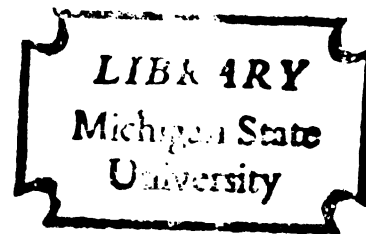


LINING UP LATIN AMERICA:  
THE UNITED STATES ATTEMPTS TO  
BRING ABOUT HEMISPHERIC SOLIDARITY,  
1939-1941

Thesis for the Degree of Ph. D.  
MICHIGAN STATE UNIVERSITY  
ROBERT W. HODGE  
1968



This is to certify that the

thesis entitled

Lining Up Latin America: The United States

Attempts to Bring About Hemispheric Solidarity,  
1939-1941.  
presented by

Robert W. Hodge

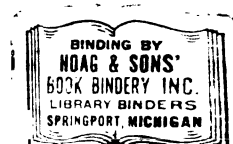
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of the requirements for

Ph.D. degree in History

A handwritten signature in cursive script, reading "Warren L. Cohen".

Major professor

Date 10 June 1968





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ABSTRACT

LINKING UP LATIN AMERICA: THE UNITED STATES' STRATEGY  
TO BRING ABOUT HEMISPHERIC SOLIDARITY  
1939-1941

by Robert W. Dodge

The United States had sought to link up Latin America behind its foreign policy for many years. However, in the late 1930's, when an upsurge of rebellion and aggression threatened the peace of the world, this wish became a practical necessity. Hemispheric solidarity against Axis aggression would help insure the national security of the United States. Consequently, it became an immediate goal of the Roosevelt Administration. The beginning of World War II in September, 1939 accelerated the movement and made it even more vital that the United States succeed. From then until December 7, 1941, the linking up of Latin America was one of the highest priorities of the Roosevelt Administration. The purpose of this thesis is to discuss in detail the various methods the Roosevelt Administration used to encourage the Latin American nations to follow its foreign policy.

ABSTRACT

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The United States had sought to line up Latin America behind its foreign policy for many years. However, in the late 1930's, when an upsurge of totalitarian aggression threatened the peace of the world, this wish became a practical necessity. Hemispheric solidarity against Axis aggression would help insure the national security of the United States. Consequently, it became an immediate goal of the Roosevelt Administration. The beginning of World War II in September, 1939 accelerated the movement and made it even more vital that the United States succeed. From then until December 7, 1941, the lining up of Latin America was one of the highest priorities of the Roosevelt Administration. The purpose of this thesis is to discuss in detail the various methods the Roosevelt Administration used to encourage the Latin American nations to follow its foreign policy.



An introductory chapter discussed the Latin American policies of the United States from 1933 to September, 1939 in three major areas--economic, cultural, and military relations. From then until December 7, 1941, the period was divided up into four chapters that coincided with significant changes in the European War. For example, Chapter II covered United States economic cultural, and military affairs with Latin America during the "Phony War" period. A final chapter attempted to sum up these relations and to come to some conclusions on the successes and failures of the Roosevelt Administration's Latin American policy.

The most significant materials used in preparing this thesis were the Franklin D. Roosevelt Papers and the Morgenthau Diaries located in the Franklin D. Roosevelt Library, Hyde Park, New York. The published Foreign Relations of the United States, 1933-1942, were also of great importance. Many secondary works, including both books and periodicals, were consulted in addition.

Probably the most significant finding of the study was that domestic vested interest groups often were able to put enough political pressure on the Roosevelt Administration either to delay or prevent needed changes in policy. One of the most powerful of these groups was the Foreign Bondholder's Protective Council.

Latin American Military Bases.



Because of F.B.P.C. opposition the Roosevelt Administration tied needed Export-Import Bank loans to Latin America with the settlement of private debt defaults. This policy finally was changed but not until after a long, hard struggle. Other vested interest groups such as the oil companies and the cattlemen also played significant roles in tempering the wishes of the Roosevelt Administration.

Other findings in economic affairs dealt with such problems as the continued conservatism of the Export-Import Bank, the Administration's failure to carry out such important innovations as the Cartel and the Inter-American Bank in the critical summer of 1940, and the Administration's general success in the preclusive buying agreements that helped to alleviate Latin American economic problems during 1941.

In cultural relations everything else was overshadowed by the formation of the Office of the Coordinator of Inter-American Affairs and the innovations it carried out under the leadership of Nelson Rockefeller.

Military relations were highlighted by the successful use of Pan American Airways as the stalking horse to get rid of Axis-owned or controlled airlines in South America. Other major military problems included the supplying of arms to Latin America and the using of Latin American military bases.

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LINING UP LATIN AMERICA: THE UNITED STATES ATTEMPTS

TO BRING ABOUT HEMISPHERIC SOLIDARITY,

This thesis has been accepted in partial fulfillment of the requirements for the degree of Doctor of Philosophy in the Graduate School of Michigan State University.

By

Date \_\_\_\_\_  
Robert W. Hodge

Dean, Graduate School

Chairman

A THESIS

Submitted to  
Michigan State University  
in partial fulfillment of the requirements  
for the degree of

DOCTOR OF PHILOSOPHY

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ACK ACCEPTANCE

This thesis has been accepted in partial fulfillment of the requirements for the Degree of Doctor of Philosophy in the Graduate School of Michigan State University.

Casperland, and Dr. James Hooker for their

furthering my graduate career. Dr. Hooker

Date \_\_\_\_\_

initial suggestion for the thesis work and for his

many valuable recommendations on every draft.

Dr. Cohen, my major adviser, \_\_\_\_\_

Dean, Graduate School

encouragement and advice, without which this thesis

never would have been finished. \_\_\_\_\_

Chairman

Both my wife and my mother spent weeks of time

reading and typing. Their criticisms and suggestions

abilities certainly improved the final copy. \_\_\_\_\_

Member

I am particularly indebted to my parents,

Mr. and Mrs. Kenneth F. Hodge, for their faith in my

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Special thanks also go to my final-draft typists

Mrs. Karen Dileworth and Mrs. Clara Williams for their

hard work and interest that everything be done right.



### ACKNOWLEDGMENTS

I especially want to thank the three members of my doctoral committee, Dr. Warren Cohen, Dr. Charles Cumberland, and Dr. James Hooker for their part in furthering my graduate career. Dr. Cumberland made the initial suggestion for the thesis topic and also made many valuable recommendations on style and content. Dr. Cohen, my major adviser, was a source of constant encouragement and advice, without which this thesis never would have been finished.

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### INTRODUCTION

On the night of the Pearl Harbor attack with reports of the disaster still coming in, Franklin D. Roosevelt ordered Secretary of State, Cordell Hull to keep Latin America informed and "in line with us."<sup>1</sup> The problem of "lining up Latin America" had long been a major concern of the United States. From the beginning of Roosevelt's regime in 1933, when the Good Neighbor Policy was first promised, until his death in 1945, the United States and especially Roosevelt tried to bring about a closer relationship with Latin America.

At first this new policy toward Latin America had been based on a repudiation of the dollar diplomacy and military intervention of the past. The United States wished to rebuild inter-American trade and friendship; thus the Good Neighbor Policy was based on the principles of equality and partnership as well as United States support of the sovereignty and territorial integrity of the Latin American nations.

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<sup>1</sup>Lloyd C. Gardner, Economic Aspects of New Deal Diplomacy (Madison: University of Wisconsin Press, 1964), p. 131.

<sup>2</sup>Supper-Walker, The Ties For Deciding New Deal (New York, 1944), p. 204; Cordell Hull, Public Papers, Vol. 28 (February 1943), pp. 81-82.





This remained the essence of the Good Neighbor Policy. But, by the mid-1930's with the world threatened by an upsurge of totalitarian aggression, the United States sought to insulate itself from Old World danger through a series of neutrality laws. At the same time, Roosevelt showed his concern for Latin America by taking the initiative in calling and attending the Inter-American Conference for the Maintenance of Peace which was held in Buenos Aires in December, 1936. Nations would support its foreign

policy. By the early winter of 1936 Roosevelt was well aware of the dangers of world peace. From that time on he was concerned with the strengthening of inter-American relations in order to diminish the Axis threat to the hemisphere.<sup>2</sup> Commercial contacts. There was also a new

interest. From 1936 to the outbreak of World War II in September, 1939, the Roosevelt administration continued to covet Latin American friendship and support. This support was a two way street--for the United States recognized that any defense of the United States had to begin with hemispheric defense. This was a popular policy for nearly all citizens of the United States. Even the most

states, whatever the United States did in this critical

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<sup>2</sup> Sumner Welles, The Time For Decision (New York: Harper Brothers, 1944), p. 204; Cordell Hull, The Memoirs of Cordell Hull (New York: Macmillan, 1948), I, p. 495. Anyone using Hull's Memoirs should read the review article by Arthur P. Whitaker in the Hispanic American Historical Review, Vol. 28 (February 1949), pp. 81-93.





rabid isolationists agreed that the whole Western Hemisphere had to be protected from Axis aggression because any weak spots could serve as Axis jumping off points in attacks on the United States. However, it is first necessary. With the actual outbreak of war in Europe the most critical period of United States-Latin American relations began. From September, 1939 until December 7, 1941 the United States had, as a primary concern, to make sure that the Latin American nations would support its foreign policy. In order to bring this about the United States tried to influence Latin America in nearly every way possible. These attempts included the use of conventional diplomatic and political relations and sophisticated economic and commercial contacts. There was also a new interest in cultural bonds, and an increasing concern for adequate military and defense measures.

The United States was seldom totally successful in getting the individual Latin American countries to do exactly as it wished. Yet the attempts to bring about consensus and cooperation were for the most part in the best interest of all the Latin American countries. Of course, whatever the United States did in this critical period was to safeguard its own national security and interests. When these interests coincided with Latin American concerns, constructive plans and policies resulted.

It is the purpose of this dissertation to discuss in detail United States attempts to get Latin America to follow its foreign policy in the critical years from September, 1939 to December 7, 1941. However, it is first necessary to show how the early years of the Good Neighbor Policy developed.

For the first three decades of the 20th century United States relations with Latin America were generally deteriorating. Yankee dollar diplomacy and political intervention were the major irritants. The perils of these relations occurred at the regularly scheduled Inter-American Havana Conference in 1938 when the United States rejected the idea that "no state has a right to interfere in the internal affairs of another." A strong bloc of the twenty Latin American countries voted against the United States. In the words of a later expert on Latin America this was "one of the worst diplomatic defeats ever suffered by the United States at an important international conference."<sup>1</sup>

After the debacle at Havana the Hoover Administration did make some changes in the Latin American policy of the United States, but when Franklin D. Roosevelt was elected President no permanent improvements in relations

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<sup>1</sup> Laurence Duggan, The Americas: The Search for Hemisphere Security (New York: W.W.N., 1945), p. 32.



## CHAPTER I

### THE GOOD NEIGHBOR POLICY 1933-1939

For the first three decades of the 20th century United States relations with Latin America were generally deteriorating. Yankee dollar diplomacy and military intervention were the major irritants. The perigee in these relations occurred at the regularly scheduled Inter-American Havana Conference in 1928 when the United States rejected the idea that "no state has a right to intervene in the internal affairs of another." Sixteen out of the twenty Latin American countries voted against the United States. In the words of a later expert on Latin America this was "one of the worst diplomatic defeats ever suffered by the United States at an important international conference."<sup>1</sup>

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<sup>1</sup>Laurence Duggan, The Americas: The Search for Hemisphere Security (New York: Holt, 1949), p. 52.



had occurred. Roosevelt in his famous inaugural address in 1933 spoke of following a general policy of the Good Neighbor in international relations. Soon Roosevelt narrowed this all-encompassing Good Neighbor Policy and applied it specifically to Latin America. This was done in April, 1933 in his first Pan American Day address.

Roosevelt advanced the Good Neighbor Policy, but it was Sumner Welles who worked out its details. It was his idea that the United States had to recognize the juridical equality of all states before a true partnership of the hemisphere could be formed. Since the policy of unilateral intervention was the antithesis of equality, the surrender of this so-called right was what the Good Neighbor Policy was based on.<sup>2</sup>

In a memorandum early in 1933, Welles suggested to Roosevelt that, although the Monroe Doctrine was considered a doctrine of self-defense for the United States, it was also vital to all the other American Republics. Therefore, why not make the Monroe Doctrine a doctrine of continental self-defense with each nation taking part in proportion to its own strength. The new partnership would then consult on matters of joint interest and carry out

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<sup>2</sup>Ibid., p. 61. *Isenbach (ed.), The Evolution of Our Latin American Policy: A Documentary Record* (New York: Columbia University Press, 1950), p. 164.

<sup>3</sup>Ibid.

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plans by joint action.<sup>3</sup> This was a fond hope at first, but the essence of it became an aim of the Good Neighbor Policy. Yet in 1933, despite professions of turning over a new leaf, Latin America remained unconvinced.

With the Inter-American Montevideo Conference meeting in December, 1933, the United States got its chance to repudiate formally the position that it had supported in 1928 at Havana. Cordell Hull in an address at this Seventh International Conference of American States said:

The people of my country strongly feel that the so-called right of conquest must forever be banished from this hemisphere and, most of all, they shun and reject that so-called right for themselves. The New Deal would be an empty boast if it did not mean that.<sup>4</sup>

Soon afterwards Roosevelt echoed this statement by saying "the definite policy of the United States from now on is one opposed to armed intervention."<sup>5</sup> These actions promised a new direction in United States foreign policy but meant nothing until they could be tested. Still, the conference was considered a huge success both by Latin Americans and by the United States. The road to good

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<sup>3</sup>Donald Dozer, Are We Good Neighbors? : Three Decades of Inter-American Relations 1930-1960 (Gainesville: University of Florida Press, 1959), p. 39.

<sup>4</sup>James W. Gantenbein (ed.), The Evolution of Our Latin American Policy: A Documentary Record (New York: Columbia University Press, 1950), p. 164.

<sup>5</sup>Ibid.



relations was going to be a long one, but the Montevideo Conference had at least marked a start.

In the next four years a number of significant events occurred that appeared to back up Roosevelt's contention that Latin America had nothing to fear from United States foreign policy: (1) the Platt Amendment with Cuba was abrogated; (2) United States troops were evacuated from Haiti; (3) a treaty over the Panama Canal was signed that was favorable to Panama; (4) the United States cooperated in furthering a peaceful solution to the Chaco War; (5) the Hull Reciprocal Trade Program lowered tariffs; (6) bilateral trade agreements were signed with a number of Latin American nations; (7) the United States voluntarily gave up its 19th century treaty right of free transit across the Isthmus of Tehuantepec in Mexico; (8) and the United States abandoned the policy of non-recognition of revolutionary governments thus ending the policy of protecting the "ins."<sup>6</sup>

However, these actions were only one side of the problem, and they tended to obscure the shortcomings of the Good Neighbor Policy in its early years. One example stands out, and that is that political achievements were not often matched in the economic field. By the time

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<sup>6</sup>Dozer, p. 20; Duggan, p. 65; Gantenbein, pp. 167-168.

Latin American fear of United States domination had diminished, the United States had become preoccupied with inter-American action to build up hemispheric security and was not as interested in economic problems. Also, the Good Neighbor Policy was not widely supported by the people of the United States. Many domestic pressure groups were at odds with government wishes to end economic nationalism. For example, domestic copper producers supported by the mining lobby of senators from the West complained that low cost Chilean copper would hurt them. The same kind of pressure was found among petroleum and sugar producers as well as cattlemen. Even within the government itself there were few high officials outside of Sumner Welles and Henry Wallace who were interested in adding to the Good Neighbor Policy. Ironically, few of our diplomatic and consular officials in Latin America wholeheartedly backed innovations in the Good Neighbor Policy.<sup>7</sup> Apparently many were affected by the common governmental malady of being afraid to "rock the boat." Even the Hull Trade Program proved to be relatively weak in the face of the Nazi and Fascist revolutionary barter trade tactics.<sup>8</sup>

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<sup>7</sup> Duggan, The Americas, p. 75.

<sup>8</sup> J. P. Humphrey, The Inter-American System: A Canadian View (Toronto: Macmillan, 1942), p. 121.

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By early 1936 though, the Roosevelt Administration was convinced that the Good Neighbor Policy was helping to change Latin American opinion of the United States. This belief, combined with the end of the Chaco War and rearmament in Europe and Asia, made Roosevelt feel that the time was ripe for the United States to call an extraordinary inter-American conference for the purpose of determining the best way peace could be maintained in the Western Hemisphere. This, he believed, also would advance the cause of world peace.<sup>9</sup>

During the time between Roosevelt's call for the conference on January 30, 1936 until it met in December, 1936 world wide threats to the peace were piling up. In March, Hitler occupied and fortified the Rhineland, and Japan refused to adhere to the London Naval Treaty thus marking the end of naval limitation. In May, Italy completed the conquest of Ethiopia which it had begun the previous October in defiance of the League. In July, the Spanish Civil War began. It soon served as a testing ground and preview for World War II since leading European powers chose up sides and supported their choice with arms, equipment, and even men. On November 25, just before the

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<sup>9</sup>President Roosevelt to President of Argentina, January 30, 1936 in Department of State, Foreign Relations of the United States, 1936 (Washington: Government Printing Office, 1954), V, pp. 3-5.



Buenos Aires Conference met, Japan and Germany announced the Anti-Comintern Pact which was the first overt indication of their common designs in foreign policy. All these things made Roosevelt look like a prophet and enhanced the chances for success of the conference, as did his strictly confidential April 30 instruction to United States diplomats in Latin America that they were not to become involved in internal political affairs either by expressing opinions or by giving suggestions.<sup>10</sup>

Roosevelt used his political acumen in many ways both in bringing about the Buenos Aires Conference and in actions at the Conference itself. In the original proposal calling for the conference, he mentioned both dangers to peace originating outside and inside the hemisphere. If he had mentioned only threats to peace from outside the hemisphere, some Latin American countries would have feared that he was attempting to drag them into European or Asian Wars. Politically, Roosevelt had scored another point in 1936 when he was able to exempt Latin America from parts of the United States neutrality legislation. This showed that Latin America was a special, preferred case to the United States. Also, Roosevelt's advocacy of Buenos Aires as the the American Republics if the peace of the hemisphere was

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<sup>10</sup> Secretary of State to Minister in El Salvador, August 13, 1937, in Foreign Relations of the United States, 1937 (Washington: Government Printing Office, 1955), V, p. 525.





site for the conference was dictated by politics. Since the Argentines were traditionally opposed to United States influence in South America, flattering them by asking their president to call the conference in Buenos Aires practically guaranteed their support. Then, Roosevelt sent the highest ranking officials of the United States to the conference including himself, Secretary of State, Hull, and Assistant Secretary of State for Latin American Affairs, Sumner Welles.

Secretary Hull also showed great political ability in creating a climate of friendship and trust, especially with Argentina's Foreign Secretary Saavedra Lamas. His method, that of declining the nomination for the Nobel Peace Prize and instead nominating Saavedra Lamas himself, may have been unethical and was certainly tinged with political implications. Yet, it undoubtedly helped the United States position at Buenos Aires.

Despite the great political offensive, the United States certainly did not get all it wanted at Buenos Aires. The major wish of the United States was that a permanent Inter-American Consultative Committee be set up to provide for compulsory consultation among the foreign ministers of the American Republics if the peace of the hemisphere was threatened. When Saavedra Lamas of Argentina opposed the plan, as going too far, the United States gave in thinking



unanimity was necessary if the conference was to be a success. Thus, the resolution was watered down and the plan for the permanent Inter-American Consultative Committee was dropped. Nevertheless, the American Republics did agree to consult, "if they so desire," if a threat to the peace of the hemisphere occurred. As a result, the groundwork was laid for meeting threats to peace in the Western Hemisphere. It was certainly a victory for the United States that the Latin American nations recognized that a threat to one of them affected the security of all of them. While Secretary Hull and many Americans were disappointed because the United States did not get exactly what it wanted, Assistant Secretary Sumner Welles said in retrospect that this conference was "the most important inter-American gathering" that ever took place. This was because "on its foundation there has since been erected the whole structure of the inter-American system, which preserved the unity of the hemisphere at the outbreak of the Second World War."<sup>11</sup>

One other precedent of the conference became increasingly important in the next few years. This was

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<sup>11</sup>Duggan, *The Americas*, pp. 71-72; Hull, pp. 497-502; Welles, pp. 206-208. For the view that in the early years of the Roosevelt Administration the Good Neighbor Policy was only an expression of modified isolationism, see William L. Langer, "Political Problems for a Coalition," *Foreign Affairs* (October, 1947), p. 75.



the consistent wish of the Roosevelt Administration that the unanimity of inter-American actions be preserved in order to prevent dissension. In the later Inter-American Conferences at Lima in 1938, Panama in 1939, Havana in 1940, and Rio de Janeiro in early 1942, this often resulted in compromises from the strong positions taken by the United States and some of the Latin American countries. This facilitated solutions but made meaningful negotiations more difficult.

It was apparent by early 1937 that the Good Neighbor Policy was making headway in Latin America. The reasonable United States attitude shown at the Montevideo and Buenos Aires Conferences and the dynamic personal leadership of Roosevelt both in his liberal domestic programs and in foreign relations persuaded many Latin Americans that fear and distrust of the United States could be tempered if not forgotten. What was especially fortunate for the United States, in light of later events, was the fact that this new opinion of the United States was coming about before increased inter-American solidarity was necessary for defense. This meant that the United States could not legitimately be criticized for changing its foreign policy only when it was threatened itself and therefore needed Latin American friendship and support.





There is no doubt that by 1937 the Good Neighbor Policy was to be the permanent policy of the Roosevelt Administration. Roosevelt had been overwhelmingly re-elected in November, 1936, mainly on the basis of the accomplishments of his Administration's first four years in office. The United States had given up military intervention in Latin America, yet no major crisis threatened the new position. Trade had increased by 236% since 1933. This was a significant increase although trade would have to improve much more just to reach its predepression high-point.<sup>12</sup> Still, much of the substance of the later Good Neighbor Policy was either in its infancy or had not even been thought of by 1937. New concepts in cultural, Latin military, economic, and diplomatic relations would not be implemented until the threat of the Axis made them necessary. future. Also in May, the new Neutrality Act exempted

While both Europe and Asia were heating up in early 1937, Roosevelt was forced to react to the first real test of the United States policy of the Good Neighbor. This happened on March 13, 1937 when the Bolivian Government later but cordial relations January 27, 1942 when Bolivia agreed to pay to Standard Oil about \$15,000,000 less than the company was owed in Bolivia January 26, 1942. In Paraguay Printing Office, 1963), V, pp. 597-82.

