essentially guaranteed (through collectors) the payment of loans. Governmental officials, in effect, called on bankers to take care of things that they wanted done but had neither the legal capacity nor domestic political support to do.41

Asking investment bankers to fulfill commitments the U.S. government had made under the Monroe Doctrine was, in a way, hardly surprising. Even in the domestic economy, relatively weak government structures often turned to the more powerful business sector to carry out broad public policies. A domestic counterpart to the government's turning to Kuhn, Loeb to secure the Dominican Republic might be its turning to J. P. Morgan to guide domestic economic policy through the panic of 1907.

Throughout 1906 and 1907, financial leaders increasingly worried that excessive speculation, financial abuses, and an inflexible banking and currency system might provoke a crisis in the securities markets. A ten-month decline in stock prices in 1907 broke into a panic when one trust company suspended payments, and runs on other institutions seemed imminent. J. P. Morgan responded by organizing a "rescue party" of major bankers who agreed to supply endangered institutions with enough cash to remain open and quickly raised $38 million to prevent the New York Stock Exchange from closing. In even more daring financial feats, Morgan agreed to underwrite a $30 million bond issue for New York City, allowing it to meet current debts, and saved a major brokerage house by a complex stock-swap. Throughout this crisis, Morgan played the lender-of-last-resort role that the government itself had no means of performing. The Secretary of Treasury backed Morgan's efforts with funds and encouragement, but there was no centralized banking system through which the government itself might work. This awesome display of a private group's power over the nation's economy clashed with the
strong state that many business and government elites increasingly considered necessary for an advanced industrial civilization, and it provoked new agitation to create a central banking system based on some mixture of public and private authority. Such a structure, which could provide currency elasticity and regulate private banks, would be established as the Federal Reserve System in 1913. The professional-managerial discourse, emphasizing the need for stable currency and regulatory procedures, was reshaping the domestic political economy even as it shaped the activities of America's foreign financial advisers and its policy toward the Dominican Republic.

The Roosevelt Corollary and loan-plus-receivership plan for the Dominican Republic, then, were parts of a broader trend of public-private cooperation. This trend gained momentum as the nineteenth-century tradition of limited government confronted twentieth-century aspirations to world power. To establish credibility for the Roosevelt Corollary while avoiding the charge of engaging in territorial imperialism, government officials formed partnerships with bankers and professional economists.

International Precedents for Fiscal Control

Just as domestic developments helped set the stage for Hollander's orchestration of the Dominican loan, so did the international context. British and French financiers had long been extending foreign loans, and both countries had already wrestled with how to reconcile private loans and public policy. Indeed, as Herbert Feis concluded in his study of European international finance between 1870 and 1914: "the official circles of lending countries gradually came to envisage the foreign investments of their citizens, not just as private financial transactions, but as one of the instruments through which national destiny was achieved... Financial force was often used to build political friendship or alliance, was often lent or withheld in accordance with political calculations." The movement toward dollar diplomacy in the United States represented a similar process, beginning a few decades later and therefore with some models and techniques already established.

The relationship between governmental policy and international lenders in Britain during the late nineteenth century bears some similarity to the policies that Roosevelt and Taft envisioned. In theory, the British government tried to treat financial institutions as separate, independent powers rather than subordinate ones, and to maintain a firm line between public policy and private lenders, between politics and markets. When government officials dealt with nonindustrialized, potentially dependent nations, however, this policy toward capital flows seldom prevailed. Informal communication between policymakers and financiers, which often took place in one and the same tightly knit social circle, fostered harmony of action. In relations with dependent areas, "government stepped to the fore, strove with, by, and for British private groups."

In cases of default on private loans, the British government usually moved forcefully and directly, especially if larger strategic interests were involved. In some Latin American states the British ministers or consuls were authorized to act as agents for bond-holders. In 1892 military force was dispatched to Venezuela to expedite collection. In China, Turkey, Greece, and elsewhere the British government helped create international debt administrations to collect revenue and administer payments to creditors. And disturbances following the default in Egypt prompted Britain to seize direct control of governance. This array of responses during the late nineteenth century would have rough analogies in U.S. policy during the early twentieth century. (The U.S. government's actions, however, were seldom in response to default on American loans, which were as yet meager in amount, but taken to forestall difficulties over debts owed to Europeans.)