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<sup>12</sup> August C. Miller Jr., "The New State Department," Gardner, p. 61.



to immediate diplomatic and perhaps economic pressure to restore the company's property. In this case the United States government said Bolivia had the right to expropriate the property as long as compensation was forthcoming, thus upholding the spirit of the Good Neighbor.<sup>13</sup>

In May, 1937, two small moves were made that reflected the Good Neighbor spirit as well as the increased importance of Latin America to the United States. First, the United States merged the Division of Latin American Affairs and the Division of Mexican Affairs into a new Division of the American Republics. This meant that the new Chief of the Division of American Republics, Laurence Duggan, would be in charge of relations with all the Latin American states and all inter-American organizations. Hopefully, this would lead to better coordination of policy in the future. Also in May, the new Neutrality Act exempted Latin America from its provisions as had the 1936 Act.<sup>14</sup>

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<sup>13</sup>This is not to say pressures were not put on the Bolivian Government later, but cordial relations continued throughout the protracted negotiations until January 27, 1942 when Bolivia agreed to pay the Standard Oil Company \$1,500,000 plus interest from the date of seizure. This was about \$15,500,000 less than the company wanted on the basis of their overinflated valuation. See Hull to Chargé in Bolivia, January 26, 1942, in Foreign Relations of the United States, 1942 (Washington: Government Printing Office, 1963), V, pp. 587-88.

<sup>14</sup>August C. Miller Jr., "The New State Department," American Journal of International Law (July, 1939), p. 509.



This continued the policy of favoring Latin American nations over most of the rest of the world in defense matters. In July, following the Marco Polo Bridge incident, Japan began an undeclared war with China. The United States quickly offered its good offices in the hope of ending the conflict, but the war went on with Japan victorious on all fronts. This further alerted the United States to the deterioration in international affairs and was a spur to increased interest in Latin America.

Interestingly enough the next United States move was an attempt at defense cooperation with a Latin American state, and it had to be called off because of outside pressure from a very unlikely source, at least in light of later events. In early August 1937, Brazil asked the United States for six decommissioned destroyers for training purposes until her own vessels were constructed. Argentina opposed the move as a threat to the balance of power in southern South America. However, it was the British opposition to this move that carried the decisive weight. Britain opposed the move ostensibly as a violation of the spirit of the Washington Treaty of 1922 and the London Naval Treaty of 1936. They said that despite the professed aim of using the ships only for training purposes, they still would have "fighting qualities and





potentialities." The whole idea bothered the British, for they feared if the practice became general "the whole balance of naval power might be upset and it might become impossible to calculate the effective strength of the fleet of any given country." By mid-September the United States dropped the project.<sup>15</sup> This was unfortunate because action at this time would have set a precedent and made the later task of giving military aid both to Latin America and Britain much easier.

Soon afterwards Roosevelt hinted at a possible change in foreign policy. His "Quarantine the Aggressors" speech of October 5, 1937 was a sensation. But its very success took him by surprise because he had no plan to implement it. This forced him to revert to a more traditional stance in Asian affairs. Yet, in Latin American affairs the State Department began to make it known that the Western Hemisphere was the first line of defense for the United States. This meant that the United States was willing and, in fact, planning to assume the major burden of hemispheric defense. The problem was to avoid offending the Latin Americans through unilateral action, while insuring that no Latin American nation would fall under Nazi domination or control. If the latter aim was

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<sup>15</sup> Foreign Relations, 1937, V, pp. 149-173, passim.



successful there would be no need for any unilateral action which certainly would undermine much of the successes of the Good Neighbor Policy. <sup>16</sup> The State Department

More proof that the world was heading for further trouble became apparent in November and December, 1937. In November, the nineteen nation Brussels Conference on peaceful means to end the Japanese-Chinese conflict failed when Japan refused to participate. In the same month Italy joined Germany and Japan in the Anti-Comintern Pact. On December 12, Japanese airplanes bombed and strafed the United States gunboat Panay in Chinese waters killing and wounding many sailors in the process. Yet, the crisis was only temporary as Japan quickly apologized and promised financial compensation. <sup>17</sup> the Roosevelt Administration spent

In late December there were evidences that the major concern of the United States was with areas much closer to its boundaries. On December 22, the Colombian Minister to the United States informed Sumner Welles that a so-called Japanese trade mission had come to Colombia and that it was in close touch with a number of German nationals who resided in the part of Colombia closest to Panama. He asked if the United States would be interested in a joint surveillance of the groups in question. The next day, President Roosevelt agreed and stated that the United States wanted to begin conversations which "should



include also the possibility of exchange of information in relation to certain other nationals in the Republic of Colombia near the Panama border."<sup>16</sup> The State Department obviously felt that the Panama Canal was threatened by possible hostile actions of foreign nationals based in Colombia. Yet, it dragged its heels for well over a year before beginning a campaign, with the knowledge and support of the Colombian government, to root out the biggest Axis threat in Colombia, that of German control of commercial aviation. Despite this slow start, United States attempts to eliminate Axis influence or control over Latin American commercial aviation were to become priorities of the first dimension after September, 1939. From then until after the attack on Pearl Harbor, the Roosevelt Administration spent much time and money on plans to end this danger.

The events of 1937 did alert the United States to possible changes in its military posture, although it took a long time to implement these changes. For example, at the beginning of 1937 the Army conceived its mission to be confined to the defense of United States territory against external attack. It planned only to maintain a sufficient peacetime force that could be rapidly expanded

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<sup>16</sup> Welles to Roosevelt, December 22, 1937, ibid., pp. 438-39; Memo by Roosevelt to Welles, December 23, 1937, ibid., p. 439.

ibid., p. 411.





in an emergency. The war plans did not even consider the possibility of war with the European dictatorships. Until Roosevelt's Quarantine Speech in October, 1937, the "avowed policy of the Roosevelt administration came near to being one of peace at any price, unless the United States was directly attacked."<sup>17</sup> From late 1937 onward, President Roosevelt and Secretary of State Hull both saw the basic threat to security to be the increasing probability that Germany, working with Japan, might dominate the Eastern Hemisphere, thus wrecking the British Commonwealth of Nations. With the British and her supporters out of the way, they would "almost inevitably threaten the Western Hemisphere with military attack and conquest."<sup>18</sup> Events in 1938 were to fortify this view. of this, they were

On January 10, 1938 the Department of State took the initiative in calling an informal interdepartmental conference. This conference was summoned because of governmental alarm at the increasing volume of German and Italian military activity in Latin America. This increased Axis activity contrasted strongly with United States military cooperation with the Latin American nations. For

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<sup>17</sup> Stetson Conn and Byron Fairchild, The Framework of Hemisphere Defense (Washington: Government Printing Office, 1960), a volume of United States Army in World War II, ed. Kent Roberts Greenfield, pp. 3-4.

<sup>18</sup> Ibid., p. 411.

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example, in early 1938 the United States Army had relatively little contact with the Latin American armed forces. Only six military attachés and two military missions were accredited to the twenty governments in Latin America. The main reasons for this apparent lack of interest were found in the Army's defense plans and in its political orders from the State Department. In the first place, Army planners considered the mission of the armed forces to be one of continental and territorial defense of the United States. This was to remain the Army role until late in 1938 when an extraordinary conference broadened the Army's defense role. Secondly, the Army was forced to follow the political aspirations of the Good Neighbor Policy. Because of this, they were ordered to avoid anything that might be termed an interference in Latin American military affairs for fear of inflaming the public's memories of previous intervention policies.

Because of these limitations the January 10 conference was not particularly innovative. The conferees discussed methods of providing greater military assistance to the other American Republics, but the best suggestions that came up were only to train additional Latin American students in American service schools, to make more frequent visits of naval vessels and aircraft flights to Latin

America, and to provide military libraries in Latin America with Army and Navy publications. A month later, the State Department further recommended that more military and naval attachés, and for the first time, air attachés, be appointed to Latin American capitals.<sup>19</sup>

The Roosevelt Administration won a notable, if limited, political victory on January 10 when the long debated Ludlow Amendment was defeated in the House of Representatives. This amendment, if passed, would have required a popular referendum before the United States could declare war except in case of direct attack. The bill was the darling of the isolationists and had been fought long and hard by the Roosevelt Administration. Yet, the attitude of both the Congress and the country was reflected in the final decision which rejected the amendment by only twenty-one votes.

Within one week in March the United States was confronted with both a European problem and a hemispheric dilemma. On March 11, Hitler achieved his Anschluss with Austria much to the chagrin of Britain and France. However, they still thought the proper way to avoid war was through appeasement. Consequently, Hitler's action had little immediate effect. To the State Department Hitler's

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<sup>19</sup> *Ibid.*, p. 173.

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action was just one in a series of events that was slowly alerting the country to the German dangers. That the dilemma that confronted the United States Government was brought about on March 18, 1938 when Mexico expropriated foreign oil properties. Since most foreign properties were owned either by United States or British citizens great political pressures were put on these two governments to force the return of the properties. For the United States this, of course, would have required breaking the pledge of nonintervention made at Montevideo in 1933 thus violating the Good Neighbor Policy. The United States press was hostile to Mexico, and the United States oil companies immediately began a propaganda campaign designed to force action. Yet, Roosevelt resisted domestic pressures to intervene although he did allow the Government to suspend temporarily its monthly silver purchase arrangement with Mexico. The world price quickly dropped two cents, and soon afterwards the United States resumed open market purchases probably because many Mexican silver mines were owned by its citizens.<sup>20</sup>

There is little doubt that the Roosevelt Administration would have liked to see the Mexican Government

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<sup>20</sup> Duggan, *The Americas*, pp. 68-69; Gardner, p. 116; Edward O. Guerrant, *Roosevelt's Good Neighbor Policy* (Albuquerque: University of New Mexico Press, 1950), p. 114.



back down and restore the companies' properties. Nevertheless, Roosevelt and the State Department agreed that Mexico had the right to expropriate providing just compensation was forthcoming. The question of compensation was the most difficult of all to solve. The companies wanted prospective profits on oil still in the ground given to them as part of any settlement while the Mexican government cleverly valued the companies' properties on the basis of previous taxes paid. Since the companies had undervalued their properties for tax purposes, the two sides were many millions of dollars apart. No settlement was possible in 1938, but it was also apparent in that year that the Roosevelt Administration was going to uphold the Good Neighbor Policy despite tremendous domestic political pressure to take overt action against Mexico. The oil question was constantly recurring and was a blot on relations with Mexico. After war began in Europe it became especially important to solve this problem in order to help insure hemispheric solidarity.

A significant military defense action was taken on April 4, 1938 when President Roosevelt gave his approval to the formation of a Standing Liaison Committee. This committee, which consisted of the Under-Secretary of State, the Chief of Staff, and the Chief of Naval Operations, was originally supposed to coordinate all diplomatic and



military problems between the State Department and the Army and Navy. However, once the committee began meeting in June, 1938, it became concerned principally with Latin American military problems. The committee was needed especially in order to carry on confidential discussions affecting the State, War, and Navy Departments, but Roosevelt played down the committee's importance to the public by claiming it was a "routine matter."<sup>21</sup>

After the January 10, 1938 interdepartmental meeting, concern about Axis military penetration in Latin America caused the War Department to make a separate study on how to expand and improve military relations with Latin America. In April, the Army's own Military Intelligence Division recommended a more extensive range of activities than the State Department had suggested. This was approved by the Chief of Staff in mid-May, but in reality the Army's program did not go very far beyond the State Department's program except for two ideas that were to take years to implement fully. These new ideas were the backing of United States owned commercial aviation interests in Latin America, meaning Pan American Airways, and the active ~~by local stations in Latin America. The report concluded~~

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<sup>21</sup>Conn and Fairchild, *The Framework* . . . , p. 174; Roosevelt to Cordell Hull, April 4, 1938 in Elliott Roosevelt (ed.), *F. D. R. : His Personal Letters, 1928-1945* (New York: Duell, Sloan, and Pearce, 1950), p. 770.

*Conn and Fairchild, The Framework* . . . , p. 174.





promotion of the sale of munitions to Latin America.<sup>22</sup> These two ideas were of great importance especially in the attempts after September, 1939 to line-up Latin America. Both however were extremely difficult to carry out. A less important concern of the United States in April 1938 had to do with deficiencies in propaganda broadcasts to Latin America. In mid-April the Ambassador to England, Joseph Kennedy, wrote Roosevelt that, according to a comprehensive report he had seen, Germany and Italy were making great strides in international broadcasting to Latin America. Consequently, he felt that foreign representatives of the United States, both governmental and business, ought to become more "radio conscious." At the end of the month Roosevelt received a report from a special "Interdepartmental Committee to study International Broadcasting." The report recommended governmental and private radio cooperation particularly until a government station could be put into operation. It also mentioned that only about 1% of Latin American radio sets could pick up international shortwave broadcasts. Therefore it would be necessary to arrange for the re-broadcasting of programs by local stations in Latin America. The report concluded on the ominous note that "so far, only Germany has made transmission to Latin America had died in committee--one in early 1937 and the other in early 1938."

<sup>22</sup> Conn and Fairchild, The Framework . . . , p. 174.





substantial progress in this direction." Consequently, Roosevelt was well aware of German inroads in broadcasting when he replied to Kennedy on April 30. Yet the best Roosevelt could do was to promise that the United States would not be "left behind," while he complained that European nations had an advantage over the United States because their radio stations were government owned. In the following month there was much discussion in governmental circles on whether the United States should set up a government short wave broadcasting station to counter German stations.<sup>23</sup> Nothing concrete was done however as this issue was not a high priority. The interdepartmental committee which made the report on Axis broadcasting was retained by the State Department. It was asked to draw up a program of co-operative action with the Latin American republics in "social, economic, scientific, cultural and related

fields." In May this newly named "Interdepartmental Committee on Cooperation with the American Republics" was set up in response to Roosevelt's February, 1938 request for a committee to study the situation. See Duggan, p. 81 and Charles A. Thomson and Walter S. C. Brown, *Cultural Relations and United States Foreign Policy* (Bloomington: Indiana University Press, 1958), p. 100. <sup>23</sup> Joseph Kennedy to Roosevelt, April 14, 1938 in Official File 3093, Franklin Roosevelt Papers, Hyde Park, New York; Frank R. McNinch to Roosevelt, April 28, 1938, *ibid.*; Roosevelt to Kennedy, April 30, 1938, *ibid.* Two bills to set up a Government broadcasting station for transmission to Latin America had died in committee—one in early 1937 and the other in early 1938. See Duggan above.

met for the first time.<sup>24</sup> Under-Secretary of State, Sumner Welles headed this committee which linked together thirteen government agencies. What the committee meant by "cooperation" was that whenever possible both the United States and the Latin American countries were to contribute to the support of individual projects. It was felt that this would lead to success because all the countries involved would have a stake in the outcome. These projects were mainly those of technical cooperation such as agricultural research, exchange of specialized information, and exchange of materials such as technical books.<sup>25</sup>

A further effort occurred on July 28, 1938 when the Department of State created a subsidiary Division of Cultural Relations. The primary objective of this Division was to improve cultural relations and intellectual cooperation between the United States and Latin America with

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<sup>24</sup> Apparently this was an outgrowth of President Roosevelt's February, 1938 request for a committee to discover ways to oppose Axis influence in Latin America. See Duggan, p. 81 and Charles A. Thomson and Walter H. C. Laves, Cultural Relations and United States Foreign Policy (Bloomington: Indiana University Press, 1963), p. 36.

<sup>25</sup> Thomas and Laves, pp. 27, 36-37; Duggan, p. 81. In November, 1938 the Committee gave its recommendations to Roosevelt. Apparently he was impressed because he immediately recommended that Congress put the program into effect. Despite this plea it took until 1940 for Congress to vote a paltry \$120,500 to begin the projects. See Duggan above.



special emphasis on the contribution of education, science and the arts to foreign relations. It hoped to combine the support of both government and private agencies in carrying out its plans.<sup>26</sup> These were small beginnings but at least a start had been made in getting the United States more involved in Latin American cultural and social relations. States Government took direct actions in cul-

tural re These two government agencies were rather tardy outgrowths of recommendations passed at a number of Pan American conferences calling for closer cooperation and interchange in the arts, science and education. But until 1938, the United States Government had not taken any responsibility in cultural relations except casually to encourage private efforts to increase cultural activities as one phase of peaceful cooperation between nations.

That these cultural projects were small scale is certainly pointed out by the amount of money originally appropriated for their use. For 1938-1939 the Inter-Departmental Committee was allotted \$170,500 and the Division of Cultural Relations \$28,000 mainly for salaries. Mental action depending on whether they were following the Government's foreign policy.<sup>27</sup>

small amount of \$69,000 for the interchange of students and professors between the United States and Latin

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<sup>26</sup>Thomson and Laves, p. 27.

<sup>27</sup>Ibid., p. 28.

<sup>28</sup>Ibid., p. 35. The diplomat's name was not mentioned.





Every other major power had developed governmental programs in cultural relations before the United States. France had been the forerunner in the latter nineteenth century. Germany, Italy, Japan, and Russia did so after World War I, and Britain began the British Council in 1934. It was apparent that despite years of discussions the United States Government took direct actions in cultural relations with Latin America only when the Nazis and their Italian and Japanese allies began to threaten Pan Americanism in the mid to late 1930's. Later after World War II began, one Latin American diplomat summed the situation up in an ironic comment that: 1938 he pledged that

Nothing would be more fitting than a statue of Adolph Hitler in the Pan American Union, for who more than he has been responsible for drawing the American Republics closer together?<sup>28</sup>

That these cultural projects were small scale is certainly pointed out by the amount of money originally appropriated for their use. For 1938-1939 the Inter-departmental Committee was allotted \$370,500 and the Division of Cultural Relations \$28,000 mainly for salaries. It would take until 1940 for Congress to appropriate the small amount of \$69,000 for the interchange of students and professors between the United States and Latin

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<sup>28</sup>Quoted in ibid., p. 35. The diplomat's name was not mentioned.





America.<sup>29</sup> Despite the small scope of the program despite something was being done for the first time. Cultural relations never were nearly as important as economic or in military matters but they did accentuate a much needed part of overall diplomacy. In the late summer of 1938, European affairs again occupied the center of the American stage. It was apparent that Hitler was not satisfied with Austria and now wanted to "liberate" the Sudetenland Germans from Czechoslovakia. With Europe heating up Roosevelt was especially concerned with hemispheric solidarity. Consequently, in an address at Kingston, Ontario on August 18, 1938 he pledged that the United States would not "stand idly by if domination of Canadian soil is threatened by any other Empire." While this pledge specifically dealt with Canadian relations, it was clearly a forerunner to the hemisphere neutrality zone that was announced once war broke out in September, 1939. The United States was working towards an inter-American continental guarantee in the summer of 1938 but feared that a hurried action would alienate the Latin Americans.<sup>30</sup>

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<sup>29</sup> Ibid., p. 27; Guerrant, p. 118.

<sup>30</sup> M. LeHand to Fulton Oursler, August 27, 1938 in President's Personal File 2993, Franklin Roosevelt Papers, Hyde Park, New York.

See also: "The President's New Policy," *New York Times Magazine*, October 16, 1938.



The Munich crisis in late September, 1938, despite its apparent settlement by appeasement, was the turning point in United States foreign policy. In an interview in mid-October Roosevelt said "all signs point here" meaning the United States was going to concentrate on hemispheric affairs, especially defense. Since the United States already had close ties with Canada, Roosevelt looked forward to the forthcoming regularly scheduled Lima Conference. He hoped that it would adopt a hemispheric foreign policy which would keep the Western Hemisphere safe from Europe's troubles.<sup>31</sup>

Roosevelt received increased public support after he announced his intention to concentrate on hemispheric defense. This was something that even his greatest foreign policy foes could agree upon. Soon afterwards a more realistic foreign policy began to be discussed. These discussions culminated at a conference of Roosevelt's major advisors held on November 14, 1938. The main reason for the conference was the realization that technical developments in air power posed a threat to the United States. It was pointed out to the President that, if the Axis controlled any bases in the Western Hemisphere, they

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<sup>31</sup>Joseph Alsop and Robert Kintner, American White Paper (New York: Simon and Schuster, 1940), pp. 6, 17; Conn and Fairchild, pp. 3, 5; Anne O'Hare McCormick, "As He Sees Himself," New York Times Magazine, October 16, 1938.



could menace the United States. This conclusion led Roosevelt to call for a rapid increase in air strength. The immediate goal was an Army air force of ten thousand planes and an aircraft productive capacity of ten thousand planes a year. He also emphasized that national defense and continental defense were one and the same.<sup>32</sup>

This new policy of hemispheric defense focused United States attention on Northeast Brazil because it was the most isolated and vulnerable spot in the hemisphere. Any enemy that controlled this area would threaten both the Caribbean defenses and the most heavily populated and developed area in South America. Consequently it was soon to become the keystone in the United States plans for the defense of the continent.<sup>33</sup>

On November 15, 1938 President Roosevelt made public his exact feelings on continental solidarity. He said that the United States must be prepared "to carry out the outline of continental solidarity that was established at Buenos Aires." He also emphasized that in this continental solidarity the United States was but one of the

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<sup>32</sup>Conn and Fairchild, The Framework . . . , pp. 4-5.

<sup>33</sup>Ibid., p. 265.





republics.<sup>34</sup> This probably was added to stress the importance of the other American Republics in making the hemisphere secure. This idea of togetherness received continued reinforcement thereafter.

Apparently the United States was making progress in its campaign to influence Latin America to follow its foreign policy. Yet, two rather small matters point out the fact that tiny details, red tape, or bad luck are often sufficient to sabotage good intentions.

In the first case, the United States Minister in Venezuela wrote a confidential letter to President Roosevelt dated November 21, 1938. He begged the President to send a full time military or naval attaché to Caracas instead of having one man responsible for both Venezuela and Colombia, especially since he was stationed in Bogota. Since the military attachés were particularly concerned with military intelligence, the Minister emphasized the importance of having someone who could regularly keep track of Axis activity. The Minister also mentioned that United States influence had been greatly weakened because of an airplane crash which killed an official of the North American Aeroplane Company and a Venezuelan

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<sup>34</sup> Samuel I. Rosenman, The Public Papers and Addresses of Franklin D. Roosevelt (New York: Macmillan, 1941), VII, pp. 598-99.

Major who had been trained in the United States. This event had eliminated any hope that Italian aviators and airplanes would be replaced with ones from the United States. Instead the Italian government had just signed a contract with the Venezuelan government for the sale of a substantial number of Italian airplanes and the training of the personnel to man them. The Minister of course, feared the Venezuelans would return from Italy "thoroughly indoctrinated with Fascist ideology." What really bothered the Minister however, was that he was informed by Venezuela's Foreign Minister that the main reason that the Italian military mission was there was due to the greater cost of a mission from the United States.<sup>35</sup> This seemingly small item of cost was to remain a continuing problem in the coming months until Roosevelt could persuade the Congress and the services that the law should be modified so that the United States could pick up more of the costs. In the meantime, the combination of the accident and the greater costs helped a potential enemy of the United States.

In the second case, Sumner Welles had met with President Vargas of Brazil in early December, 1938 and found him increasingly disturbed over foreign agents and possible subversive groups in Brazil. Consequently, Brazil

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<sup>35</sup>United States Minister in Venezuela to Roosevelt, November 21, 1938, Official File 535. (Marked Confidential)

wanted the United States to supply an F.B.I. agent to establish a school for the training of Brazilian agents. J. Edgar Hoover had agreed to this proposal under the authority of Public law No. 545 passed on May 25, 1938.<sup>36</sup> An officer was picked, and, now before he could be sent, some money had to be found to pay him. The program had ground to a halt because of a paltry few thousand dollars. Fortunately, in this case Welles recommended and Roosevelt agreed to make a direct request of the Attorney General for a supplemental appropriation to cover the man's expenses.<sup>37</sup>

Events in 1938 also led to a reversal in Presidential and Export-Import Bank policy on loans to Latin America. For a number of reasons the Export-Import Bank had played a relatively minor role in aiding the foreign trade of the United States from 1934 until 1940 when increased capitalization greatly increased its influence. However, the Bank did make one important innovation in 1938 although this was done without a clear policy and completely by accident.

Haiti had suddenly refused to pay back a loan to French bondholders, and, in retaliation, France had cut

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<sup>36</sup>This law authorized a program of loaning civilian officials and technical experts to the Latin American nations.

<sup>37</sup>Welles to Roosevelt, December 10, 1938, Official File 11.



off all coffee imports from Haiti. Since they had previously purchased the entire crop, this was a terrific economic blow and left Haiti without the money needed to carry out needed domestic projects. The Export-Import Bank stepped into the breach and, for the first time, loaned Haiti money for internal development. This loan which eventually reached \$5.5 million was used mostly for public works such as road-building, and a portion of the funds was used to pay for domestic labor and materials. Formerly credits from the Export-Import Bank were used exclusively for the purchase of United States products. Never before had the Roosevelt Administration used the extension of economic aid as a conscious governmental policy to help raise living standards and develop internal trade.<sup>38</sup> It was also a reversal of Franklin Roosevelt's expressed feeling in June, 1938 that the United States should not give loans to Latin American nations, even if they were threatened by a violation of the Monroe Doctrine, because he feared "it would be greatly misunderstood down there and be regarded as a resumption of dollar diplomacy."<sup>39</sup>

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<sup>38</sup>Duggan, The Americas, pp. 78-79. Guerrant believed it was done in order to forestall a loan by Germany. Consequently, politics rather than economics might have been the cause for the change in policy.

<sup>39</sup>Roosevelt to Henry Morgenthau, June 10, 1938, Official File 21.



After the war began this precedent was referred to in order to help get the Export-Import Bank more deeply involved in Latin America.

By the time the Lima Conference met in December, 1938 the theoretical dangers that had existed at the Buenos Aires Conference in 1936 were now both real and threatening. In economic affairs, Nazi barter trading had opened great inroads into the Latin American market. In military and diplomatic affairs the Axis powers stood unchallenged and rumors of plots abounded in Latin America. In cultural and political affairs German and Italian propaganda sought Latin American acquiescence and admiration for Axis successes. Within the hemisphere itself the Mexican expropriation policy had caused ill-feeling between Mexico and the United States and had awakened fears regarding the position of foreign capital in other American countries. Yet, because Roosevelt had called for continental defense on November 15, public interest in the Lima Conference was heightened, and many people expected great things to come from it.

Although the Conference eventually approved 110 resolutions, recommendations, and agreements, the United States was primarily interested in the question of inter-American solidarity. This proved to be the major stumbling block of the Conference.





What the United States wanted was a unanimous treaty agreement to cooperate against political and cultural penetration and possible armed aggression by the Axis states. Secretary Hull in his opening address on December 10, emphasized that the American nations had to be determined to resist both armed and ideological invasion of the Western Hemisphere. He received substantial support for this view from all the countries north of and including Venezuela and Colombia. However, a different point of view was expressed by Argentina supported to some extent by Chile, Uruguay, Paraguay, and Bolivia. Argentina had always resisted American hegemony over the Western Hemisphere, and this occasion was no exception. Nevertheless, Argentina had sound economic reasons for opposing actions which might alienate some of the important traders of Europe, on which she was nearly totally dependent, especially since she was not particularly alarmed by the immediacy of the Nazi-Fascist menace. She also had to think of her large minorities of German and Italian immigrants. The result was that Argentina's Foreign Minister Jose Maria Cantilo at first refused to bind Argentina to specific commitments although he pledged a general willingness to oppose aggression.<sup>40</sup>

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<sup>40</sup>Dozer, p. 53; Charles A. Thomson, "Results of the Lima Conference," Foreign Policy Reports, XV (March 15, 1939), p. 3.

A compromise was clearly necessary in order to promote the unanimity of opinion that the United States considered so important. Unanimity was reached after a lengthy impasse persuaded Secretary Hull to go "over the head" of the Argentine delegation. He appealed directly to President Roberto Ortiz of Argentina. This resulted in a new Argentine draft that was close to Hull's original draft. Hull then mended the fences by giving Foreign Minister Cantilo full credit for the compromise.<sup>41</sup>

The resulting unanimous Declaration of Lima was not a binding treaty, as the United States originally wished, but a simple declaration of continental solidarity.<sup>42</sup> The signatories declared that any threat to an American nation no matter what the source would be of concern to all of the American nations who would then "make effective their solidarity . . . by means of the procedure of consultation." However, each American nation could also "act independently in their individual capacity, recognizing fully their juridical equality as sovereign states." More important however, was the agreement that

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<sup>41</sup>Hull, pp. 606-609; Charles Wertenbaker, A New Doctrine for the Americas (New York: The Viking Press, 1941), p. 112.

<sup>42</sup>Declarations did not have to be ratified. Since some Latin American countries were extremely slow to carry out ratification, this got around that problem.



the Ministers for Foreign Affairs of the American Republics would meet at the initiative of any one of them.<sup>43</sup>

In its final form the major importance of the Declaration of Lima was that it provided the machinery necessary to implement the consultation idea passed in 1936 at Buenos Aires. The common front was maintained, but despite Hull's rather rosy opinions of the conference in his Memoirs, he was privately more pessimistic when he told Ambassador Josephus Daniels that the United States had not succeeded in curtailing German advances in this hemisphere.<sup>44</sup> Even with its limitations the Lima Conference was a forward step. It did promote closer inter-American relations, and it gave assurances that the American nations were becoming more united in thought, word, and deed. This of course, was what the United States was trying to do. The test would come within the next year when European appeasement ended and war began.

In early January, 1939 Roosevelt's message to Congress showed how precarious the continued peace of the world appeared to him. He recognized that while the Munich settlement had averted war it had not guaranteed the peace, and he emphasized that the United States would

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<sup>43</sup>Thomson, Foreign Policy Reports, XV, p. 4.

<sup>44</sup>Gardner, p. 111.



do its share to protect the hemisphere and to help the cause of peace everywhere. A main point of his speech emphasized that:

The world has grown so small and the weapons of attack so swift that no nation can be safe in its will to peace so long as any other single powerful nation refuses to settle its grievances at the council table.

Therefore it was necessary for the United States to expand its program of national defense. Roosevelt said that "we rightly decline to intervene with arms to prevent acts of aggression" but that there were "many methods short of war but stronger and more effective than mere words, of bringing home to aggressor governments the aggregate sentiments of our people." He then took a slap at the neutrality law which he said might act unfairly by actually giving aid to an aggressor and denying it to the victim.<sup>45</sup> It was a general speech, but it emphasized two areas in which the President was positive of support by Congress and the people--national and hemispheric defense. Therefore it served as a point of departure for the direction the Roosevelt Administration proposed to go during 1939.

Within a week the annual budget message requested nearly one and one third billion dollars for defense, and a special message requested an additional half billion,

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<sup>45</sup>Rosenman, 1939, pp. 1-13.



[illegible]

nearly all for the purchase of planes. This, too, received the public's support. All went well until January 23, 1939 when a chance air crash disclosed that an official of the French Air Ministry had been on an experimental plane. Isolationists claimed evidences of an alliance, and protests against the sale of planes to France were widespread. When word was leaked by some member of the Senate Military Affairs Committee that Roosevelt had said that the American frontier lay in France or along the Rhine, the effect was calamitous to Roosevelt's plans. Opposition now built up to the proposed revision of the neutrality laws, and all attempts at revision were to be unsuccessful until after war broke out in September.<sup>46</sup> It was fortunate that this loss of control by Roosevelt did not appear to affect Latin American policy. Much that could have been done was not done, but this was not due primarily to opposition to Roosevelt.

United States cultural relations with Latin America from early 1939 to the outbreak of World War in September can be dealt with quickly. As previously mentioned, the State Department had set up a Division of Cultural Relations in mid-1938, but in 1939 its program was extremely

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<sup>46</sup>William L. Langer and S. Everett Gleason, The Challenge to Isolation (New York: Harper, 1952), pp. 48-49.

limited. In 1939 the entire budget for the Division of Cultural Relations was \$28,000 to be used entirely for the salaries of its five officers and other staff. This minimal effort reflected the official view as stated by Sumner Welles that the major function of the Division was to "make the good offices of the Government available" to private efforts in cultural relations. There was to be no "official culture" and the Division was "essentially a clearing house, a coordinating agency, whose purpose [was] to collaborate in every appropriate way without trespassing upon and much less supplanting" private activities.<sup>47</sup> It would take the outbreak of World War II and the establishment of the Office of the Coordinator of Inter-American Affairs (C.I.A.A.)<sup>48</sup> in August, 1940 before substantial progress would be made in official cultural affairs. Efforts in other fields to line up Latin America would be followed with more vigor and in some cases more success.

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<sup>47</sup>Wood, p. 305; Thomson and Laves, pp. 40-43.

<sup>48</sup>When the agency was set up in August, 1940 its name was The Office for Coordination of Commercial and Cultural Relations Between the American Republics. On July 30, 1941 its name was changed to the Office of the Coordinator of Inter-American Affairs. On March 23, 1945 the name was again changed to the Office of Inter-American Affairs. It stayed that way until the agency was terminated on May 20, 1946. Generally, the agency went by the title of the Office of the Coordinator of Inter-American Affairs, and it will be referred to by that name in this dissertation.

By early 1939, the United States Government was acutely aware that the relatively large numbers of Axis military missions and military advisors in Latin America were a threat to the solidarity of the hemisphere. From then on, efforts were increased to persuade the Latin American nations to replace their Axis advisors with military personnel from the United States. This was a difficult problem not only for the Latin American nations but for the United States as well. For example, there was evidence that the best Army and Navy officers attempted to avoid duty in Latin America because they believed service there was detrimental to their careers.<sup>49</sup> There also was a shortage of qualified officers who could speak Spanish. When these difficulties were coupled with the State Department policy of mid-1938 of disapproval of American munitions sales to Latin America, it is easy to see why Latin American nations were reluctant to force out Axis advisors. Consequently, successes in early 1939 were very limited. Only two new military mission agreements were made--one with Guatemala on March 28 and the other with Nicaragua on May 22. And both these countries were well within the United States orbit before the advisers were sent. This meant that the United States with ten missions was well

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<sup>49</sup> Welles to Roosevelt, December 30, 1938, Official File 20.



behind the German and Italian total of fifteen missions. In single advisors the United States was also behind with six compared to the German-Italian-Austrian total of eight.<sup>50</sup> This was one area in which the Government would have to improve its performance if the overall policy of lining up Latin America was to be achieved.

Another constant problem was the supplying of arms to Latin America. In May 1938, the Army had pressed for private sales of munitions to Latin America in hopes that relations might be improved. The State Department opposed the idea. Consequently Latin America continued to buy nearly everything from Europe except for some airplanes and some airplane parts. These were purchased from firms in the United States, but they only amounted to the negligible total of about \$10,000,000 a year for all of Latin America. By November, 1938, President Roosevelt favored legislation that would permit the sale of some surpluses of military equipment to Latin America. Legal barriers prevented it then. In January, 1939 Roosevelt prompted the new Congress to prepare a draft of a joint resolution that would authorize limited sales of military equipment to Latin America at cost. Sponsored by Senator Key Pittman

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<sup>50</sup>S. Shepard Jones and Denys P. Myers (eds.) Documents on American Foreign Relations 1938-1939 (Boston: World Peace Foundation, 1940), pp. 68-69; Foreign Relations of the United States, 1939 (Washington: Government Print-Office, 1957), V, pp. 636, 747.





of Nevada, the Resolution was finally introduced in March, 1939 at about the same time that Hitler's Armies, in defiance of the Munich Pact, went crashing into Czechoslovakia. Despite widespread fears for continued peace in Europe, the Pittman Resolution made little headway. Roosevelt saw the danger and tried to bring pressure on the Congress by using the State Department to promote the idea in Latin America.<sup>51</sup>

On June 27, 1939 a circular telegram was sent to all the American Republics except Mexico. Each Republic was asked whether it would welcome the enactment of the Pittman Resolution which had as its primary purpose "to extend the area of our cooperation to the field of defense." Within two weeks favorable replies were received from eighteen American Republics including Argentina and Brazil. However, Congress deferred action on the measure for that session, and it ultimately was not passed until June, 1940.<sup>52</sup> Despite this defeat in 1939, Latin Americans were at least aware of Roosevelt's good intentions. But that was no substitute for the Congressional action that should have been taken.

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<sup>51</sup>Conn and Fairchild, The Framework . . ., pp. 207-209; Franklin D. Roosevelt Library "Press Conferences," XIII, March 10, 1939, p. 189. (On microfilm).

<sup>52</sup>Foreign Relations, 1939, V, pp. 1-14, passim; Langer and Gleason, p. 134.



Another problem in early 1939 that had far reaching implications was over proposals that the United States control or acquire the Galapagos Islands, Cocos Island and Easter Island in order to promote hemispheric defense.<sup>53</sup> In late 1938 the Army sent out a survey party to the Galapagos Islands and to Cocos Island after rumors had circulated that Ecuador might sell the Galapagos. After finding numerous possible defense sites in each area the commanding general of the survey party recommended on January 5, 1939 that the United States either purchase or lease the islands for defensive positions. This opinion was backed to the extent that two resolutions were currently before Congress both calling for the acquisition of these islands. Both the War and Navy Departments backed the Congressional plan. At about the same time the State Department received a communication from its Ambassador in Chile who reported that he had heard from several sources that, because of financial duress, Chile might consider selling Easter Island to the United States.<sup>54</sup>

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<sup>53</sup>The Galapagos were owned by Ecuador; Cocos by Costa Rica; and Easter by Chile. All were located in the Pacific Ocean.

<sup>54</sup>Stetson Conn, Rose C. Engelman, and Byron Fairchild, Guarding the United States and Its Outposts (Washington: Government Printing Office, 1964), a volume of United States Army in World War II, ed. Stetson Conn, p. 305; Ambassador in Chile to Secretary of State, February 22, 1939, in Foreign Relations, 1939, V, p. 461.



The Roosevelt Administration was confronted with a dilemma. Should it support the acquisition of these islands, thus backing the Army and Navy as well as the bills already introduced, or should it risk safeguarding the defense of the hemisphere in order to follow its previous political promises never to acquire any more territory in Latin America? On this question Roosevelt probably had the political support to pass the resolutions, but he knew this would sabotage the Good Neighbor Policy. Consequently, Roosevelt sought a way to promote hemispheric defense without alienating Latin America. To do this he had to refuse to back any measures for the outright purchase or control of these islands. The policy he decided to follow was similar to one that the State Department had first put forth in February, 1938. The policy in essence was that while the United States did not wish to acquire or lease any of the proposed islands it would have a "definite interest in any proposed sale or lease" of the islands to a non-American power. In fact:

Any endeavor on the part of any non-American power to purchase or lease the Islands or to use any part of them for a naval, military, air, or even a commercial base under whatever terms would be a matter of immediate and grave concern to this Government.<sup>55</sup>

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<sup>55</sup> Welles to Roosevelt, May 6, 1939, Foreign Relations, 1939, V, p. 633. The quote applied specifically to the Galapagos Islands, but the policy was the same for all these islands.



Roosevelt had had another idea that he may have preferred but nothing came of it at that time. This was to tie up Easter Island, Cocos Island and the Galapagos Islands into a Pan American trusteeship because of their scientific interest. This plan would preserve the islands for all time "against colonization and for natural science." Their sovereignty would be vested in trustees while payments to their former owners would be made "by all the American Republics over a period of years and in proportion to the total wealth of the Republics" thus putting the "greatest burden" on the United States.<sup>56</sup>

Conversations continued about one or more of these island groups until late August, 1939, but once Roosevelt made his position clear in May and told the War and Navy Departments not to recommend approval of the acquisition resolutions then pending in Congress, there was little if any chance the Roosevelt Administration would change its policy.<sup>57</sup> When the chips were down Roosevelt continued to follow his promises despite pressures by Congress, the War Department, and the Navy Department as well as information from Chile, Costa Rica, and Ecuador that elements within

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<sup>56</sup> Roosevelt to Welles, March 25, 1939, ibid., pp. 461-62.

<sup>57</sup> Conn, Engelman, and Fairchild, Guarding . . . , p. 309.



these countries would welcome the United States purchase or lease of their respective islands.<sup>58</sup>

In light of later events Roosevelt certainly made the right decision. A United States purchase or lease agreement would have alienated the more important countries in Latin America by renewing the old fears of Yankee imperialism. This was not in the best interest of the United States as it could have led to a wider division of the American Republics and to pro-Axis alienations from United States wishes in other areas of military and economic affairs.

A more important military problem also came up in early 1939. This concerned the need for further bases in Panamá in order to protect the Panama Canal. The War Department was informed early in 1939 by the commanding general in Panama that if the United States could acquire the Rio Hato airfield in northwest Panama no other fields would be needed outside the Canal Zone. What complicated this request was the status of the new treaty signed with Panama on March 2, 1936, but unratified by both sides as of early 1939. The old treaty had allowed the United States to acquire, control and use any land outside the

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<sup>58</sup>Haiti offered the United States bases in March, 1939 in return for guarantees of her political and territorial sovereignty. Fearing political repercussions in Latin America, the State Department turned down the offer. See Foreign Relations 1939, V, pp. 637-646.

Canal Zone needed to operate or protect the canal. However, the new treaty stated that the operation and protection of the canal was to be a joint effort. The United States general in charge of the protection of the Canal Zone wanted to take advantage of this delay in ratification in order to acquire the Rio Hato airbase.

In February, 1939 the War Department came to the general's aid. Panama had ratified the 1936 treaty, but now the War Department requested the State Department to initiate discussions towards acquiring land in Panama needed for the protection of the Canal. The general in the meantime asked for and got permission to negotiate directly with the Panamanian Government. Negotiations dragged on until June when it was reported that the Panamanian Government would consider a 999 year lease. The State Department did not object to that kind of a lease but thought it best to defer action until Congress ratified the treaty. What this meant was that the Roosevelt Administration refused to take advantage of a technicality in order to get around restrictions in the unratified treaty.

Thus the State Department again overruled the War Department in order to follow the Good Neighbor Policy.



Congress ratified the treaty on July 26, 1939.<sup>59</sup> Then when war broke out in September, the State Department took over the conduct of negotiations although in collaboration with the War Department. These negotiations later continued into 1941 and caused a great deal of difficulty between the two nations because the War Department decided that more defense sites were needed. The original problem, Rio Hato, was settled when it was leased from its private owner.<sup>60</sup>

By April 1939, threats of war in Europe had begun to multiply. After the German invasion of Czechoslovakia in mid-March, Britain had guaranteed Poland "all support" in the event of "any action which threatened Polish independence." This was widely interpreted as the end to British appeasement. Just before this Hitler had ominously submitted his proposals for settlement of the Polish Corridor and Danzig problems, and had taken Memel from Lithuania. After Mussolini invaded Albania on April 7, Britain and France jointly issued a statement saying that they would

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<sup>59</sup>The main reason that the Senate had not ratified the treaty before was because of Article X. This provided for previous consultation before either country could take measures to safeguard its interests. In February, 1939, Welles arranged for an exchange of notes in order to agree that in an emergency this would not be necessary. Once this point was agreed upon, it was apparent that the Senate would ratify the treaty.

<sup>60</sup>Conn, Engelman and Fairchild, Guarding . . . , pp. 306-309, 316.



support Greece and Rumania if their independence was threatened. Roosevelt had followed these developments with foreboding, and, in an attempt to guarantee the peace, he wrote to Hitler on April 14 asking him if he would give assurances that he would not attack thirty-one independent European and Middle Eastern countries as listed by Roosevelt.

This was a popular move to the people of the United States, especially after Roosevelt explained his position in detail to his morning press conference on April 15. He explained that his offer to be an intermediary entailed nothing new in the way of commitments. He further stated that no other governments had been consulted, thus blunting any isolationist criticism that deals must have been made.<sup>61</sup> His message also received a favorable world wide response. Britain, France and even Russia voiced approval as did all of the other non-Axis countries of Europe. Latin America also was very enthusiastic.

Hitler was furious when he read Roosevelt's letter. When he replied to it two weeks later, he did so by appealing to the isolationist element in America and by denying past aggressions or any future plans for aggression.