Egypt provided a case of governmental action by Great Britain to which early-twentieth-century U.S. policymakers often referred admiringly. After carrying out currency reform in the Philippines, for example, Edwin Kemmerer received a government-paid assignment as Special Commissioner to Egypt to make a study of the banking structures that Britain was developing there. Roosevelt himself considered Egypt a model of progressive colonialism. Minister Dawson in the Dominican Republic referred pointedly to the Egyptian precedent. In devising the initial 1905 protocol, he recommended a clause that would open a door "to a real superintendence of all administrative matters... like that of similar clauses in the financial agreements to which the Government of Egypt is a party." Egypt, like the Caribbean states, occupied a strategic position as the gateway to a major canal and thus took on added symbolic importance within world power politics.
In 1876, deeply in debt and fearing foreign intervention, Egypt had accepted a commission composed of representatives of the French, British, Austrian, and Italian governments to control pledged revenues. This commission consolidated and refinanced Egypt's debt, controlled future borrowing, and had jurisdiction over certain revenue sources. French and British controllers supervised the treasury, and foreign commissions managed railways and the port of Alexandria. This extensive foreign administration did not, however, remedy the problems of insolvency and political discontent. In fact, the changes pressed by the foreign agencies only aggravated instabilities by raising continual disputes over authority between Egyptians and foreigners and by fanning popular resentments. When massive anti-foreign demonstrations erupted in Alexandria and Europeans were killed, British military forces seized control.

In 1883 Lord Cromer had become the effective governor of Egypt, and a British financial adviser took over all governmental operations. Despite bitter disputes with French creditors backed by their government, Britain's rule slowly improved Egypt's finances. By World War I, the British administration had eliminated the international receivership (and French influence), reduced the foreign debt, and attracted new investment. To American observers interested in financial rehabilitation, British control had brought the kind of success they wished to achieve within their sphere of interest.67

In the case of the Dominican Republic, however, Egypt might have been as much an example to avoid as one to emulate. U.S. policymakers sought to solve the problem of Dominican insolvency by introducing financial control in order to prevent, not to initiate, military action or colonial takeover. Actually, as happened in Egypt, the policy of financial rehabilitation would end up turning into military occupation and outright governance in the Dominican Republic after 1916, but this had not been Roosevelt's intention. Other nations—Turkey and Greece, for example—exemplified processes more akin to what U.S. policymakers initially envisioned in dollar diplomacy; that is, the benefits of financial control without the burdens of military occupation.

International control over Turkish finance, devised by European powers meeting in Berlin after Turkey's default in 1876, had begun in 1881. In exchange for a reduction of principal and interest on its foreign debt, Turkey accepted a seven-member international Debt Administration that collected all revenues pledged for debt service. As new debts were contracted in the following decades and more and more revenue assigned, the Debt Administration's power grew, and by World War I foreign officials became major power brokers and organizers of Turkey's national life.66 Similarly, in Greece in 1898 a Law of Control had transferred authority over revenues pledged to defaulted loans to a six-member international commission. The commission, in turn, hired a Greek-staffed agency to collect the appropriate excise taxes and customs duties, restricted the Greek government's borrowing capacity, tightened the paper currency system, and revamped financial administration. The Greek government accepted the control reluctantly, but the measures did improve the country's credit rating and borrowing capacity.66 As in Egypt and Turkey, foreign economic administrators seemed the key to economic stability, at least in the short run.

In none of these countries was the United States involved as a principal, but these examples are important to the background of dollar diplomacy. Americans did not invent controlled loans; they only adapted them to the Western hemisphere and then, as their country's economic power grew, elevated the concept into a general approach applicable elsewhere as well. In a broad sense, the United States at the turn of the century was devising policies similar to those of the European powers. From the last quarter of the nineteenth century, concludes Karl Erich Born in his massive history of global investment banking, governments of all capital exporting countries tried “to turn the export of capital to good use in their pursuit of foreign policy objectives,” and “banks in turn wanted their government's political backing for their foreign transactions.”69 The United States, in this period, did not make nearly as full a connection between loans and foreign policy as Europe had done; U.S. government evinced little interest in most loans and had no bond-holders' protective council with which it worked.71 Nevertheless, by developing a category of clearly political loans, the United States was moving in the direction mapped by major imperial nations, even though many citizens persisted in viewing their own country's actions as anti-imperial and its own foreign policies as different from European practices.

Given the context of U.S. investment banking at the turn of the century and the force of European example in other parts of the world, Hollande's formula for rehabilitation in the Dominican Republic hardly seems novel or remarkable. Nonetheless, it was the first of its kind in
U.S. foreign policy, and it is important to elaborate further on the implications of this initial move toward dollar diplomacy.

Fiscal Control through Public-Private Partnership

The Dominican model provided a compromise between the ideal of limited government and the need for structures that would secure and "civilize" the sphere of interest proclaimed in the Roosevelt Corollary to the Monroe Doctrine. The basic formula of dollar diplomacy involved three groups. First were the investment bankers, seeking new bond issues with higher rates of interest and willing to sponsor a loan that both paid off old bonds and added new money for domestic improvements. On the government side were officials who wanted the United States to dominate the area; they promised to establish a receivership that would oversee the fiscal affairs of a bankrupt government and remit regular repayments on the loan. Finally, professionals who had already gained financial experience in U.S. colonies oversaw the financial rehabilitation, including debt renegotiation, more effective revenue collection, and gold-standard currency reform. Of course, cooperation or acquiescence by the foreign government was also required. A foreign government escaped the strategic and economic uncertainties of bankruptcy and expected to solidify its own governing power by uniting with a powerful and capital-rich protector. For all, managerial capitalism provided a framework for action.