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<sup>61</sup>Franklin D. Roosevelt, "Press Conferences," XIII, April 15, 1939, pp. 275 ff.





Roosevelt had hoped his message would help him pick up support for revision of the neutrality law. However this wish was not to be fulfilled until after war broke out in September.<sup>62</sup>

Roosevelt's next press conference on April 20 was especially important for his views on both the military and economic consequences to the Americas of a German victory over England. Roosevelt told the reporters that his "experts" had told him that there was a 50-50 chance of war and a 50-50 chance as to which side would win. This greatly worried the President as did the spectre of a British defeat with the concomitant destruction of the British Navy. If this happened the totalitarian powers would dominate Europe; the democracies would be disarmed; and control of raw material resources would pass to Germany and her allies.

Roosevelt then foresaw the next step. This was the German invasion of the hemisphere. According to Roosevelt, the totalitarian powers had about 1500 planes that could reach Brazil within 18 hours, while the United States had only 80 planes that could get there in time to meet them.<sup>63</sup> The hemisphere was clearly in danger.

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<sup>62</sup>Langer and Gleason, The Challenge . . . , pp. 83-90.

<sup>63</sup>Franklin D. Roosevelt, "Press Conferences," XIII, April 20, 1939, pp. 307-308.



Roosevelt was just as fearful about economic relations after a totalitarian victory. Argentina, being dependent on exports of cattle, wheat, and corn, would be at the mercy of whoever controlled Europe economically. The victors could take Argentina's products, use them in Europe, and pay for them with industrial products. The result "means virtually, political slavery, economic slavery, the end of real independence on the part of the Argentine." The outcome would be the same in Brazil where it "would take Brazil's independence away," and it would be "a definite possibility in the future in Mexico." With this result would go "military control of these nations."<sup>64</sup>

The President then sought to shock the American people. He claimed that, because the prospective route of attack would come by way of the Cape Verde Islands to Brazil, and from Brazil to Yucatan and Tampico, Mexico, he would be "safer on the Hudson River than if [he were] in Kansas" because of the proximity of Kansas to Mexico. No doubt this was especially aimed at the so-called "mid-western isolationists" with the larger purpose of converting all Americans to the necessity of supporting Great Britain as well as adding to the defenses of the hemisphere particularly in Northeast Brazil. Roosevelt knew that he

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<sup>64</sup>Ibid., pp. 308-309.



did not as yet have the votes to change the neutrality law in order to help Britain and France. He also knew he could not claim powers he did not have. Consequently, he promised not to send armies to fight in Europe despite American sympathies for Britain and France. He even qualified American actions short of war by saying "these are possibilities not prospects."<sup>65</sup> Despite these necessary modifications, this was a clear warning to complacent Americans that a greater United States effort was needed both to help the Allies and to defend the hemisphere.

By April and May, 1939, defending the hemisphere had become the number one topic of discussion at the War and Navy Departments. Since November, 1938, the Army and the Navy had been reassessing their roles in defending the hemisphere. The old so-called "color" plans which were concerned with defense against attacks by specific nations were dropped. A Joint Planning Committee had been set up. It was to consider the strategic position of the United States in the Western Hemisphere and to emphasize possible cooperation with Latin America in the event of a multi-nation attack. The Committee spent five months considering the extent to which Latin American nations would cooperate with the United States. Many possible areas of cooperation

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<sup>65</sup>Ibid., pp. 309-310.

were discussed. Probable Latin American reactions to political and economic threats, to foreign bases, and to the invasion of Latin America were also considered.<sup>66</sup>

The work of the Joint Planners was approved on May 6, and ten days later they were ordered to begin work on a series of war plans that, hopefully, would take into account all possible combinations of threats to the hemisphere. By the end of June, five alternative plans, known collectively as the Rainbow Plans, had been formulated. Each of them was slightly different in order to take into consideration different combinations of attackers and different reactions by the nations attacked. However, each also gave the primary task of defending the Western Hemisphere to the United States Army and Navy.<sup>67</sup> Since this was to be the case, the primary aim of defense policy now became to reach agreement with the Latin American countries for the use of their bases. Thus, the necessities of defense were going to conflict with the political policy of the Good Neighbor. The United States had promised that it would never take another foot of territory in Latin America, but that was before the Americas were threatened by non-hemispheric powers. Soon after this

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<sup>66</sup>Conn and Fairchild, The Framework . . . , p. 8; Langer and Gleason, The Challenge . . . , p. 134.

<sup>67</sup>Conn and Fairchild, The Framework . . . , p. 9-10.

President Roosevelt discovered that the State Department and War Department had differing positions on the question of bases. The War Department wanted to acquire new bases in Latin America while the State Department may have wished this but feared it was politically impossible. How to reconcile these conflicts and still keep Latin America "in line" became a prime objective of United States policy after war broke out in September, 1939. It was apparent that old fears of Yankee imperialism and aggression would be exploited by the Axis as well as by many of the most nationalistic of Latin America's leaders.

Because of this fear of Axis penetration and subversion in Latin America, the Roosevelt Administration was also convinced that measures had to be taken to promote the air defense of Latin America. One of the Army's major objectives during the prewar period was to eliminate Axis owned or controlled commercial airlines and to replace them with United States or locally owned companies. Because of Latin American political susceptibilities, the United States Government sought to use Pan American Airways as a cover for the removal of Axis lines. The difficulty of means caused the problem to be sidetracked until President Roosevelt reopened the whole problem in March, 1939.

The President instructed the Civil Aeronautics Authority to formulate a plan for the "expansion of

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aeronautics in the Western Hemisphere." A tentative plan envisaged the creation of a large holding corporation, located in the United States with Latin American subsidiaries. It was to use governmental money to purchase all Axis owned commercial airlines in Latin America. However, perhaps fears of political repercussions in Latin America caused the War Plans Division to drop the holding corporation idea. Instead they decided upon some rather innocuous proposals similar to objectives originally suggested by the Army in June, 1938.<sup>68</sup>

The major specific concern before September, 1939 was the elimination of German control over the SCADTA airline system in Colombia. Colombia was chosen as a first priority because of its proximity to the Panama Canal. The Government approached Pan American Airways in hopes of getting its support and learned that since 1931 Pan American had secretly controlled an 84% interest in SCADTA. Despite Army and State Department pressures Pan American took no action to get rid of the Germans who operated the system until World War II began.<sup>69</sup> The result was that both in the Government's general airline program and in

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<sup>68</sup>Ibid., pp. 238-240. These dealt with governmental help to build airfields and weather stations and to train Latin American pilots in the United States.

<sup>69</sup>Ibid., pp. 239-241.



its specific application in Colombia little if anything was done before September, 1939. Fortunately, Pan American was persuaded by then that its assistance was vital in removing an Axis threat, and the company was consistently helpful thereafter. This noteworthy action, however, does not excuse their prewar complacency.

The complementary areas of economic and commercial relations between the United States and the Latin American countries were complicated throughout the 1930's by a problem that was constantly to recur during the 1939-1941 period. This was the private indebtedness that Latin American countries had owed to United States citizens since the 1920's. Many of these loans had been both unnecessary and often unfair due to their high interest rates, consequently the world wide depression caused many Latin American countries to default on their payments. This, in turn, led to the formation of a vested interest group known as the Foreign Bondholder's Protective Council (F.B.P.C.). This new group added a major difficulty to the carrying out of the Good Neighbor Policy particularly after war broke out. Its domestic political power caused the Roosevelt Administration often to temper its wish to carry out unique policies in the lining up of Latin America.

The Foreign Bondholder's Protective Council took the form of a private, non-profit membership corporation,

but in fact it was a semi-official, self-perpetuating body which was directly concerned with protecting United States investors who held foreign bonds. This protection took the form of F.B.P.C. negotiations with the defaulting country on its obligations. The F.B.P.C. had originally been formed in late 1933 at the request of the Secretary of State, the Secretary of the Treasury, and the Chairman of the Federal Trade Commission. Many prominent individuals including former State Department officials such as Reuben Clark were among its founders. Since its inception it had monopolized its area of interest to the exclusion of the ad hoc bondholder's protective committees which formerly represented United States bondholders. Throughout the 1930's the F.B.P.C. operated both in close contact and with the support of the State Department. It received further support from the Securities and Exchange Commission in 1937. In its dealings it acted upon its own initiative, and if the occasion warranted it, it recommended whether bondholders should accept offers of settlement by defaulting foreign governments.<sup>70</sup> These recommendations generally were followed by the bondholders as if they were laws.

Originally, it had been set up almost as a front for the United States Government. The Government wanted

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<sup>70</sup>Franklin D. Roosevelt Library, Morgenthau Diaries, Vol. 218, October 18, 1939, p. 20.



its citizens to receive the interest that was due them but was convinced that a Government agency should not become involved in the collection of private debts owed its citizens. This position was probably taken for political reasons to avoid unfavorable publicity in the defaulting countries. Sumner Welles in October, 1939 reiterated this idea by emphasizing that this was a way that the United States could avoid being called a "shylock" or "the bill collector."<sup>71</sup>

Ironically, the existence of the Foreign Bondholder's Protective Council came back to haunt its founders. In negotiating commercial agreements and loans with Latin American nations in default, pressure was invariably put on the defaulting nation to come to terms with the bondholders before further loans could be considered. This definitely was detrimental to the larger aspects of the Good Neighbor Policy. It was especially dangerous the nearer World War II came, but the State Department was caught in the vise of public opinion that demanded redress on the old debts.

Brazil's desire for a program of economic cooperation with the United States in early 1939 was the best prewar example of the added difficulties and embarrassments

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<sup>71</sup>Ibid., Vol. 220, October 31, 1939, p. 347.



caused by the State Department's reluctance to go against the F.B.P.C. on the private debt question. It also showed that not all agencies of the Government agreed with the policy in force. In this case it was the Treasury Department, led by Secretary Henry Morgenthau, that was the main antagonist to Cordell Hull's State Department.

The Brazilian Minister for Foreign Affairs, Dr. Oswaldo Aranha,<sup>72</sup> was invited by President Roosevelt to come to the United States in February, 1939 to discuss a general program of economic cooperation between the two countries. When he came, long discussions were held between the various agencies of the Government and Dr. Aranha about common problems in national defense, shipping, air-mail service, radio programs and many other areas. However, the Government was especially interested in economic affairs and specifically interested that Brazil take steps to pay back her debts, settle her commercial arrears to American exporters, and develop a long range program to improve her economy which would help alleviate exchange problems.<sup>73</sup>

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<sup>72</sup>A special report sent to high government officials on the relationship between Brazil and the United States hinted that Aranha could possibly be bribed as his personal financial needs were great. Morgenthau Diaries, Vol. 208, "Brazilian Negotiations Special Report," February, 1939.

<sup>73</sup>Secretary of State to Chargé in Brazil, January 16, 1939, Foreign Relations, 1939, V, pp. 348-350; Memorandum by the Assistant Chief of the Division of American Republics, February 21, 1939, ibid., p. 351.





Secretary Morgenthau was of the opinion that the Brazilian bonded indebtedness owed to citizens of the United States should not be considered in the discussions because the debt was not owed to the Government. However, the State Department overruled Morgenthau and supported the claims of the bondholders. Furthermore, the State Department opposed the Treasury Plan for handling the Brazilian debt because of fears that Brazil's credit would be injured. This would damage United States investors who owned Brazilian bonds and who planned to redeem them at face value.<sup>74</sup> Fear of the political power of the F.B.P.C. practically dictated the State Department's action.

Another disagreement arose because the State Department wanted a major portion of any credit to Brazil to be used to redeem the defaulted bonds rather than be used for financing economic development in Brazil. Morgenthau wanted to get around this by establishing a Brazilian corporation in the United States. If this could be done, he could do business directly with it and thereby circumvent the F.B.P.C. and its advocates in the State Department.<sup>75</sup>

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<sup>74</sup> John M. Blum, From the Morgenthau Diaries: Volume II, Years of Urgency, 1938-1941 (Boston: Houghton Mifflin, 1964), pp. 52-53.

<sup>75</sup> Ibid.



Finally, a quarrel broke out over which agency should be used for a loan to Brazil. The State Department wanted to use the Export-Import Bank while the Treasury Department wanted to use the Stabilization Fund.<sup>76</sup> President Roosevelt agreed to the State Department's view although Dr. Aranha preferred the Treasury plan. Aranha was greatly disappointed, but in order to get credits from the Export-Import Bank, he promised that Brazil would resume payments on July 1, 1939 on its bonded indebtedness. There was a definite quid pro quo here. Brazil finally received slightly more than 19 million dollars in April for the purpose of paying back arrears owed to United States exporters which were unpaid because of lack of exchange. The reason more was not accomplished was due "as much as anything else" to the United States bondholders as represented by the F.B.P.C.<sup>77</sup>

After Aranha returned to Brazil he was "bitterly attacked especially by the Army and even in the Cabinet for having made the promise" that Brazil would resume

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<sup>76</sup>The Stabilization Fund had been set up in 1934 with assets of \$2 billion to be used for the purpose of stabilizing the exchange value of the dollar. See Jones and Myers, Documents . . . , 1938-1939, p. 401.

<sup>77</sup>Blum, p. 54; Foreign Relations, 1939, V, pp. 354-356 , 379-402. The arrears owed to the companies were finally liquidated in November, 1940.

[illegible]

payments on her bonded debt on July 1, 1939. This was more of a political issue than an economic one in Brazil, but poor Aranha had a near breakdown and was forced to leave Rio de Janeiro for a month to recuperate.<sup>78</sup> There is no doubt that Aranha was left in a dilemma. He had promised to resume payments although he had not made a comprehensive agreement with the F.B.P.C. At the same time internal politics and economics in Brazil dictated against the resumption of payments on the bonded indebtedness.

When word came to Washington that Aranha had persuaded President Vargas to make a token payment of one million dollars on July 1, Hull did not help the situation any when he informed Aranha that this was "regrettably and decidedly inadequate." His further opinion was that since the sum of \$9,000,000 was the smallest sum mentioned while Aranha was in Washington, the amount should be raised at least to \$4,500,000. The key to the whole situation became readily apparent as Hull had Aranha informed that "great possibilities" existed for economic cooperation if Brazil would "regularize its debt situation in this

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<sup>78</sup>Caffery to Hull, June 10, 1939, Foreign Relations, 1939, V, pp. 357-358.



country."<sup>79</sup> In other words, if Brazil wanted the advantages agreed upon in March, 1939 to take effect, she had to resume adequate payments on the bonded indebtedness and also had to meet with the F.B.P.C. to discuss a permanent solution to the debt problems.

By the summer of 1939, the Government's policy on making loans to the Latin American nations was one of great confusion. Conflicting opinions were being put forth by high Government officials on whether loans should be made to Latin American countries who had defaulted on their bonded indebtedness. In mid-June Secretary of State Hull believed that external debt payments had to be continued as an "essential condition" for economic cooperation.<sup>80</sup> President Roosevelt, however, had differing views. He thought the private loans of the 1920's were "ancient frauds" and that they should not have "much to do with sound loans at the present time."<sup>81</sup> By July 1, steps had

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<sup>79</sup>Hull to Caffrey, June 30, 1939, *ibid.*, p. 361; Willy Feuerlein and Elizabeth Hannan, Dollars in Latin America (New York: Council on Foreign Relations, 1941), p. 37. An additional \$50 million credit was to be considered for economic development. There was also the possibility that \$50 million in gold would be placed at the disposal of the Brazilian Government.

<sup>80</sup>Hull to Charge in Peru (Dreyfus), June 13, 1939, Foreign Relations, 1939, V, p. 777.

<sup>81</sup>Franklin D. Roosevelt, "Press Conferences," XIII, June 23, 1939, pp. 451-52.





been taken to try to reconcile these opposing views as evidenced by Secretary Hull's statement that the credit policy of the Export-Import Bank toward defaulted countries was under reconsideration, but no decision had yet been reached.<sup>82</sup> Discussions continued for the next month but the policy had not been changed by August 1 when Secretary of Treasury Morgenthau informed Under Secretary of State Sumner Welles that in his opinion private debts were not directly a Treasury concern.<sup>83</sup>

Morgenthau had been trying to change the official loan policy of the government for many months and particularly since the "Aranha fiasco" in February and March, 1939. He was especially bitter concerning the State Department's treatment of Aranha and his associates. He believed that in the process of trying to extract some money for the private bondholders Dr. Aranha's reputation and usefulness were ruined. This hurt the United States because Aranha was one of the staunchest supporters of the United States in Latin America.<sup>84</sup>

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<sup>82</sup>Hull to Ambassador in Colombia (Braden), July 1, 1939, Foreign Relations, 1939, V, p. 482.

<sup>83</sup>Morgenthau Diaries, Vol. 216, October 10, 1939, p. 389.

<sup>84</sup>Ibid., Vol. 218, October 18, 1939, pp. 34-35.

Morgenthau continued to work at cross purposes with the State Department. In May, he and Jesse Jones discussed bypassing the State Department by setting up a separate Bank of North and South America. The idea was that this bank would finance risks larger than any other bank could undertake. In thinking about the bank, their main consideration was for the Latin American countries that needed loans. They were aware that Brazil and at least nine other countries needed development loans totalling as much as \$150,000,000. Since the Export-Import Bank could only loan up to \$100,000,000 it was vastly inadequate.<sup>85</sup> Despite their hopes nothing came of the plan although proposals for an inter-American Bank were a major issue in 1940.

In the meantime negotiations with Colombia ran into trouble because of F.B.P.C. influence on the State Department.<sup>86</sup> Morgenthau wanted a loan agreement made with Colombia no matter what Colombia did about their debts to United States bondholders. On June 19, he met with Roosevelt and urged him to talk to Welles about changing the loan policy. Roosevelt agreed to do so, but the State Department's policy remained unchanged.<sup>87</sup>

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<sup>85</sup>Blum, p. 55.

<sup>86</sup>Similar negotiations with Peru, Cuba, Chile, Ecuador, and Panama among others also ran into trouble with the F.B.P.C. in 1939.

<sup>87</sup>Blum, 1939.

On July 24, cracks in the solidarity of the State Department showed for the first time. Sumner Welles admitted, in principle, that American economic assistance should not be dependent on the settlement of private debts. Yet Welles was reluctant to make any changes "in advance of public opinion."<sup>88</sup> Thus domestic pressures still were the most important considerations affecting foreign loans despite the world wide threats and dangers in the summer of 1939.

The result was that when war broke out in September, 1939, the United States economic policy toward Latin America was unchanged and unthinking. A re-examination of the policy had been going on since sometime during the summer, but no final decision had been reached. This was an ominous situation in light of the times. It was unfortunate that Latin America's needs and reciprocal goodwill were being sacrificed to the pressures of internal politics. Unless this problem could be solved, difficulties in getting Latin America to follow the United States foreign policy would be multiplied.

Sooner or later, unless the Administration's economic policy was modified, a crisis would occur. It is ironic that apparently Roosevelt did not see any conflict

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<sup>88</sup>Ibid., p. 56.



between his April 14 Pan American Union speech in which he promised that no American nation would have to sacrifice its independence in order to keep its economic system intact, because the United States would cooperate in economic matters, and the State Department policy which, unless changed by a special circumstance, would require strategically important and economically dependent countries like Brazil to work out private debt problems before substantial loans could be considered. What would happen if Axis economic pressure was put on these countries was anybody's guess.

As for the Export-Import Bank, its importance by 1939 was increasing but still limited. An overwhelming number of its loans were made to encourage the export of heavy goods to Latin America. The idea was to relieve unemployment in these industries in the United States by increasing exports and by enabling the United States exporters to meet German barter competition. Thus the major aims of the Export-Import Bank were to help certain people in the United States, not Latin Americans. Other limitations on the Bank's effectiveness were its small capitalization, its extremely conservative leadership, and disagreement within the government on the role of the bank. However, there was no doubt that the Bank was a great stabilizing factor compared to the calamitous financial

policies of the 1920's. If its policies could be liberalized in the future it could take a much larger part in influencing Latin America to follow the lead of the United States. Nevertheless by 1939, only one exception had been made to the Export-Import Bank policy of making loans only to finance purchases in the United States. This was the precedent-setting Haitian public works credit in the summer of 1938. For the first time a loan had been made for reasons other than giving advantages solely to United States corporations and exporters.

In February, 1939 Secretary Hull hinted that more of this type of loan, might be forthcoming when he said the Export-Import Bank:

stands ready to consider sound, limited, and carefully selected participation in arrangements calculated to bring on general productive undertakings in foreign countries, involving substantial purchases of American goods, and laying the basis for enlarged permanent trade relations between the United States and other countries.<sup>89</sup>

Although he mentioned "substantial purchases of American goods" would be necessary, there was at least some hope that portions of the credit could be used for other purposes.

By the early summer of 1939 hopes for a major change in the Export-Import Bank were dashed by the

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<sup>89</sup> Jones and Myers, Documents . . . , 1938-1939, p. 432.

necessities of internal politics. President Roosevelt, alarmed by the world situation, wanted to increase the loan power of the Export-Import Bank from \$100,000,000 to \$600,000,000. Despite Roosevelt's promise that the goods would be bought in the United States, he made the mistake of calling the defaulted bonds "ancient frauds." Consequently, Congress denounced his proposal as "boondoggling" and refused to pass it.<sup>90</sup>

The result was that when war broke out in September the United States policy had not changed. Until the Latin American countries could get credits on a regular basis that did not require purchases in the United States, they would be at the mercy of Europe in any emergency. The intra-governmental dispute between the Treasury and State Departments and the Roosevelt Administration's fear of the power of the F.B.P.C. also added immeasurable problems in the lining up of Latin America. Strong, pro Latin American actions were needed but the Administration found that it was difficult to move away from the status quo during peace time.

What then was the situation of the United States regarding all areas of its Latin American policy by the end of August, 1939? The feeling of many Latin Americans

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<sup>90</sup>Feuerlein and Hannan, pp. 39-40.





no doubt was ambivalent. There were some circumstances that promoted Latin America's willingness to "line up" with the United States, but there were many unsolved problems that cast doubts on whether Latin America could be lined up.