This early example of dollar diplomacy was not a case of private interests asking the government to assist them in maintaining or procuring economic favors. In fact, Hollander pointedly criticized the U.S. interests that had been previously involved in loaning and collecting customs in the Dominican Republic. His deal linking Kuhn, Loeb with U.S. government-appointed receivers was partly an effort to replace the U.S. interests which Hollander considered irresponsible and rapacious with more enlightened ones. Indeed, previous U.S. lenders protested that Hollander undervalued their outstanding bonds in the refinancing agreement.22 The original Dominican fiscal protectorate, then, was not a rescue mission for U.S. capitalists already on the island. Like domestic urban progressivism, dollar diplomacy emerged within a rhetoric of reform, replacing graft with efficiency and substituting corrupt interests with government-directed public purpose.

The Roosevelt Corollary and the Dominican Model of 1905

The Dominican deal was the expression of an emerging corporatist order, shaped within the professional-managerial discourse about spreading civilization. The private contract that evolved out of Hollander's negotiation was the culmination of public policy rather than the result of private market negotiations between lenders and borrowers. Without governmental encouragement, the loan would never have happened—a circumstance that alone made the Dominican deal different from the U.S. foreign lending that had historically preceded it. Similarly, U.S. governmental administrators could not have been introduced into the Dominican Republic solely by the State Department's efforts; the involvement of private lenders was a crucial part of the deal. Public and private sectors, then, blurred. The new corporatist order aimed to blend efficient and responsible big business interests with government-led public purpose in ways that would presumably be mutually advantageous.23

Such cooperation did not emerge smoothly, however, whether in dollar diplomacy or in other areas of U.S. life. Partly, the deal raised rivalries among businesses themselves. How, after all, were governmental officials to pick a business partner? And why should other private competitors accept their choice? In the Dominican case, rival investment bankers discovered that Kuhn, Loeb had been handed a bond issue that carried a relatively high rate of interest at little risk, given the unprecedented governmental oversight that virtually guaranteed repayment. Immediately after the closure of the deal, James Speyer of Speyer and Company (which had handled bonds issued by the Cuban protectorate government) protested vigorously, first to the secretary of state and then to the president himself. Speyer claimed not to have been informed of the dealings between Kuhn, Loeb and Hollander and implied that Hollander may have tilted the business to an investment house that contained his friends. Hollander, of course, rejected any suggestion of favoritism and submitted his own history of the loan. According to Hollander, William Salomon and Company, with Speyer as a partner, had a refinancing plan under consideration when Kuhn, Loeb submitted terms that were "astonishingly favorable" to the Dominicans, far better than anything Salomon and Speyer had ever considered.24

The dispute illustrates the ease with which divergent histories of loan negotiations could be constructed and then breed feuds and charges of favoritism within public-private partnerships. It also raised totally new questions within the State Department: how should the government se-
lect investment bankers in future controlled-loan situations? How might officials avoid charges of insider dealing? Under the Taft administration, when dollar diplomacy became an official and highly-touted policy, the State Department would undertake a policy review and try to devise procedures to select banker’s proposals competitively and impartially.

Other dilemmas arose out of corporatist cooperation. What were the implications of the government’s playing a principal role in bringing bankers and bankrupt governments together and in appointing receivership officials to service the debt? By becoming an international bill collector, did the executive branch itself become a servant of private lenders? Was it also obliged to insure economic and political stability in the borrowing countries? Would military obligations follow? As dollar diplomacy expanded during the next two decades, these questions would become more and more troublesome. A Washington Post editorial in 1905 anticipated later critiques in warning that “the proposition that a government has a right to tax its subjects to provide ships of war and fighting men to collect private debts...is so self-evidently wrong that the simplest statement of it exposes its abhorrent character.”

President Roosevelt entered the Dominican relationship with the idea that a receivership would prevent, not be a prelude to, military involvement there. But as policymakers earnestly committed themselves to making the receivership work, they turned the Dominican Republic into a symbol of honor for the United States and the Monroe Doctrine. If the receivership was threatened by debt or disorder, so much prestige was at stake that policymakers had little choice but to bite off more and more of the country’s sovereignty, intervening in ever broader ways to address the problems. Stability in Dominican finance and politics became an overriding test of civilizing virtues.

Another source of friction that first surfaced in the Dominican Republic involved disputes over the powers of the receivership. The convention of 1907 set up a long-term U.S. administrative presence in the offices of the Receiver General and some subordinate employees. William E. Pulliam, previously in the customs service of the Philippines, became the Receiver General, his prior experience highlighting the link between overt colonialism and the newer technique of dollar diplomacy. U.S. officials expected the Dominican government to behave gratefully and subserviently; their belief in the white man’s civilizing mission led policymakers to see themselves as natural organizers of people who were naturally followers. Dominican leaders, for their part, had their own agendas, which included manipulating great powers and foreign economic interests to their own best advantage. Dominicans expected to maintain their sovereignty by restricting foreign decision-making narrowly to the realm of customs collection. Almost immediately, disagreements arose over the boundaries of the power held by Pulliam and his associates. As U.S. officials pressed for wider administrative control in the coming years, these disagreements undermined any harmony in Dominican-United States relations, as they would in other cases of dollar diplomacy.

In the early years of the 1907 agreement, however, the self-confident architects of the Dominican model suppressed the contradictions. To them, the Dominican model seemed to shine as an accomplishment only slightly less remarkable than that of severing the continent across the Isthmus of Panama. If the Panama Canal symbolized their dream of a growing empire of commerce and well-ordered amity, the Dominican model seemed a practical step to the dream’s fulfillment. With U.S. experts controlling the customs houses, they claimed, Dominican revolutionaries could no longer seize a port and use customs revenue to finance a revolt against the central government. Internal disorder initially subsided, as the U.S.-backed government successfully crushed its opponents. Moreover, trade rose steadily and receipts from the Dominican customs houses shot up dramatically. A nation burdened by bankruptcy and default seemed to acquire, through U.S. supervision, the steady habits of thrift and regular payment of bills. U.S. direct investment in the Dominican Republic also soared. Before 1905, such investments had been small, under the umbrella of the receivership, U.S.-owned sugar and transportation interests assumed an ever greater share of productive activity in the Dominican Republic. Advantages to U.S. importers and sugar exporters became embedded in Dominican tax and tariff structures. Legislation such as the Agricultural Concessions Law of 1911 awarded incentives to U.S. sugar producers. Dollar diplomacy here, as in some subsequent cases, spearheaded a broader economic presence that included rising levels of direct U.S. investment and trade.

Although dollar diplomacy would not acquire its name until the Taft administration, the process took shape under Theodore Roosevelt as a way of negotiating two seemingly incompatible trends: a distaste for
colonialism along with a commitment to stabilize and provide manly uplift to the darker-skinned peoples of nations touching the Caribbean. In the Dominican Republic between 1905 and 1907 the United States instituted financial controls without, at first, incurring the burdens or backlash associated with formal colonialism. The Dominican Republic's receivership, fiscal protectorate, or controlled loan (any of these terms were and may be used) represented an attempt by policymakers to find an alternative to colonialism that would still institute the supervision they deemed necessary for fiscal and social reform.

With this Dominican model before them, the new administration of William Howard Taft and his Secretary of State Philander Knox laid plans to extend dollar diplomacy. In 1911, the assassination of the Dominican president touched off mounting discontent and renewed revolution in the Dominican countryside, but President Taft declared that the U.S. action had "cured almost century-old evils." Secretary of State Knox in 1912 proclaimed that the Dominican Republic was "a bright example to all the Americas and to the world."³⁰

3

The Changing Forms of Controlled Loans under Taft and Wilson

From 1909 to 1912, the administration of William Howard Taft turned the idea of financial oversight (as put into practice in the Dominican Republic) into the cornerstone of its foreign policy. Some years earlier Taft had opposed acquisition of the Philippines as a colony, but later he established an impressive reputation as its colonial governor. His close involvement with governance in the protectorates of Panama and Cuba added to his expertise in the management of dependencies. Building from these experiences and from the Dominican success story, Taft promised voters that he would spread stability and progress into critical areas by substituting "dollars for bullets." The policy, called dollar diplomacy, would extend U.S. influence by using bankers rather than Marines.¹

Taft envisioned a very specific process for dollar diplomacy. This included introducing into strategic countries a stable, gold-based currency regulated by a central bank with reserves safely deposited in New York, and using reform of customs collection to guide these governments toward a reliable credit record with steady debt service. Such reforms would be introduced by the extension of U.S. bank loans that were conditional on the borrower's acceptance of U.S. financial advisers. As Taft explained: "The United States has been glad to encourage and support U.S. bankers who were willing to lend a helping hand to the financial rehabilitation of such countries because this financial rehabilitation and the protection of their customhouses from being the prey of would-be dictators would remove at one stroke the menace of foreign creditors and the menace of revolutionary disorder."² In Taft's view, his dollar