The overall Good Neighbor Policy, itself, was a prime example of the latter problem. Before Roosevelt called for a "new deal" in inter-American affairs, relations were extremely poor. After six and one half years of the new policy, relations had improved immeasurably. This improvement stood out particularly in contrast with the aggressive policies of Germany, Italy and Japan. Yet the unanswered question to many Latin Americans must have been how long would the United States continue to follow its professed policy of nonintervention particularly if it was directly threatened? Potential problems of this kind had arisen during the prewar period due to the expropriation policies of Mexico and Bolivia and to the United States wish for bases in Panama and in other Latin American countries. These and other similar problems remained unsolved in August, 1939.

The inter-American conferences held during the 1930's had certainly promoted some of the aspirations of the Roosevelt Administration. Yet by mid-1939 the road to unity was nowhere near completed. Argentina feared

and opposed United States hegemony in South America and her position was supported, at least in part, by other American Republics. This reticence would have to be overcome through actions that could convince the Latin American Republics that their destiny lay with the United States.

There were many actions in the prewar period that attempted to promote these feelings. In economic affairs the Export-Import Bank was used to stimulate the domestic economy and to promote hemispheric trade. The main problems, however, were that the bank was underfinanced and under the wrong influences. Its conservative leadership needed either to be changed or to be persuaded to carry out more meaningful loan policies such as the promotion of internal development loans.

A corollary problem was the relations among the Export-Import Bank, the State Department, the Treasury Department, the Foreign Bondholders Protective Council, and other domestic vested interest groups such as some of the oil companies. A new policy was needed that would direct the Export-Import Bank not to consider that debts owed to citizens of the United States or expropriations of United States owned property would automatically preclude needed loans. Loans were needed in many countries before World War II began, and as European economic ties were broken, many more would be required if the United

States was to be successful in its goal of winning over Latin America.

A forward step had also been taken in cultural and social relations with the formation of the Cultural Relations Division of the State Department. However, this was only a single, halting step toward the goals that other leading powers had been following for years. Unless it could begin to carry out innovative policies, some other institution would have to be formed.

Military and defense relations also were clouded by the legacies of the past. President Roosevelt had foreseen the potentialities for an Old World war quite early. He realized the conceivable danger to the Western Hemisphere, but his wishes for a unanimous inter-American policy were tempered by his knowledge of previous relations with the heterogeneous American nations. Military cooperation was needed, but some Latin American leaders feared that the United States was still a military threat. The United States was the only hemispheric nation strong enough to defeat extracontinental aggression, yet questions of sovereignty were likely to preclude the sending of troops or the occupying of bases in peacetime. Latin America also needed arms and munitions on credit; however, United States laws forbade this. Besides there was no guarantee that the United States even had the necessary

material available once it was needed. Finally, the most immediate threat to the security of the hemisphere was the Axis-owned or controlled airlines. There was no guarantee that each South American country involved would be interested in the elimination of these airlines. This problem was particularly obvious since the Administration was having so much trouble convincing Pan American Airways to cooperate.

All of these difficulties were apparent by late August, 1939. Unless most, if not all of them, were overcome, relations with Latin America would remain uncertain, and the failure to line up Latin America would be a direct threat to the safety of the United States. This was a large order to fill. Consequently, in the next two years and four months, attempts at ending these difficulties and promoting hemispheric solidarity received a very high priority in the Roosevelt Administration.

## CHAPTER II

### THE "PHONY WAR" PERIOD AND INTER-AMERICAN RELATIONS

In late August, 1939, Hitler made a non-aggression pact with the Soviet Union. This extraordinary agreement reduced tensions between two potential adversaries in Europe. More importantly, it temporarily secured Germany's eastern flank and allowed her to attack Poland without fear of Russian intervention. The blitzkrieg began on September 1, and the war quickly widened when Britain and France, following their earlier commitments to Poland, agreed to enter the war. As appeasement ended, the war widened, but little could be done for Poland. She quickly fell and was divided up by Germany and Russia. Fighting ended on the eastern front leaving only small scale actions on the Franco-German border. The so-called "Phony War" period had begun, and it would continue for another seven months. In the meantime, the United States was most concerned with its Latin American policy.

Immediately after Great Britain and France declared war on September 3rd, the United States took the initiative and put in motion the machinery decided upon at the

Buenos Aires and Lima Conferences. This called for consultations among the American foreign ministers in case of a potential menace to the peace of the Western Hemisphere. The State Department requested that the foreign ministries of Argentina, Brazil, Chile, Colombia, Cuba, Mexico, Panama, and Peru join with the United States in calling for a conference to meet in Panama. Then the nine countries issued an invitation for the other twelve countries to join them in Panama. Ultimately the conference met from September 23 to October 3, 1939.

This conference was a supreme test for the inter-American system as well as for the foreign policy of the United States. If the hemisphere failed to remain united, United States aims and wishes since 1933 would be injured, and the Pan American system might be ruined. Happily, this was not to be the case.

The agenda for the conference was drawn up primarily by Under Secretary of State Welles in consultation with other members of the State Department and President Roosevelt. President Roosevelt's main concern was to secure the hemisphere from naval warfare among the belligerents. He had been thinking over possible plans for many months, ever since reports had been received that in case of war Germany planned to attack Allied shipping in Western Hemisphere waters. This plan, as he heard it,

was to include German submarine bases located somewhere in the Caribbean. He also feared that, even if this were not true, the Germans would attack British and French possessions in the Western Hemisphere. Remembering that during World War I inter-American shipping had been greatly curtailed, he was determined to prevent this from happening again. Consequently, he asked the State Department to search for precedents that could be used to keep the European war away from this hemisphere.<sup>1</sup>

Even before war broke out Roosevelt had decided upon action in this matter. Using the ideas of a previous plan submitted by Brazil and Colombia in 1915, Roosevelt sought to throw a neutrality blanket over the hemisphere through which no belligerents could move. The area included was to encircle the hemisphere completely, except for Canada, not at the traditional three mile limit, but at least 300 miles from the continents of North and South America. Roosevelt planned to have the United States armed forces patrol this line in conjunction with forces of Argentina and Brazil. The major purpose of such a patrol was to prevent unneutral uses of any coast.<sup>2</sup>

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<sup>1</sup>Alsop and Kintner, p. 61; Langer and Gleason, The Challenge . . . , p. 207.

<sup>2</sup>Alsop and Kintner, p. 61; Hull to Welles, September 29, 1939, Foreign Relations, 1939, V, pp. 32-33.



When the Panama Conference met, Sumner Welles proposed this neutrality zone plan despite misgivings from both Secretary Hull and Secretary of Navy Edison. Hull feared that if the zone idea was made effective the United States could be easily drawn into hostilities. Secretary Edison was dismayed at the prospect of the Navy effectively patrolling such a huge area. It was apparent that trouble lay ahead because the British, whom Roosevelt hoped would acquiesce in the zone, protested even before the decision for the zone was reached at Panama.<sup>3</sup>

Ultimately, the zone plan was passed by the Panama Conference and became its most publicized accomplishment--the Declaration of Panama. Other accomplishments of the Panama Conference however, were to be more long lasting and ultimately more beneficial to the interests of the United States and the other American nations.

The original intent of the Panama Conference was to consider what should be done to solve the urgent problems raised by the beginnings of war. The program of the meeting dealt with three major topics: neutrality, economic cooperation, and the maintenance of peace. A subcommittee on economic cooperation was set up to try to solve the myriad of hemispheric economic problems that the

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<sup>3</sup>Langer and Gleason, The Challenge . . . , p. 212.

European war was causing. Some twenty-seven proposals were submitted to the subcommittee, most of which were so highly technical that it was impossible for the subcommittee to consider all of them in the short span of the conference. Since the whole conference would be unable to act on the subcommittee's proposals, it was decided to create a permanent Inter-American Financial and Economic Advisory Committee. This committee was composed of twenty-one experts on economics, one from each republic. It met for the first time on November 15, 1939 at the Pan American Union in Washington with Sumner Welles as the United States representative.<sup>4</sup> Although its powers were limited to recommending ways to bring about inter-American cooperation in economics and finance, it was to become increasingly important as the war began to have a greater effect on the economics of Western Hemisphere nations. In fact, by 1941 it had become a major instrument in the promotion of closer inter-American economic relations.

The other permanent body set up by the Panama Conference was the Inter-American Neutrality Committee. This committee was organized upon the suggestion of Venezuela. Its purpose was to formulate general rules

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<sup>4</sup>Inter-American Financial and Economic Advisory Committee, Handbook of Its Organization and Activities, 1939-1943 (Washington: Government Printing Office, 1943) p. 3.

appropriate to the neutral status of the American nations. It met permanently in Rio de Janeiro and consisted of one expert in international law from each of seven American nations: Argentina, Brazil, Chile, Costa Rica, Mexico, the United States, and Venezuela. Charles F. Fenwick, a Professor of Political Science at Bryn Mawr College, was the United States member on this committee which began meeting on January 15, 1940 and met regularly thereafter. Among the aims of the committee was the maintenance of close contacts between the American governments regarding unneutral use of territory, unneutral actions by inhabitants of the Western Hemisphere, and unneutral actions by aircraft, warships, or merchant ships blockaded in American ports.<sup>5</sup>

Government officials were unanimous in their praise of the results of the Panama Conference. It clearly had accomplished as much or more than the United States had expected. The United States agenda had been followed, and all major United States proposals had been accepted along with numerous others that the United States had agreed with or desired. There was a great feeling of harmony present at the conference, and even the Argentines got

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<sup>5</sup>"Inter-American Center Conference, December 5-7, 1939," The George Washington University Bulletin, (Washington, D.C., 1940), Address by Adolf Berle, p. 21; Foreign Relations, 1939, V, pp. 45-47, passim.

along so well that Sumner Welles and Laurence Duggan, the Advisor for Political Affairs to the Department of State, requested that President Roosevelt formally receive Argentina's representative to the Panama Conference, Dr. Leopoldo Melo, at the White House. This was to be sort of a reward because Melo's cooperation had been "indispensable to the achievement of the Declaration of Panama."<sup>6</sup>

Despite the success of the Panama Conference grave political, military, and economic problems resulted from the outbreak of war, and most Latin American countries were powerless to solve these problems without help from the United States. Economic affairs were the most crucial and the most complicated. The Roosevelt Administration hoped to bolster the economics of the Latin American countries and itself, and at the same time weaken the economic foothold of the Axis nations in Latin America. Germany particularly, but also Japan and Italy, had built up such strong economic positions in some countries that their trade could make or break the economies. Strong actions were needed to counteract this. Consequently a new program was formulated. This program had two objectives: first, to alleviate the immediate effects of the dislocations in

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<sup>6</sup>Welles, pp. 211-212; Hull, p. 689; Guerrant, pp. 145-46; Laurence Duggan to Roosevelt, October 9, 1939, Official File 366.



trade brought about by the outbreak of war, and, second, to set up a program for long term economic unity in the Western Hemisphere.

This was no easy problem even under the best of conditions, but it was complicated by other difficulties. First, there was a conflict between United States foreign policy and domestic policy. Many citizens of the United States, particularly those in foreign trade and banking, wanted to expand both export and import trade with Latin America in order to promote domestic industrial recovery and to strengthen political relations with Latin America. Others, notably the wheat, corn, linseed, and cotton growers and the cattlemen, opposed any lowering of duties on competitive products from Latin America. They had strong pressure groups on their side and were very effective in preventing new trade treaties with both Argentina and Uruguay in the first few months after war began.<sup>7</sup>

This failure to reach an agreement with Argentina and Uruguay was contrary to the wishes of the State Department. In fact, the State Department had agreed to negotiate with Argentina, as much for political reasons as for economic ones. Whether Argentina was more agreeable

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<sup>7</sup>Percy W. Bidwell, Economic Defense of Latin America (Boston, 1941), p. 50.

at Panama due to the trade agreement negotiations is a matter of speculation, but the negotiations certainly did not hurt the United States position. Because of their similarity of crops, negotiations were also begun with Uruguay in October, 1939. Unfortunately, on January 8, 1940 negotiations for reciprocal trade agreements with both Argentina and Uruguay were terminated. Many problems contributed to the failure of these negotiations, but it was apparent that the domestic linseed oil and cattle interests were very influential in preventing an agreement.<sup>8</sup> It was particularly unfortunate that in crisis times foreign necessities did not take preference over domestic vested interests.

Another complication to the economic plans and programs of the United States was the effect of the war on the Latin American countries. Since many Latin American countries, particularly those in South America, had traded heavily with continental Europe, they faced serious dislocations of their commerce due to British control of the seas. They feared that virtually all sales to and from Germany and the countries she occupied would be lost. They also anticipated that Great Britain would have to suspend most of her exports to Latin America because they

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<sup>8</sup>Foreign Relations, 1939, V, pp. 294-302, 804, passim.

would be needed at home for war purposes. On the other hand, Britain would desperately require Latin American food and raw materials, but the only way she could pay would be to liquidate her capital holdings in the Latin American countries. In one way this would be a boon to Latin America, especially to Argentina, Brazil, and Uruguay, because of their heavy British investments. However, a reversal of the British balance of payments would force Britain to curtail vital imports. Latin America would then have a tremendous amount of unsold products with no large market for them except the United States. This would make them more dependent on the United States both for exports and imports. The question was how much could the United States absorb of the products that formerly went to Europe?

Another troublesome problem was how to finance sales to the United States when nearly all Latin American countries were buying more from the United States than they were selling. The Export-Import Bank was the major financial institution involved in financing Latin American purchases, but its operations had been extremely modest. When war broke out, its assets were limited to the loan of \$100 million dollars for the entire world. Roosevelt had asked during mid-1939 that this amount be raised but had been unsuccessful. In fact, during the 1939 regular





session of Congress, any interest in the Export-Import Bank was overshadowed by discussion about its parent organization, the Reconstruction Finance Corporation. Later, there was even some congressional fear that the Bank might use its loan power to aid belligerents in carrying on the war.<sup>9</sup>

The original legislation that set up the Export-Import Bank had limited it to the financing of Latin American purchases of United States products. Consequently its powers were minimal. Yet, if the Bank could make more loans like the apparently accidental Haitian development loan of 1938, at least some help to Latin American nations could be forthcoming.

Chile, in fact, had been trying to get a loan from the Export-Import Bank since February, 1939. Chile was in a fortunate position compared to many other Latin American nations because she had worked out a temporary debt agreement with the Foreign Bondholders Protective Council. The political importance of this was shown in the United States Ambassador's remark to the Chilean government that a continuance of the debt plan and a "moderate attitude" toward United States companies would do more to secure favorable

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<sup>9</sup>Eleanor Lansing Dulles, "The Export-Import Bank of Washington: The First Ten Years," Commercial Policy Series, Number 75 (Washington: Government Printing Office, 1944), pp. 7-8.



consideration than anything else. Chile remained acquiescent and in September, 1939 the Chilean Fomento [Economic] Corporation received a \$5 million dollar developmental loan from the Export-Import Bank.<sup>10</sup> This credit was unique because it was the first loan made specifically to a Latin American development corporation. Others would follow.

While other solutions to Latin American economic problems were being discussed by such agencies as the Inter-American Financial and Economic Advisory Committee in late 1939 and early 1940, the Export-Import Bank alone had the facilities to do something tangible to help out Latin America. A final problem complicated this situation. This was what position should the Export-Import Bank take when it was confronted by a request for a loan from a country in default on its dollar bonds to United States bondholders? As previously mentioned, a re-examination of the loan policy to Latin America had been going on since the summer of 1939, but no decision had been reached when war began.

With the outbreak of war, debt settlement became more pressing than ever before in view of the necessities

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<sup>10</sup> Ibid., p. 10; Ambassador in Chile (Armour) to Hull, February 24, 1939, Foreign Relations, 1939, V, p. 441; Hull to Ambassador in Chile (Bowers), September 19, 1939, ibid., p. 452.

of maintaining good relations between the United States and the rest of the American nations. The main problem that the Roosevelt Administration had was over the policy it should follow on the granting of Export-Import loans. A number of bilateral negotiations were held but the most extraordinary difficulties came about in the State Department's separate discussions with Colombia and Brazil. Since both these countries had defaulted on their previous loans the weight of the F.B.P.C. was against them until they made a settlement. This was a great complication to the sort of hemispheric solidarity that the Roosevelt Administration wanted.<sup>11</sup>

Colombia had been using the good offices of the Department of State as an intermediary between it and the Foreign Bondholder's Protective Council since May, 1939. Apparently the Colombian Government had been eager to reach some kind of a settlement with the bondholders since December, 1935. They had failed then and in later attempts in July and November, 1937 mainly because the F.B.P.C. thought it could get a better deal and refused to compromise. By that time the Colombians were quite fed up

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<sup>11</sup>Other Latin American countries with which relations were confused because of debt defaults were Mexico, Peru, Bolivia, Ecuador, Paraguay, El Salvador, and Panama. Colombia and Brazil were chosen because both reached a temporary settlement in early 1940, and in the negotiations for these settlements, policy conflicts within the Roosevelt Administration became obvious.

with the attitude of the F.B.P.C., and this attitude prevailed in May, 1939.<sup>12</sup>

While a possible reconsideration of United States policy continued to be discussed, Ambassador Braden continued to encourage settlement and on occasion even suggested possible ways to reach settlement. There was a fine line between this position and the Government's professed policy:

Not to interject or involve itself in the negotiations between governmental entities and the bondholders, its activities being strictly limited to using its informal good offices to help bring about the inauguration of discussions and facilitate their continuance.<sup>13</sup>

Braden's efforts to bring together the Colombian Government and the F.B.P.C. failed during the summer of 1939. This, in part was due to the past history of negotiations. The Roosevelt Administration feared the political power of the F.B.P.C.; conversely the Colombian Government believed that any concessions it gave to the F.B.P.C. would cause internal political repercussions. Thus, satisfying the F.B.P.C. was a necessity for the Roosevelt Administration and an anathema to the Colombian

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<sup>12</sup>Ambassador in Colombia (Braden) to Hull, May 15, 1939, Foreign Relations, 1939, V, pp. 469-481, passim; See ibid., pp. 475-76 for Ambassador Braden's attempt to pacify Colombian criticism of the F.B.P.C. by giving his version of the functions of the council.

<sup>13</sup>Hull to Braden, July 20, 1939, ibid., p. 493.



Government. The resulting situation was a great threat to solidarity.

At this point the war began, and the United States became preoccupied with the larger economic and political aspects of its Latin American policy. These were discussed at an intragovernmental conference concerned with making preparations for the Panama Conference. Key topics of discussion were how to get more money for the Export-Import Bank, how much to get, and what to do in the meantime. Both Herbert Feis, the economic advisor of the State Department, and Secretary of Treasury Morgenthau felt that the United States could loan up to \$200 million in Latin America in the next two years without losing too much of it through bad loans or defaults. Jake Viner, another committee member, emphasized that \$200 million was a small price to pay for the goodwill that the United States wanted.<sup>14</sup>

Jesse Jones, the Chairman of the Board of Directors of the Reconstruction Finance Corporation, met with Secretary Morgenthau and Under Secretary of State Welles a few days later. Definitive economic plans for the upcoming Panama Conference were their major concern. They decided that the Treasury's Stabilization Fund would

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<sup>14</sup>Morgenthau Diaries, Vol. 210, September 12, 1939, pp. 306-07.



not be used for loans. Consequently, they hoped that unless, or until, Congress could be persuaded to increase the capitalization of the Export-Import Bank, the Reconstruction Finance Corporation might be able to give the Export-Import Bank additional lending power. Since there was doubt over how much money the Export-Import Bank would have available to lend in the near future, it was decided that "no definite sums would be mentioned at Panama." Welles was authorized, however, to make a general statement promising economic aid. This was done because it would be embarrassing to create the impression that funds would be available if they were not. Mr. Jones did think, however, that the Export-Import Bank "might be able to supply" thirty to forty million dollars over the next four months.<sup>15</sup>

Morgenthau thought that this was not enough. Probably hoping to avoid the question of the quid pro quo between debts and loans, which he opposed, he brought forth a new idea that in the future might take pressure off the Export-Import Bank. His plan, which would need Congressional authorization, was to get permission to set aside the remaining balance of about 110 million dollars of the original 130 million dollars gold profit of the

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<sup>15</sup>Ibid., Vol. 211, September 13-15, 1939, pp. 47-48.



Gold Reserve Act of 1934. He hoped this could be put "in the hands of Federal Reserve Banks for industrial loans for use in Latin America." Admittedly, this was a long range project.<sup>16</sup> Although no great changes resulted from this conference, it at least pointed out the limitations on economic help to Latin America.

Shortly after this meeting Welles went to Panama. In the meantime, conversations still were being held with Colombia over the debt question. On September 19, Laurence Duggan, the Chief of the Division of American Republics, held a long conversation with the Colombian Ambassador. The policy on debts had not changed, but, at least, the State Department had abandoned its long-held policy not to become directly involved. Duggan informed the Ambassador that the Government "was prepared to play a more active role than usual in negotiations between foreign governments and American bondholders." He then proceeded to suggest possible terms for a solution that was more than Colombia had offered, but less than the F.B.P.C. wanted.<sup>17</sup> Government policy had clearly become slightly unhinged due to the war and the wish for close relations at the Panama Conference.

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<sup>16</sup>Ibid., p. 48.

<sup>17</sup>Memorandum by Laurence Duggan, September 19, 1939, Foreign Relations, 1939, V, pp. 502-504.



On September 26, Sumner Welles reported from the Panama Conference that he had carried on extensive conferences with the Colombian representatives. They feared that the war would have an adverse effect on the economic climate in Colombia and asked Welles whether the United States would grant them financial assistance. They urged a credit for the Banco de la Republica for "reserve purposes and to enable it to continue necessary imports and to maintain the stability of Colombian money for economic purposes. . . . " They also wished to set up a new banking institution to handle loans and requested help in setting it up. Welles was powerless to make any firm promises, but he requested that Secretary Hull consult with Jesse Jones, Warren Pierson, who was the President of the Export-Import Bank, and the Treasury Department, and then cable him as soon as possible with their decision.<sup>18</sup>

In a second cable on the same day Welles repeated his hope that the United States would be willing to begin discussions on possible financial assistance. He also included a memorandum of a conversation he had with a member of the Colombian delegation on September 24. This

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<sup>18</sup>Welles to Hull, September 26, 1939, ibid., pp. 504-06; Morgenthau Diaries, September 26, 1939, pp. 188-89.



went into some detail on possible ways the United States could loan Colombia money but ended up with a veiled hint on the difficulties of making loans to defaulting countries.<sup>19</sup>

The Secretary of State replied to Welles' telegrams on September 29 with a lengthy explanation of the numerous events of the past three days. A summit meeting had been held among Hull, Morgenthau,<sup>20</sup> Jones, and Pierson, and a number of things were decided upon. Most significantly the Export-Import Bank had agreed to loan commitments with Brazil, Chile, and Panama amounting to eleven million dollars.<sup>21</sup> This foretold, but did not overtly explain, a change in the heretofore adamant demands that debt settlements had to precede Export-Import Bank loans because each of these countries had some kind of debt default problems with United States bondholders.

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<sup>19</sup>Welles to Hull, September 26, 1939, Foreign Relations, 1939, V, pp. 506-07; Memorandum of Conversation by the Adviser on International Economic Affairs (Feis), September 24, 1939, ibid., pp. 507-08.

<sup>20</sup>Unfortunately a Treasury Department reply written to Welles in Panama between September 27-30 and found in Morgenthau Diaries, Vol. 214, was still classified in June, 1966.

<sup>21</sup>Hull to Welles, September 29, 1939, Foreign Relations, 1939, V, pp. 508-09; Morgenthau Diaries, Vol. 216, October 10, 1939, pp. 387-88.

No definite policy on debt defaults had yet been set up and would not be until Welles returned from Panama. Then the State Department, the Treasury Department, and the Federal Loan Agency were to "collaborate in the preparation of a broad program for economic and financial cooperation with the other American republics." The program would then be presented to Congress for its approval. This was necessary because it was certain to include requests for increased lending power for the Export-Import Bank and for specific Congressional authorization for a new type of Stabilization Fund transaction as well as for authorization to make long term loans of gold in connection with Latin American reorganization of their monetary systems.<sup>22</sup>

In the meantime the State Department gave its present view on the debt question. This was that any country which was in position to conclude a reasonable debt settlement, or at least could sign a temporary settlement and did not, would not be eligible for credits. If a country was financially unable to make any payments, either permanently or transitionally, the Department would still recommend that the other agencies of the government extend credit to tide over any emergency. Hopefully,

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<sup>22</sup>Hull to Welles, September 29, 1939, Foreign Relations, 1939, V, p. 509.





this would keep the country solvent and pave the way for a future settlement.<sup>23</sup>

Secretary Morgenthau, however, had long held the view that credits should not be the carrot for any debt arrangement. His opinion had not been changed by the war emergency. This meant that government policy was still split although the State Department apparently was moving towards the Treasury position regarding Colombia. Colombia was informed that the State Department recognized it was attempting to reach a debt agreement. Consequently, it was no longer on the "blacklist" because of its inability to sign an accord with the F.B.P.C. While the State Department was in the process of re-examining its policy, no definite plans could be made for an Export-Import loan to Colombia, but at least it "was no longer out of the question."<sup>24</sup> This was probably the least the United States could do for Colombia since Colombia had already learned about the Export-Import credits to Chile and Brazil.

Chile's case would be easier to explain to Colombia than the position of Brazil. Chile had made a temporary agreement to service her dollar debt, but Brazil had done little, if anything, to reach settlement with

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<sup>23</sup>Ibid., p. 510.

<sup>24</sup>Ibid.



the bondholders despite Dr. Aranha's agreement in March, 1939. Brazil did deposit one million dollars in New York on July 1, 1939. However, this was nothing more than a one shot, good faith deposit. Since then she had negotiated with the F.B.P.C. until early September when, due to the war and to the necessity that the F.B.P.C.'s representative in Rio de Janeiro return to the United States, discussions had been terminated.<sup>25</sup> It was apparent that the United States Government had disregarded its long-established policy during the time of the Panama Conference in order to fortify its political position at the Conference. Once the Conference ended, however, a decision would have to be made on other loan applications, and a definitive policy would have to be decided upon. In the meantime there was the danger that other American governments which had requested loans and had not yet received them, such as Colombia and Peru, would feel discriminated against.

This problem was a major one because both the State and Treasury Departments were internally split on what kind of economic policy should be followed in cases of Latin American nations in default on their debts to United States bondholders. As previously mentioned the

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<sup>25</sup>Morgenthau Diaries, Vol. 216, October 10, 1939, pp. 386-88.

State Department had based its policy on a nation's ability to pay the bondholders. If it could and did not make a settlement, loans would not be forthcoming. This was Hull's opinion, but Sumner Welles dissented from it because of the war emergency. Since the war began, he felt that financial assistance should not be tied to a solution of the debt problem. This was very close to the position Henry Morgenthau took. He felt that private debts were not a Treasury concern, but that as part of any general economic settlement that a country could make with its creditors, private debts should be adjusted on a reasonable basis. Joseph P. Cotton, Jr., one of Morgenthau's assistants in the Treasury Department, disagreed. He felt that "the most constructive contribution the Treasury . . . could make would be to press the State Department to take advantage of the war situation to do everything possible to force an adjustment of the private debt defaults."<sup>26</sup>

The President wanted something done for the Latin American countries. However, he was characteristically ambiguous when asked about the position of the F.B.P.C. regarding debt negotiations. He said he was rather disappointed in their lack of success and that he had expected

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<sup>26</sup>Ibid., pp. 389-390.



more progress.<sup>27</sup> This could be taken two ways. Probably he phrased it this way in order to make it appear that he backed the F.B.P.C. This would please the bondholders. At the same time, State Department discussions show that the Government was becoming concerned that the F.B.P.C. was forsaking settlements in hopes of getting more money for the bondholders. Taken in this light, his statement was a rebuke to the F.B.P.C. and perhaps a slight bit of pressure to get them to come to an agreement with the Latin American nations with which they were negotiating.

The long-awaited showdown meeting on Latin American financial procedures came in mid-October. On October 18, in a meeting attended by Secretary Morgenthau, Under Secretary of State Welles, and Jesse Jones as well as about eight of their advisors and assistants, Morgenthau mentioned that he had talked with the President and the State Department and that they had decided on the procedures to be followed in making loans to Latin America. Sumner Welles, Jesse Jones, and Morgenthau were designated as an informal committee of three to take up the financial needs of any country that the President or the State Department designated. They would then recommend what could be done for the country and submit the recommendation to

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<sup>27</sup>Franklin D. Roosevelt, "Press Conferences," XIV, October 27, 1939, pp. 256-57.

the President and Mr. Hull. If they liked it, it would be shown to Senator Key Pittman, the majority leader, to ask him if he would defend it in Congress. If all went well and the country involved agreed to the plan, then that would be the pattern followed. Morgenthau saw the whole plan in context of a bank with Mr. Welles, Mr. Jones, and himself as the loan committee.<sup>28</sup>

This meant that each case would be decided upon with its own merits or demerits in mind. There would not be an all-encompassing policy that could be put down on paper. However, it was apparent in the light of later events that the original State Department plan that considered whether Latin American countries had the ability to pay back former loans, remained an important part of the new idea. Still, it was not a hard and fast rule, because at this conference Welles remarked that they wanted to do something for Colombia, and Colombia was still in total default. National interest as defined by the State Department would be the final determinant in any action.<sup>29</sup>

On October 19, Hull notified the Colombian Government that the United States was prepared to examine the

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<sup>28</sup>Morgenthau Diaries, Vol. 218, October 18, 1939, pp. 6-8.

<sup>29</sup>Ibid., p. 15.



question of financial assistance "with sympathetic disposition and care with a view to determining what assistance may be feasible and available, and what form and by what methods." Colombia was asked to send a representative to Washington in early November to carry on discussions regarding a credit. They were cautioned however, that discussion would be begun "with absolutely no commitment," and for that reason, the United States hoped that talks could be held without publicity.<sup>30</sup> Actually, the State Department was worried about the political impact of public opinion on the Government's plan to negotiate with a country in total arrears on its debt.

By late October or early November, it was plain that both the State and Treasury Departments were ambivalent toward the F.B.P.C. They were concerned about the F.B.P.C.'s failure to come to terms with the Colombian government. Nevertheless, they were reluctant to get directly involved in the negotiations for fear that hemisphere opinion would regard the United States as "the old time Shylock and as the bill collector." They also did not particularly like the personalities of the F.B.P.C. men involved in the negotiations, and neither did the Colombian government. Consequently, despite all

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<sup>30</sup>Hull to Braden, October 19, 1939, Foreign Relations, 1939, V, p. 514.



their misgivings about involvement, Welles acquiesced in Morgenthau's suggestion that because of the impasse they should become directly involved.<sup>31</sup>

By mid-to-late November, the Treasury and State Departments were so involved that they might as well have been mediators. They knew the intricate details of both the Colombian position and that of the F.B.P.C. and were attempting to get each side to compromise, although they did not present their own plan. Morgenthau wanted to commit the leaders of the F.B.P.C. to saying they were satisfied if a potential agreement was decided upon. He feared that adverse publicity by the F.B.P.C. would incite public opinion against the Government. Welles also feared that the bondholders would criticize the Government for selling out their interest. But, both agreed that they would try to get the F.B.P.C. in line for a settlement at less than one-hundred per cent.<sup>32</sup>

Negotiations continued but no solution could be reached. On November 28, Morgenthau called a meeting of all governmental agencies concerned with the Colombian debt. They were to meet with the representatives of the

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<sup>31</sup>Braden to Hull, November 2, 1939, ibid., p. 515; Morgenthau Diaries, Vol. 220, October 31, 1939, pp. 346-47.

<sup>32</sup>Morgenthau Diaries, Vol. 223, November 21, 1939, p. 193; ibid., November 22, 1939, pp. 329-38.

F.B.P.C. in hopes that they could recommend a settlement. Morgenthau, himself, was becoming so exasperated with the F.B.P.C. that if he had had the power he would have re-organized it. His main worry was that he did not want to find himself in a position in which he would be negotiating with a government on defaulted bonds, and that then the F.B.P.C. would refuse to approve the deal.<sup>33</sup>

An unsigned memorandum circulated in the Treasury Department on November 29 entitled "Notes on the Latin American Project," analyzed the problem that defaulted Latin American bonds posed to the Government. It specifically mentioned things that had long been discussed or hinted at. A major conclusion was that the defaulted bonds were a "serious obstacle to proper relations between the United States and Latin America." They were also a particular irritation to businesses which contemplated investing in Latin America. Despite the fact that the defaults were deterrents to foreign trade, to foreign policy, to the Good Neighbor Policy, and to Western Hemisphere defense programs, no workable plans or constructive suggestions had come from any of the institutions or governments involved. Consequently, the memorandum suggested that, since the defaults were honest and

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<sup>33</sup>Ibid., Vol. 224, November 28, 1939, p. 311;  
ibid., Vol. 225, November 29, 1939, p. 127.

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involuntary, the United States Government should rectify past mistakes and in some way dispose of all defaulted obligations. This would be the best way to bring about needed cooperation among the American nations.<sup>34</sup> These were brave plans and they no doubt became goals to strive for, but no easy solution was in sight.

On December 1, Morgenthau took the initiative and cast aside all previous reluctance of putting the Government squarely in the middle of the debt negotiations. Despite disagreements within the Treasury Department, Morgenthau wanted the F.B.P.C. to negotiate to get the best deal it could. Then they should come and tell the Treasury about it, and the Treasury would be the "umpire."<sup>35</sup> This plan would get the Government more deeply involved in negotiations than ever before and, in effect, the Treasury would be the final judge on whether the F.B.P.C. should accept a Colombian offer.

A few days later this idea was slightly changed. Morgenthau now wanted either side to come to see Welles, Jones, or himself if they felt an impasse had been reached. The three of them would then sit as a "court of appeal." Both sides agreed to do this. In the meantime, Morgenthau

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<sup>35</sup>Ibid., Vol. 226, December 1, 1939, pp. 3-12.

set up a face to face meeting for the negotiators.<sup>36</sup> The Treasury Department clearly was getting panicky. It wanted a solution so badly that now nearly all the stops had been pulled out.

When no solution could be reached by mid-December, Morgenthau began negotiating directly with the Colombian representative. The F.B.P.C. representative had given the Treasury his "irreducible minimum," and Morgenthau, Jones, and Welles all thought the Colombian offer was unfair because it was too low. Consequently, they sought to get the F.B.P.C. a better deal. On December 20, Morgenthau told the representative of the F.B.P.C. to sit tight and be patient because they "were trying to do a little work on this end."<sup>37</sup>

By this time, Jones was getting impatient and uneasy about the amount of authority they were assuming. He felt that Colombia should both recognize her existing debt and arrange to service it, if she wanted the Export-Import Bank to consider extending her any credits. Both Welles and Morgenthau also were getting impatient. Welles wanted to take up Peru's debt situation next, and

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<sup>36</sup>Ibid., Vol. 226, December 5, 1939, pp. 393-410.

<sup>37</sup>Ibid., Vol. 228, December 13, 1939, p. 251; ibid., Vol. 229, December 15, 1939, pp. 228-29; ibid., Vol. 230, December 18, 1939, pp. 55-56; ibid., Vol. 231, December 20, 1939, p. 79.





Morgenthau saw no need to wait for Colombia if Brazil wanted to start negotiations.<sup>38</sup>

Nothing happened for the next twenty days possibly due to the holidays. But on January 9, 1940 Morgenthau talked to the F.B.P.C. negotiator and told him to meet with the Colombian Ambassador on January 12. They both were then to meet separately with Jones, Welles, and Morgenthau on the thirteenth in hopes a solution could be reached. Although no solution came out of that conference, another one was held on February 1 in which Morgenthau suggested that a temporary, rather than a permanent, debt settlement be reached. This broke the impasse and by February 5 both sides had agreed to a temporary arrangement.<sup>39</sup>

In essence the agreement was that negotiations would continue toward a permanent solution until February 15. If nothing definite was decided by then, an extremely detailed temporary accord would go into effect.<sup>40</sup> This was what happened.

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<sup>38</sup> Ibid., Vol. 231, December 20, 1939, p. 57; ibid., December 21, 1939, p. 204.

<sup>39</sup> Ibid., Vol. 234, January 9, 1940, p. 57; ibid., January 10, 1940, p. 146; ibid., Vol. 235, January 13, 1940, pp. 223 ff; ibid., Vol. 239, February 1, 1940, p. 93; ibid., February 5, 1940, p. 294.

<sup>40</sup> Morgenthau to Welles (with enclosure), February 7, 1940, Foreign Relations, 1940, V, pp. 695-96; Morgenthau to Roosevelt, February 7, 1940, Official File 313.



Jones, Welles, and Morgenthau undoubtedly were pleased with themselves for the negotiations had been extremely difficult. In the course of these negotiations they had reversed their policy of not getting directly involved and had ended up as mediators. The Colombians were gratified with their effort and were anxious to get on with discussions for an Export-Import Bank loan.

At this point all governmental fears about the F.B.P.C. came into focus when a monkey-wrench was tossed into the works. An article appeared in a United States magazine giving the views of the F.B.P.C. on the temporary settlement. Contrary to promises made to the Colombians, the F.B.P.C. made public its disappointment over the temporary understanding and claimed that the holders of Colombian bonds had not received the consideration they deserved. This practical double-cross was typical of the relations among the United States Government, the F.B.P.C., and many of the Latin American countries. The Colombian Ambassador was furious, knowing that any settlement would be unpopular in Colombia and fearing that political repercussions would occur. He was only placated days later after the Government got both the Associated Press and United Press to run stories favorable to the solution in Latin America.<sup>41</sup> The whole episode was a good example of

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<sup>41</sup>Morgenthau Diaries, Vol. 241, February 19, 1940, p. 320; ibid., Vol. 242, February 24, 1940, p. 246.



the problems involved in interposing the Government in private debt negotiations. All their work could have gone down the drain due to this one rash statement, ironically, by an institution originally set up by them.

There was no doubt that Colombia would soon receive an Export-Import Bank loan. It would only be a matter of time until the details could be worked out. In Colombia's case it had been necessary for them to agree to a temporary debt settlement before they could get a loan because State and Treasury officials were convinced they were in a position to afford at least a temporary debt adjustment. Successful negotiations with other Latin American countries would depend on many Colombian precedents although each case would be looked at with its special circumstances in mind.<sup>42</sup>

Negotiations with Brazil were similar to those with Colombia but with an added difficulty. This was that European countries were simultaneously negotiating with Brazil for a settlement of other debt defaults. This injected an additional political note because the F.B.P.C. was adamant that United States bondholders should get a better deal with Brazil than the French, British, or Portuguese bondholders.

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<sup>42</sup>Colombia got its Export-Import loan of \$10,000,000 on May 10, 1940.



Negotiations with Brazil had begun at the invitation of the Brazilian Government in August, 1939. Representatives of the British, French, and United States bondholders went to Rio de Janeiro, but soon after the war began, the representative of the F.B.P.C., Dr. Dana Munro, was forced to return home in order to fulfill his teaching obligation at Princeton University and no money was available to send someone else. The British and French representatives stayed in Brazil. They were subsequently joined by another Frenchman, representing a different group of bondholders. The Europeans wanted to negotiate in Brazil, but any negotiations between Brazil and the F.B.P.C. would have to be through the Brazilian Ambassador in Washington.<sup>43</sup>

In September, Brazil received a small credit of \$3,250,000 from the Export-Import Bank in order to finance the sale of ships and steel rails. This was an exception to Government policy, but it was done to "fortify the position of the United States at the Panama Conference." This was really a drop in the bucket, and Brazil wanted larger loans from the Export-Import Bank.<sup>44</sup>

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<sup>43</sup>Morgenthau Diaries, Vol. 326, January 18, 1940, p. 248; Caffrey to Hull, September 6, 1939, Foreign Relations, 1939, V, pp. 371-72.

<sup>44</sup>Morgenthau Diaries, Vol. 216, October 10, 1939, pp. 386-87.





The Brazilians continued debt negotiations with the Europeans during October and November. They also repeatedly assured the State Department that "the dollar debt would receive consideration before any other Brazilian foreign debt and that in any settlement it would receive terms at least as favorable as those extended to the creditors of any other nationality." Despite this, the State Department felt that, according to information it had received, the Brazilians might try to reach an independent settlement with the Europeans. Hull then cabled Ambassador Caffrey in Brazil on December 12 and told him to reiterate to Foreign Minister Aranha that an independent settlement with the Europeans would cause unfavorable Congressional and public opinion in the United States.<sup>45</sup>

On December 28, Ambassador Caffrey reported that the Europeans had finally reached understandings with Brazil from which an agreement apparently could be made. Since the United States bondholders were not included, he took action to prevent a settlement. This was despite Brazilian suggestions that, if a European settlement could be reached, United States bondholders would get better treatment. After this the Brazilians wanted the United

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<sup>45</sup> Ibid., Vol. 236, January 18, 1940, p. 249; Welles to Caffrey, November 15, 1939, Foreign Relations, 1939, V, pp. 373-74.



States Government to join the negotiations directly since no member of the F.B.P.C. was in Rio de Janeiro. Up to this time, however, it had been the State Department's policy not to become directly involved in the Brazilian negotiations.<sup>46</sup>

Because the possibilities for settlement looked good and probably because negotiations with Colombia on her debt were in a temporary remission the State Department reversed its policy and ordered United States Ambassador Caffrey, at his discretion, "to participate informally and independently in debt discussions." This eliminated the predicament Brazil had been placed in, but did not eliminate the pressure on Brazil to settle all debts, federal, state, and municipal, to the benefit of United States bondholders. Hull repeated again that no partial settlement favoring European bondholders at the expense of United States bondholders would be tolerated.<sup>47</sup>

This was the situation at the beginning of 1940. No F.B.P.C. member was involved in the Brazilian negotiations yet the State Department was anxious, because of internal politics, to do the work of the F.B.P.C. Thus, Brazilian negotiations were strictly a State Department

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<sup>46</sup>Morgenthau Diaries, Vol. 236, January 18, 1940, pp. 249.

<sup>47</sup>Hull to Caffrey, December 29, 1939, Foreign Relations, 1939, V, pp. 377-78.



operation. In the meantime the State Department had received a Brazilian promise that no agreement would be made with other bondholders prior to an agreement with the United States bondholders. In fact, on January 13, 1940 Dr. Aranha, the Brazilian Minister of Foreign Affairs, "confidentially and informally" and without authorization informed the State Department that he thought he could persuade President Vargas and the Brazilian Cabinet to resume payments "on all dollar bonds." The State Department said this was "a step forward."<sup>48</sup> Brazil was clearly eager to make at least a temporary settlement of the debt problem, and it appeared that they were ready to agree to the Roosevelt Administration's demands.

Detailed and technical negotiations ensued and were carried on throughout January. The major difficulty that came up at this time was an interdepartmental one. Secretary Morgenthau felt that the State Department, and particularly Mr. Feis, was attempting to keep Mr. Jones and himself out of the Brazilian negotiations. Consequently, rather than fighting this apparent slight he decided to refuse to take part in the negotiations, except to offer technical assistance in research or computations that the State Department might need. This was clearly a

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<sup>48</sup>Morgenthau Diaries, Vol. 236, January 18, 1940, pp. 251, 561.



tempest in a teapot, and it had little, if any, effect on the Brazilian negotiations. However, Hull felt constrained to reply to Morgenthau that negotiations really were not going on and the F.B.P.C. really was not intentionally kept out of the project. He also stated that Ambassador Caffrey was trying to do the very best he could for the United States bondholders, "while carefully avoiding any responsibility of action that the Brazilian Government might take, more or less irrespective of our views." Hull, in fact, claimed that the United States Government had "not, I repeat, undertaken to negotiate with the Brazilian Government."<sup>49</sup> This might technically have been correct, but to the neophyte it would appear that the truth had been bent.

Negotiations continued throughout February with the State Department as the middleman. The procedure was for the Brazilians to give their detailed offer to Caffrey. He then would send it to the State Department. The State Department then would consult with the F.B.P.C. in Washington to see if they would accept it. The F.B.P.C. continually turned down Brazil's offers much to the chagrin of the State Department and to the dismay of the Brazilians

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<sup>49</sup> Ibid., Vol. 235, January 15, 1940, p. 380; Morgenthau to Hull, January 20, 1940, Foreign Relations, 1940, V, pp. 564-65; Hull to Morgenthau, February 6, 1940 Ibid., pp. 568-69.





who clearly preferred the more acquiescent attitude of the European bondholder's council.<sup>50</sup>

In early March, Brazil made another offer that clearly favored the United States bondholders over the Europeans. However, Francis White, President of the F.B.P.C., thought the proposal was "inadequate in the total and unsatisfactory in distribution between sterling and dollar bonds." His attitude alienated the State Department which felt that since in the judgment of Ambassador Caffrey this was the best available offer, it was "desirable that the way should be cleared to the bondholders." Consequently, they thought they had persuaded Mr. White to pass along the offer to the bondholders in the following terms:

Without passing in any way on the merits of the Brazilian proposal, which was not negotiated by it, the Council limits its comment on the proposal of the Brazilian Government, received through the Department of State, to the remark that negotiations at present would seem to hold no favorable prospect of obtaining any better offer. The Council must leave it to the bondholders to determine whether or not they will accept what is now offered.<sup>51</sup>

Since it was the normal position of the Council to give its opinion on all proposed agreements as an aid to the bondholders who obviously could not understand the highly

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<sup>50</sup> Foreign Relations, 1940, V, pp. 570-82, passim.

<sup>51</sup> Hull to Caffrey, March 4, 1940, ibid., pp. 582-



technical details, this agreement amounted to a retreat for the F.B.P.C.

Mr. White remained quite testy however, and there was great fear the the F.B.P.C. might sabotage the proposed agreement by commenting adversely on it in a public statement. Mr. White tried to take the pressure off himself and the F.B.P.C. by getting the State Department to admit that agreement was in the national interest and that the State Department had requested the F.B.P.C. not to take action. This was a politically devastating issue, and the State Department refused to admit it was putting pressure on the F.B.P.C. They would only say that they were letting the F.B.P.C. make the decision on turning down the only offer which appeared likely.<sup>52</sup>

Finally, after much wrangling over small details in phraseology, agreement was reached. The F.B.P.C. modified its public statement slightly, but essentially it was the same one agreed to previously. On March 8, 1940, President Vargas of Brazil signed a decree which proclaimed that Brazil would begin making payments on its bonded indebtedness on April 1, 1940. This certainly was no total victory for either side, or for the State Department since it was only a temporary agreement lasting four

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<sup>52</sup>Memorandum of Conversation by Berle, March 6, 1940, ibid., p. 592.

years. But the way was now clear for Export-Import Bank loans to Brazil without fear of political repercussions in the United States. This agreement had a great effect on the continuing good relations between Brazil and the United States for the Brazilian Government sincerely appreciated the efforts of the State Department. In fact, less than a month later the Export-Import Bank agreed to the financing of United States machinery and equipment needed for railway electrification in Brazil.<sup>53</sup>

Three other Latin American countries in complete default on their debts to citizens of the United States received different treatment from the Government when they requested financial assistance during the "Phony War" period. These were Bolivia, Peru, and Paraguay.

Bolivia was not only in complete default on her bond payments. She had expropriated the Standard Oil Company's holdings in 1937 and no compensation had been given as yet by September, 1939. The latter transgression was even more volatile as a political issue in the United States than the former.

The outbreak of war caused an exchange crisis in Bolivia. Consequently, at the Panama Conference, they

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<sup>53</sup>Caffrey to Hull, March 8, 1940, *ibid.*, p. 597; "Anon," "Export-Import Bank Loans to Latin America," Foreign Policy Reports, XVII (June 15, 1941), p. 86.

requested two million dollars from the United States to alleviate the difficulty. The major United States representative to the Panama Conference, Sumner Welles, who did not believe in tying loans to debt settlements, urged that the Export-Import Bank immediately authorize an advance of this sum. However, Mr. Dawson, the American Minister in Bolivia, opposed any action to help Bolivia because he felt the crisis was brought on by Bolivia's extravagance and bad financial management, and "especially in view of the record of the Bolivian Government in the recent past toward American interests."<sup>54</sup>

Welles was on the spot at Panama since credits to other countries had already been publicized. Nevertheless the State Department refused to do anything for Bolivia, and Hull said specifically that political reasons, meaning Bolivia's debt record and her expropriation of Standard Oil, dictated against any credit. In the recent past both Mr. Jones and Mr. Pierson had been asked about Bolivia, and they had both agreed to refuse loans to "a country that is confiscating our property." Since the lending authorities were against it and since they were dependent

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<sup>54</sup>Welles to Hull, September 22, 1939, Foreign Relations, 1939, V, pp. 313-15; Dawson to Hull, September 27, 1939, ibid., pp. 318-19.

on Congress for their whole plan of financial cooperation, the State Department refused the loan request.<sup>55</sup>

Welles attempted to change the Department's mind by telling Hull that the Bolivian Minister for Foreign Affairs had shown him a confidential communication from Japan offering Bolivia a barter arrangement for three million tons of tin. The Bolivian Minister told Welles that in the absence of an agreement with the United States they would be "obligated" to make an agreement with Japan or any other country that offered similar proposals.<sup>56</sup> This was a veiled threat to make a barter arrangement with Germany. Despite Welles protests the Department refused to reconsider, and no change occurred during the "Phony War" period. Apparently, domestic political considerations overcame any possible fear of strategic repercussions in this case.

Peru had requested a loan as early as May, 1939 and claimed discrimination when one was not immediately forthcoming. Mr. Dreyfus, the United States Chargé in Lima, told President Benavides quite bluntly that Peru's default was the reason. Hull was particularly incensed because Peru had come to an agreement with the British

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<sup>55</sup>Hull to Welles, September 30, 1939, ibid., pp. 320-21.

<sup>56</sup>Welles to Hull, October 3, 1939, ibid., pp. 321-22.

holders of Guano Bonds while negotiations with the United States group had been suspended. Since Peru was in good shape economically and financially, he could not condone Peru's lack of effort.

Peru recapitulated its request for assistance from the Export-Import Bank at the Panama Conference. They wanted six million dollars to alleviate their exchange problem that had been brought on by the war. Mr. Welles was sympathetic, but no action was forthcoming while the Panama Conference met. The Peruvians hoped that if they could get a large enough loan "service on the defaulted bonds might be resumed." This was just the reverse of the United States policy. At that time service had to be resumed before loans could be committed.

Peru requested that an Export-Import Bank official be sent to settle the loan as soon as possible. None went, however, in the Autumn of 1939. In fact, the United States practically ignored Peru's requests except for occasional friendly words. By December President Benavides was vehement. He was convinced that the United States was discriminating against Peru.<sup>57</sup> However, the State Department refused to do anything for Peru throughout the "Phony War" period. They felt that Peru was not as bad off as it

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<sup>57</sup> See ibid., pp. 773-785 for the discussion about Peru.





said, and they hoped Peru would begin negotiations on its debt default. Also, the Export-Import Bank was extremely limited in funds until Congress added to its total lending power twice in 1940. Another possible reason for the lack of action was that President Benavides was a lame duck in late 1939, and it was hoped his elected successor would be much easier to get along with. Whatever the State Department's reasons, relations with Peru deteriorated during this time.

Paraguay was a unique case in the economic events of the "Phony War" period. She was in complete default to United States bondholders and negotiations were not even being conducted with the F.B.P.C. Yet no one doubted that the economic plight of Paraguay was both real and desperate. She had fought a devastating war with Bolivia and desperately needed credits to build roads through her agricultural section. In this area Paraguay hoped to produce non-competitive agricultural products which she could furnish the United States. Paraguay believed that a credit from the United States could help her get back on her financial feet. Once this was done, perhaps something could be done on the debt situation.

The United States went against its professed policy in the prewar period when on June 13, 1939 the Export-Import Bank agreed to loan Paraguay \$500,000.

After the war started Paraguay asked the State Department



for help in getting another \$500,000 because of the closing of Paraguayan markets. Since imports from the United States would be increased, Paraguay needed the money to guarantee the stability of its currency. However, in December, 1939 Mr. Pierson, of the Export-Import Bank, turned down the request ostensibly because of the lack of funds.<sup>58</sup> This seemingly paltry amount apparently could not be raised. There the matter stood through the rest of the "Phony War" period.

All these cases point up the difficulties that the war caused for foreign economic policy. Once the war started, the United States needed the friendship and support of the Latin American nations more than ever. This support could best be gotten by closer relations. One way was closer economic relations, as evidenced by loans from the Export-Import Bank. Yet this was complicated by the necessities of internal politics which demanded governmental support for the plight of the bondholders. On top of this, the government had to deal with its bastard child, the Foreign Bondholders Protective Council. This group always tended to further complicate matters that were complicated enough. They also tried, usually successfully, to line up internal public and Congressional opinion

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<sup>58</sup>See ibid., pp. 758-768 for the discussion about Paraguay.



against any State Department attempt to reach debt agreements that they believed were inimical to their interests.

It was going to be increasingly difficult to justify turning down Export-Import loans, particularly when they might pave the way for political or military agreements. Yet some of the most important countries of Latin America such as Mexico, Peru, and Bolivia as well as Ecuador, Paraguay, and El Salvador were in total default on their bonded indebtedness as of April 1, 1940, and many other countries were in partial default. The strictest test would come after the Nazi blitzkrieg rolled over country after country in the spring of 1940. This direct threat to the peace of the hemisphere would have to be met primarily by the United States, and one of America's major weapons would be the Export-Import Bank.

Roosevelt had been trying to extend the capital of the Export-Import Bank since the spring of 1939. Originally he had wanted a \$500,000,000 increase, but that had been pared down to \$100,000,000. Even that limited amount had been turned down by the regular session of Congress in 1939. With the outbreak of war, Roosevelt moved cautiously in this area, probably fearing that some members of Congress would denounce any large increase in capitalization as a plot either to get the United States involved in the war or to flood the United States with



unwanted Latin American products. Consequently, he talked only in terms of a \$100,000,000 increase even though he admitted this amount would not be enough. He even waited until the regular session of Congress met in early 1940 before asking for the increase although a special session had been called after war broke out in 1939.<sup>59</sup>

While he waited for Congressional action, Roosevelt kept emphasizing his concern for the rest of the hemisphere. He verbally sought to give the Latin Americans assurances about things he could not do literally, at least not immediately. The best example of this occurred at one of his press conferences in early January, 1940. After assuring the reporters that South America was "coming along in good shape," which was debatable, he commented that, like North Americans, South Americans wanted to own their own companies and utilities instead of having foreigners own them. This did not mean that Roosevelt opposed the investment of dollars in Latin America or the wishes of industries in the United States to expand or invest there. On the contrary he wanted more investments in Latin America, but he wanted it to be done in a new way. The new way was to let the Latin Americans amortize and slowly

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<sup>59</sup> Franklin D. Roosevelt, "Press Conferences," XIV, October 3, 1939, pp. 205-06.

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pay off industrial bonds over a period of twenty-five or thirty years. When this period was up the company would be owned by the Latin American country or its nationals.

This was indeed a unique approach, but it was an approach dictated by the political realities surrounding United States investments in Latin America. Roosevelt recognized that a major problem of the Good Neighbor Policy had been to reconcile the oil expropriation of Bolivia and the oil and land expropriations of Mexico with the wish for closer relations with both countries. Domestic political pressure favored the punishment of countries which had "confiscated" United States property. This had been resisted before September, 1939 and was unthinkable once the war began. Roosevelt reasoned this type of thing could be avoided in the future under his new plan of Latin American ownership. Unfortunately the validity of this plan was not tested during these critical years.

In the meantime, Roosevelt had another complementary solution that was sure to find praise throughout Latin America. This was for the United States to aid Latin American nations in acquiring British owned industries and utilities. Britain needed money for the war, and once they ran short, they would have to begin parting with their investments. Roosevelt promised that the United States would step in, if requested, and make the financial arrangements



for eventual local ownership. To Roosevelt it was "a terribly interesting thing and one of the most important things for our future trade is to study it in that light."<sup>60</sup> This was a brilliant political move by Roosevelt at a time when there was great apprehension over the ability of many Latin American nations to survive the economic dislocations of the war. Other problems had also recently flared up.

Reciprocal trade agreement negotiations had just been broken off with both Argentina and Uruguay because of the United States refusal to give concessions due to domestic pressure. Ambassador Bowers in Chile had recently written Roosevelt expressing pessimism over the possibility of a trade agreement with Chile because of the American refusal to give Chile legitimate concessions. Roosevelt had replied to him in early January, using a draft from the State Department, saying that while the United States concessions left something to be desired, the government had to be cautious because of the bitter opposition that was sure to show up in Congress that month when the Trade Agreement Act came up for renewal. Bowers then again emphasized the necessity for concessions and ended up with a complaint that the Commercial Attaché in Chile was

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<sup>60</sup>Ibid., XV, January 12, 1940, pp. 75-78.



"primarily bent on protecting American interests with little thought of cultivating friendly relations."<sup>61</sup> This type of complaint was not unknown elsewhere in Latin America, and it pointed out that there was often a fine line between an official doing his job and doing things at odds with the long term interests of this country.

Another problem, at that time, directly concerned what Roosevelt had talked about in his January 12, 1940 press conference. Negotiations regarding a solution to the problem of the Mexican oil expropriations had reached an impasse in December, 1939, after the Mexican Supreme Court had unanimously ruled against the oil companies. The United States then considered proposing arbitration as the only settlement possible for this issue which had been a source of continuing and increasing irritation between the two countries since the expropriations were carried out in 1938. Since it was believed that Mexico would oppose arbitration of what it considered a "domestic" matter, solving the problem appeared hopeless. In early January, 1940 Mexico further exacerbated the issue when the Mexican First Civil District Court declared the

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<sup>61</sup>Bowers to Roosevelt, December 13, 1939, Official File 303; Roosevelt to Bowers, January 3, 1940, Foreign Relations, 1939, V, pp. 438-39; Bowers to Roosevelt, January 10, 1940, Official File 303; Department of State Bulletin, Vol. II, January 13, 1940, pp. 42-43.



petroleum companies in "rebeldia" for not appointing appraisers for their properties. This meant that the Mexican court could appoint the appraisers. If this had been done, a solution would have been even more difficult.<sup>62</sup> Since negotiations involving the Bolivian expropriations were not going any better, Roosevelt had ample material to convince him that United States owned companies in Latin America would always be a governmental headache unless his "new approach" was followed. Nevertheless, it was not even tried.

These problems also showed President Roosevelt that difficult times were ahead once Congress met. Congress had already been quite testy at times about economic aspects of the Good Neighbor Policy. The shrill cries of domestic political and economic interests would be on Congress as soon as it met, and Roosevelt and the State Department would have their hands full in justifying a continuance of many of their Latin American economic policies. On the other hand cultural and social relations began to get more attention than previously although they remained the least important part of the Government's foreign

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<sup>62</sup>Memorandum by Welles of Conversation with the Mexican Ambassador, December 11, 1939, Foreign Relations, 1939, V, pp. 714-15; Daniels to Hull, January 5, 1940, ibid., 1940, V, pp. 976-77; Department of State to the British Embassy, January 11, 1940, ibid., p. 979; January 5, 1940.

policy. Yet, they were not entirely neglected despite the small part they played.

Two governmental agencies were concerned with cultural and social relations in September, 1939--one wholly and the other partially. The Division of Cultural Relations of the Department of State had been set up in July, 1938 "to stimulate, coordinate, and facilitate the efforts of societies, clubs, and organizations of every kind to promote cultural interchange and sympathetic understanding of the culture, history, and social institutions of other peoples." However, by September, 1939, it had only a small budget and a strictly limited purpose.<sup>63</sup>

The governmental agency partially concerned with cultural and social affairs was the Inter-Departmental Committee on Cooperation with the American Republics. This had been in existence since May, 1938 when the President established it. Originally composed of representatives of thirteen governmental agencies, it had expanded to sixteen by January, 1940. Six of the agencies had only a small part in cultural and social relations. Some other agencies such as the Library of Congress, the Smithsonian Institution, the Civil Aeronautics Authority,

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<sup>63</sup> Department of State Bulletin, Vol. I, July 8, 1939, p. 21.





and the Agricultural Department, could be used for cultural and social matters. Their influence was extremely limited however, because the entire budget for 1939-1940 for all the agencies combined only amounted to \$998,804. The one program which was applicable to all government agencies was the legislation that allowed the United States to send civilian officials and technical experts to Latin American nations if they were requested. This program came about because of the provisions of Public Law 545, 75th Congress, approved in June, 1938.<sup>64</sup>

The "Phony War" period saw only one major event in cultural and social affairs. This was the series of conferences sponsored by the Department of State which met in October and November, 1939. These were called strictly "for the purpose of stimulating private initiative in the various fields of cultural relations." Both an art and a music conference were held in October while conferences on education and on library matters and the exchange of publications were held in November.<sup>65</sup>

Each of the conferences was a success, as a total of more than one thousand leaders of educational and

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<sup>64</sup>Report of the Interdepartmental Committee on Cooperation with the American Republics, November 10, 1938, Official File 3505.

<sup>65</sup>Department of State Bulletin, Vol. I, September 30, 1939, p. 303; Author's underlining--not in the original.



cultural activity came to Washington. A number of committees were set up and some nationwide support was received from interested citizens. Secretary of State Hull was impressed by the conferences. He was gratified that they had "awakened such widespread interest" since their purpose was to "enlist the cooperation of the leading private agencies in the United States toward the development of deeper and sounder understanding with the other American republics." He felt that this type of activity would both increase friendships and advance the cause of peace in the Western Hemisphere.<sup>66</sup> Compared to previous actions in cultural relations these conferences were significant, but committee action was a far cry from the massive cultural relations programs that were needed.

It was apparent that by early 1940 there was little if any innovative legislation proposed involving cultural and social affairs with Latin America. In fact, previous legislation on this subject was just getting implemented. Public Law No. 710 of June 24, 1938 which authorized a limited amount of Latin American students to attend American service academies and institutions had not been used until after war broke out. Public Law No. 63 of May 3, 1939, which amended Public Law No. 545 of 1938, and

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<sup>66</sup>Department of State Bulletin, Vol. I, October 17, 1939, p. 408.

authorized the loan of American civilian experts and technicians, had been used by nine American Republics by January, 1940. Another law passed on June 29, 1939 carried out the ideas in cultural relations put forth in the Buenos Aires Conference of 1936. Under this law Congress appropriated \$75,000 for expenses for the exchange of professors and students with Latin American nations. However, these funds did not begin to be used until March and April, 1940. The final law was Public Law No. 355 of August 9, 1939, which authorized the President to use the established agencies of the government to carry out:

The reciprocal undertakings and cooperative purposes enunciated in the treaties, resolutions, declarations, and recommendations signed at the Buenos Aires Conference in 1936 and the Lima Conference in 1938.

It also authorized \$292,000 for sixteen projects, some of which touched on cultural and social relations. This too, remained to be implemented in 1940.<sup>67</sup>

Some quickening had occurred in cultural relations during the period of the "Phony War" compared to the pre-war period. A number of possible reasons account for this stronger interest. First, the war had made most Americans realize that Latin America was of vital importance to the

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<sup>67</sup> Report of the Interdepartmental Committee on Cooperation with the American Republics, January 17, 1940, Official File 3505; Jones and Myers (eds.) Documents . . . , 1939-1940, pp. 169, 193; Department of State Bulletin, Vol. II, February 17, 1940, p. 170.



United States. Thus the necessity to remain on good terms was paramount. Second, because the war disrupted the normal cultural interchange between Latin America and Europe, there was an opportunity for the United States to step into the breach. Finally, the previous simon-pure attitude of the State Department that cultural relations were most important for their own sake was being successfully challenged by people who thought cultural and social activities should contribute immediately and directly to foreign policy objectives. These people wanted to use cultural relations to help make Latin Americans favor the views of the United States over the Axis powers.<sup>68</sup>

In contrast to the comparative slowness of the program in cultural affairs, closer military and defense relations seemed imperative once war broke out. At that time, there was great uncertainty among United States officials whether Britain and France would be able to contain or defeat Germany. There was also the fear that, if Germany was successful in Europe, her next target might be the Western Hemisphere.

The military planners agreed that, if the Nazi's attacked the Western Hemisphere, the most probable point for the first landing would be the bulge area of

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<sup>68</sup>Thomson and Laves, pp. 46-47.





northeastern Brazil. Consequently, the protection of this area "became the keystone of American military plans for defending the hemisphere's Atlantic front." This meant that closer relations with Brazil would be necessary to insure better cooperation and collaboration. To help carry this out staff discussions had begun with Brazil in June, 1939.<sup>69</sup>

It was fortunate for the United States that the one nation it needed most to carry out its program of hemisphere defense was Brazil, for Brazil had long been a staunch friend of the United States and was anxious to secure hemispheric solidarity. Nevertheless, it would not be easy for the United States and Brazil to work out a defense program for the bulge area, mainly because the necessities of domestic politics in Brazil and all Latin American countries forbade the stationing of United States troops in their territory during peacetime. On top of this was the problem of supplying arms to meet Brazilian requests. Despite good intentions, only some obsolete and nearly useless coast defense guns were sent in 1939 and early 1940. The United States would not be able to ship modern military equipment to Brazil for some time.<sup>70</sup> This obviously was an irritant in their relations.

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<sup>69</sup>Conn and Fairchild, Framework . . . , p. 265.

<sup>70</sup>Ibid., pp. 267, 272. Modern military equipment was not supplied in any large amounts before 1942.

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The Rainbow Number One Plan, which had been approved in August, 1939, also made the defense of Brazil a paramount goal of the United States. During the fall and winter, Army and Navy planners worked on detailed plans for sending an American expeditionary force to Brazil. They were particularly worried, as was the President and the Department of State, that the Germans would use the Brazilian-owned island of Fernando do Noronha, located 215 miles east of the Brazilian bulge, as a stepping stone for an attack on the bulge. They then feared that the Germans would be in position to set up bases which could bomb the Panama Canal. As the complacency of the "Phony War" period set in, the threat to Brazil did not appear so crucial, and, while planning continued, little else was done until after the Nazi blitzkrieg in the spring of 1940.<sup>71</sup>

The pattern of United States actions during the "Phony War" period was now set. There would be many hopes for closer military relations but few successes. There would be much planning but few successful plans, and in the one plan which involved all of the Latin American states there would be disappointment. This disappointment involved the marine safety zone as proclaimed by the Declaration of Panama.

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<sup>71</sup>Ibid., pp. 175, 269, 273.

There were many reasons why opinions changed in the fall of 1939 regarding the dangers of the war to the Western Hemisphere. First, contrary to the assumptions of the first Rainbow Plan, both Great Britain and France had declared war. Their navies barred the Nazi use of the sea in any move toward Africa or South America. Second, Canada also declared war thus mobilizing that part of the hemisphere. Third, the lull that occurred after the quick defeat of Poland helped to pacify the Americas, because no real threat was imminent unless or until the Germans overpowered the British and French. Finally, the Pacific Ocean also seemed secure since the Nazi-Soviet Pact of August, 1939 made Japan wary of Russia's intentions in the Far East. As a result Japan remained neutral in the European war and posed no threat to the hemisphere at that time. A War Plans Division report in December summed up the prevalent opinion when it said "as long as major wars continue in Europe and Asia, this hemisphere is in very little, if any, danger of attack." The euphoria surrounding the report was ominously qualified however, by the statement that things could quickly change.<sup>72</sup>

One change that did occur in this period directly involved all the American countries. This was the

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<sup>72</sup>Ibid., pp. 25-27.



Graf von Spee incident of December 13, 1939. The Graf von Spee, a German pocket battleship and commerce raider, had attacked a French merchant vessel off the coast of Uruguay, well outside Uruguayan territorial waters, but within the 300 mile safety zone proclaimed by the Panama Conference. Three British ships, one of which was convoying the French merchant ship, engaged the Graf von Spee in a running battle. Both sides damaged each other, but the von Spee escaped into Montevideo harbor. There it was given forty-eight hours to make repairs, as per international law. When the period was up and the repairs were not completed, her captain scuttled her rather than face the British warships waiting outside Uruguay's territorial waters.

This incident was an international cause celebre because both the British and Germans had violated the security zone. The United States immediately took the initiative and called on all the Latin American Republics to discuss together action they would take in regard to the incident, warning that unless they vigorously protested, the Declaration of Panama would "inevitably become a dead letter."<sup>73</sup>

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<sup>73</sup>Hull to Chiefs of Missions in the American Republics, December 15, 1939, Foreign Relations, 1939, V, pp. 94-95.

The State Department clearly favored the British action in getting rid of the von Spee, but believed it was more important to get a unanimity of opinion before condemning one belligerent and not the others. The Brazilian Government almost immediately cabled back putting forth three possible ideas on what to do. The first must have been music to Washington's ears as it called for a condemnation of Germany as the aggressor since the von Spee allegedly fired the first shot and was raiding commerce. Because it was the aggressor, it and any other vessels who later violated the security zone were to be interned for the rest of the war. The second suggestion was to protest to both belligerent countries, and the third was that consultations be avoided if there was any possibility agreements could not be reached on either suggestion one or two. In that case Uruguay should apply its own neutrality laws.<sup>74</sup>

The State Department replied that it was in full accord with Brazil's first suggestion. However, since Uruguay had already told the German captain that he had a forty-eight hour grace period before he had to leave port or be interned, they thought it best to follow Brazil's

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<sup>74</sup>Caffrey to Hull, December 15, 1939, ibid., pp. 96-97. All this was going on in the 48 hours before the Graf von Spee was scuttled.

alternative plan "to allow Uruguay to decide on the von Spee matter in accord with her laws and interests and [then] support the decision to the extent it may be necessary."

At this point both Chile and Argentina communicated their feelings that both belligerents should be condemned as both violated the security zone. The British had played into the hands of the Chileans and Argentines when on December 15 the British cruiser Despatch violated the security zone by capturing the German merchant ship Dusseldorf twenty miles off the Chilean coast. This and other British violations backed up the Argentine and Chilean request, and by December 20, the Argentine plan had been backed by more than twelve American Republics. By the next day it was unanimous, and on December 23, the President of Panama delivered the joint protest to the two violators, Germany and Great Britain and also to France, the other belligerent.<sup>75</sup>

The next step for the American nations was to consult together to decide on what to do in the future. In the meantime, replies began to come in from the belligerents. Winston Churchill sent a personal telegram to President Roosevelt saying that he was "very sorry there

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<sup>75</sup>Ibid., pp. 97-117, passim.



seem[ed] to be trouble about recent incidents." He then backed up the British position by quoting international law and by explaining that the South American Republics should be happy that the British rescued them from "war disturbances." Quite ominously he commented that if England was defeated the South American Republics "would soon have worse worries than the sound of one day's distant seaward cannonade" and so would the United States.<sup>76</sup>

The official British reply and the French and German replies were not received until early 1940, but it was a foregone conclusion that each would reject the security zone as contrary to international law while sympathizing with the wishes of the Americas to protect their neutrality. In fact, they all went into an "Alphonse and Gaston" act with each professing adherence to the Declaration of Panama if the others would, knowing full well that a wartime agreement such as this was nearly impossible.<sup>77</sup>

In January, 1940, the Inter-American Neutrality Committee which had been set up by the Panama Conference

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<sup>76</sup>Chargé in the United Kingdom (Johnson) to Hull (Enclosing personal note from Winston Churchill to Roosevelt), December 25, 1939, ibid., pp. 121-22.

<sup>77</sup>See ibid., 1940, I, pp. 689-95 for the British and French replies and pp. 696-98 for the German reply.

became the vehicle of inter-American consultation over the Graf von Spee incident. From then until the "Phony War" ended in April, 1940, the Neutrality Committee became a kind of debating society trying to decide what to do about violations of the security zone. It was clear as violation after violation piled up that no American Republic wanted to take overt action against one or more of the belligerents to prevent these violations. Although the incidents involved British or French warships stopping, detaining, or sinking German merchantmen, or the scuttling of German merchantmen due to British and French discovery, the United States continued to call for formal protests knowing that this was necessary to placate the Latin Americans. Conversely, the Department of State also knew this would not stop the allied actions. In fact, due to United States support for the Allied side in the war, the Department probably did not want these actions stopped if the British thought they helped their cause.

By mid-March, 1940, another collective protest was sent to England, this time because of the Wakama incident. It was apparent by this time that protests were nothing but formalities, and they were regarded throughout much of the Americas as just going through the motions of protest. By April, enthusiasm for the security zone had plummeted and nearly every government was skeptical about it.



When the "Phony War" ended on April 8, with the Nazi invasions of Denmark and Norway, the security zone was a military dead letter. The Neutrality Committee still met at Rio de Janeiro, but ineffectually. The American delegate, Dr. Charles Fenwick, after canvassing the other members, was of the opinion that the Neutrality Committee would try to keep the zone alive by building up its legal position. However, the Committee contemplated no overt action to enforce it in the foreseeable future.<sup>78</sup>

Although the security zone plan was plainly a failure, United States prestige in Latin America was not noticeably affected. All the American nations originally had liked the idea. The United States was not blamed for its downfall because each of them realized that force was necessary to uphold it. They all knew that force would not be used unless it was collective force, and no provisions had been made for this by April, 1940. The Neutrality Committee continued to meet, but everyone knew that at least on the question of the security zone no meaningful action would be taken.

Roosevelt's idea for a continental-wide neutrality patrol was ineffective, but the United States continued its own patrol and even enlarged it during the "Phony War"

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<sup>78</sup>Caffrey to Hull, April 12, 1940, ibid., 1940, V, pp. 295-96.

period. Roosevelt had planned the naval patrol in late August, 1939, and it went into effect in early September. An agreement was quickly made with the British for a limited American use of British base facilities in Bermuda, St. Lucia, and Trinidad, and discussions began with some Caribbean nations for the emergency use of their facilities. By the middle of October, the American Navy was operating a continuous, if limited, patrol all the way from Newfoundland to the Guianas, and as much as two-hundred miles off-shore.<sup>79</sup>

Still Roosevelt was not satisfied, and, on October 9, he ordered the overhauling of forty World War I destroyers.<sup>80</sup> Delays occurred, but by December all forty destroyers were patrolling the Atlantic, the Caribbean, and the Gulf of Mexico. By this time agreements were being reached with many of the Latin American countries in and around the Caribbean Sea that allowed planes and ships of the United States to patrol their coasts. On December 4, the Dominican Republic gave the United States permission to patrol its coasts and to use its base facilities. In late December and in early January all of the Central

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<sup>79</sup> Langer and Gleason, Challenge . . . , p. 208; Conn and Fairchild, The Framework . . . , pp. 11, 24.

<sup>80</sup> Because these and other destroyers were demothballed, some were available when England needed them in the late summer of 1940.



American countries agreed to United States help in patrolling their waters. Colombia, Venezuela, and Ecuador were also not averse to it. Mexico, due mainly to internal politics, turned down the United States efforts and planned to patrol its own coasts, but earlier President Cárdenas had personally "expressed his desire" that Mexico would cooperate with the United States to prevent any belligerent penetration in the Western Hemisphere.<sup>81</sup>

From the United States point of view her patrol policy had been a success. The North Atlantic was a North American responsibility while the Caribbean Sea was nominally covered by a joint patrol. In fact, this was nearly always done by United States ships and planes due to the meager resources of the Latin American nations of the area. Nevertheless, at least above the equator the Latin American nations were lining up behind the American plans. Unfortunately, the hoped-for cooperation with Argentina and Brazil was not forthcoming at this time, and their coasts were not adequately patrolled.

It was apparent that even inter-American cooperation was a touchy political subject within the United

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<sup>81</sup>Jones and Myers (eds.), Documents . . . , 1940-1941, p. 134; Langer and Gleason, The Challenge . . . , pp. 215-216; Conn and Fairchild, The Framework . . . , p. 24; Foreign Relations, 1939, V, pp. 48-53, passim; Daniels to Roosevelt, November 4, 1939, President's Secretary's File--Mexico, Franklin D. Roosevelt Papers, Hyde Park, New York.





States. There was some fear that the Government might have made secret alliances to come to the aid of one or more of the Latin American countries. This was denied more than once in 1939. General George V. Strong, the Assistant Chief of Staff reiterated the Administration's position that "no agreements of any kind exist which would provide for joint or collective action on the part of the armed forces of several or all of the American Republics in any given contingency." The only agreements they had were agreements to consult.<sup>82</sup>

The military mission situation improved only slightly during the "Phony War" period. On September 12, 1939 an agreement was signed with Argentina providing for a detail of military aviation instructors to be sent to Argentina. This was a coup for the United States for if the State Department could have chosen the most essential country for a military mission, it would have been Argentina. The main reason for this feeling was that the State Department considered Argentina to be the weak link in the hemisphere chain and the country most influenced by the Axis.<sup>83</sup>

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<sup>82</sup>The George Washington University Bulletin  
(Washington, D.C., 1940), Address by General George V. Strong, p. 1.

<sup>83</sup>Department of State Bulletin, Vol. I,  
September 16, 1939, p. 271; Foreign Relations, 1939, V,  
p. 302.



Unfortunately, Argentina was the only Latin American country to accept a military mission during this period. Most Latin American countries welcomed missions from the United States, but, particularly for the less prosperous countries, the main problem was expense. A further problem, from the United States point of view, was finding qualified officers because the prevailing opinion was that mission duty adversely affected chances for promotion.

Both problems came out in the open when it was learned in December, 1939 that Peru did not plan to renew its United States naval mission because of the expense. Under Secretary of State Welles immediately wrote to Roosevelt putting forth a number of reasons why the mission was valuable to the United States. Aside from the instructional value, the mission had been a "stabilizing influence" on the Peruvian Navy, and it had also gained the United States many influential friends in Peru. Welles' major fear was that there already was an Italian air mission in Peru and that an Italian naval mission would probably be sent if the United States mission were withdrawn. This could be done, because unlike the United States which required payment for the mission at the rate of each officer's rank plus 100% plus allowances, the Italians (and most Europeans) offered their men for a



nominal fee and paid any additional pay and expenses themselves. Their substantial underbidding made Welles fear that the Italians would be able to extend their influence in Peru to the detriment of the United States. The same fears prevailed about Axis military missions in the other Latin American countries.<sup>84</sup>

It was in the interest of the United States to have as many military missions as it could in Latin America. Yet differences of opinion over the methods to carry this out split the State and Navy Departments. The State Department wanted to "bring into harmony the provisions for the loan of American military and naval personnel with the provisions . . . for the loan of civilian personnel." This was Welles' attempt to use the provisions of Public Law No. 63, 76th Congress, which provided for the loan of civilian personnel, as the basis for a new plan for military personnel. If this was done, extra pay would be limited to 50% of base pay, and all extra pay would be a United States, rather than Latin American, responsibility. The War Department sided with the State Department, but the Navy Department opposed the Welles' plan.

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<sup>84</sup> Welles to Roosevelt, December 16, 1939, Official File 287; on July 31, 1940 Peru agreed to renew the naval mission and accept an aviation mission.



The Navy Department favored the 100% plan because it was difficult enough to get trained naval personnel at that rate and probably would be impossible at a lower rate. They also believed that it was not generally desirable to make a naval mission available cheaply because things that came cheaply would not be held in high esteem. Despite the threat to the hemisphere, they wanted no change in the existing law.<sup>85</sup>

Roosevelt took the State and War Department side in the conflict, and on March 27, 1940, he directed that thereafter additional pay would be based on Public Law No. 63. This meant that extra compensation would be 50% instead of 100% and the United States would pay it. This was a wise policy because in the future it would enable United States military missions to be sent to countries that heretofore could not afford them, and it increased United States military influence during a very critical period.<sup>86</sup>

Protection of the Panama Canal was one subject over which there were no conflicts and no delays. Because the canal was so vital to the United States, both

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<sup>85</sup> Charles Edison (Secretary of Navy) to Roosevelt, January 8, 1940, ibid.

<sup>86</sup> Welles to Roosevelt, September 12, 1940, ibid.; The new mission policy began to pay dividends in the second half of 1940 and especially in 1941. There were two agreements in 1940 and seven in 1941.

economically and militarily, as well as to Colombia, Panama and most other Latin American countries, having an adequate defense for the canal was a paramount interest of the United States. Accordingly when war began, one of the first actions of the President was to sign two executive orders aimed at better protection for the canal. The first order, signed by President Roosevelt on September 5, changed control over the Canal Zone from a civilian governor to the army officer commanding the United States troops there and gave him exclusive authority. The second order, signed on September 12, set the Canal Zone apart as a military airspace reservation. It also specified the condition under which aircraft of foreign countries could enter and operate in the Canal Zone.<sup>87</sup>

Close and friendly relations with Panama were necessary in order to insure the protection of the canal. One possible deterrent to these good relations had occurred before war had broken out, but its effects lasted throughout the "Phony War" period. An appropriations bill had been passed by the House and Senate in August, 1939 dealing with additions to the locks in the Panama Canal. Due to pressure from organized labor within the United States, one of the provisions of the bill discriminated against

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<sup>87</sup> Berle to Roosevelt, September 2, 1939, Official File 25I, War Department; Edwin Watson to Secretary of War, September 12, 1939, ibid.





Panamanian citizens by requiring that all new personnel employed in skilled, technical, clerical, administrative, and supervisory positions had to be United States citizens. This requirement was directly in conflict with the Panama-United States General Treaty of Friendship and Cooperation signed in 1936.<sup>88</sup>

Roosevelt opposed these discriminatory passages. But he was in a quandary, because Congress was in the process of adjourning, and he believed the bill was needed to insure security and to get the work started. Consequently, despite Panamanian protests, he signed the bill with the proviso that he would request Congress at its next session to amend the law to bring it into conformity with the treaty.<sup>89</sup>

There the matter rested until the new Congress met in January, 1940. Labor union pressure was again applied on the Congress to keep the discriminatory provisions in the new appropriations legislation needed to continue the work. The War Department was convinced that it was urgent to get this new legislation enacted quickly in order to make it possible to obtain bids from

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<sup>88</sup> A. R. Wright, "Defense Sites Negotiations Between the United States and Panama," The Department of State Bulletin, XXVII (August 11, 1952), p. 217.

<sup>89</sup> Dawson to Hull, August 5, 1939, Foreign Relations, 1939, V, p. 749; Hull to Dawson, August 19, 1939, ibid., pp. 749-751.

contractors. Consequently, the Secretary of War urged that the bill be passed with the discriminatory provisions and then immediately after its enactment another bill would be introduced amending both this act and the act passed in the summer of 1939 session of Congress.<sup>90</sup>

This plan was transmitted to the authorities of Panama whereupon rumors of the discriminatory provisions were made public. A storm of Panamanian protests resulted, and the Panamanian Society of Engineers protested directly to the Department of State. President Roosevelt believed that the treaty agreement with Panama was more important than these domestic political considerations, and on February 8, 1940, he informed the Secretary of War that he would not sign the present bills until they were amended to give Panamanians equal rights.<sup>91</sup>

Although the new bills were not passed until June, 1940, they were non-discriminatory, and it was apparent that throughout March, April, and May, Roosevelt had brought pressure on Congressional leaders and the American Federation of Labor to have all legislation conform to the

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<sup>90</sup>Hull to Dawson, January 13, 1940, ibid., 1940, V, pp. 1101-1102.

<sup>91</sup>The Panamanian Chargé (Briceño) to Hull, January 30, 1940, ibid., pp. 1103-1104; Roosevelt to Secretary of War, February 8, 1940, Official File 251; Franklin D. Roosevelt, "Press Conferences," XV, February 19, 1940, p. 170.



treaty. One of his methods that may have helped was to appeal to their patriotism by informing them of Panamanian actions that made defense of the canal easier. For example, Panama had prohibited Japanese immigration. This had been a great help in checking Japanese penetration in the area. Panama was also extremely cooperative in giving access to its waters and airspace to the American neutrality patrol. Therefore, since friendly governments in the canal area were needed to defend the canal, the United States government should do what it could to keep the governments friendly.<sup>92</sup>

Axis control of national airlines in South America was another continuing problem of the Roosevelt Administration. Nothing tangible had been accomplished in the case of SCADTA in Colombia by September, 1939. SCADTA was America's biggest concern due to its German management and its proximity of the Panama Canal. It was reported that SCADTA's manager was a confirmed Nazi and that nearly all of its chief officials, pilots, and maintenance men were Germans although some of them were now Colombian citizens. There was some fear evidenced by a report in August, 1939, that a few of the younger German pilots were planning something spectacular if war

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<sup>92</sup> Memo, March 16, 1940, Official File 25I; Roosevelt to Welles, April 20, 1940, ibid.; Welles to Roosevelt, April 24, 1940, ibid.



broke out. Speculation on what this was ranged from an attack on the Panama Canal to one against the oil refineries on the nearby Dutch island of Aruba. Although nothing happened, the United States was extremely anxious to cooperate with the Colombian government and with Pan American Airways, which owned 84% of the SCADTA stock, in ridding SCADTA of the Nazi menace.<sup>93</sup>

At first, Pan American resisted getting rid of the Germans in SCADTA mainly for financial reasons, but other problems of cooperation were just as important. A major difficulty was that many of the German pilots and ground personnel had worked for the company ever since it had been set up in 1920 and had deep roots and many friends in Colombia. A further difficulty, at least until 1939, was that Pan American had agreed, as part of its purchase contract in 1931, to retain pilots and executive employees until 1939. A final difficulty was political, for if the Germans, whose service was generally good, were replaced by citizens of the United States, the old cry of Yankee imperialism might be forthcoming. Mainly for this reason, it was decided to keep the United States Government in the background. The actual negotiations were to be carried on

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<sup>93</sup>Langer and Gleason, The Challenge . . . , pp. 273-74; Conn and Fairchild, The Framework . . . , p. 241.

between Pan American and the Colombian Government which was cooperating fully in the attempted purge.<sup>94</sup>

Negotiations began on September 5, 1939 when the Vice President of Pan American went to Colombia. As negotiations proceeded, Mr. Braden, the United States Ambassador in Bogota, encouraged the Colombian Government while the United States Government put pressure on Pan American. One area in which noticeable pressure could occur was over airmail contracts, for Pan American had long been blessed with a monopoly of these. In November, 1939, after it was publicly acknowledged that Pan American owned 84% of SCADTA, substantial agreement was reached in getting rid of the Germans, but discussions continued into 1940 about the complete Colombian Governmental takeover of the airline.<sup>95</sup>

Colombia's attitude during this time was exemplary regarding the defense measures it took. Immediately after the outbreak of war all airfields and planes were placed under military control, thus scotching any plans the German pilots might have had. Throughout this period the

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<sup>94</sup>Langer and Gleason, The Challenge . . . , pp. 273-74; Conn and Fairchild, The Framework . . . , p. 241; William A. M. Burden, The Struggle For Airways in Latin America (New York: Council on Foreign Relations, 1943), p. 72.

<sup>95</sup>Langer and Gleason, The Challenge . . . , pp. 274-75; Conn and Fairchild, The Framework . . . , p. 241.



Colombian Government continually reassured the United States that it would do everything possible to defend the canal.<sup>96</sup> There was no doubt that pro-democratic Colombia was solidly behind the military policy of the United States. It must be remembered that this solidarity came at a time when Colombia wanted an Export-Import Bank loan and was being turned down mainly because it had not made a debt settlement with the F.B.P.C.

In February, 1940 the President of Pan American finally stated that his company "fully appreciated" the importance of the objectives of national policy and would be guided by them rather than by commercial transactions.<sup>97</sup> This statement was a long time in coming, but from then on, harmonious relations were the rule between the State Department and Pan American.

The major plan that came up was to set up a new airline, AVIANCA, to take the place of SCADTA and, of course, to discharge its German employees. Colombia wanted to make sure it controlled at least 51% of the stock in the new company while Pan American also wanted to continue being the majority stockholder. The Roosevelt Administration preferred that Pan American retain control

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<sup>96</sup>Langer and Gleason, The Challenge . . ., p. 275; Braden to Hull, February 22, 1940, Foreign Relations, 1940, V, pp. 732-33.

<sup>97</sup>Hull to Braden, February 2, 1940, Foreign Relations, 1940, V, p. 723.

at least temporarily probably because it had more leverage with the company. While these discussions were being carried on, the most important German officials of SCADTA saw the handwriting on the wall and began to resign. Throughout February the Colombian Government continued to assure the State Department that the defense of the Panama Canal was their paramount consideration in controlling the new company. By the end of February the State Department agreed to a compromise, and the problem was solved.

When AVIANCA was announced in June, 1940, the Colombian Government received immediate control. Pan American was given almost two-thirds of the stock in the new company. However, the Colombian Government had an option to purchase a majority of the stock in the future. This would make AVIANCA truly a national airline. In the meantime, Pan American assumed the responsibility for making its staff available to run the company. German personnel were dropped only as they could be replaced by competent substitutes. It was Pan American's aim to train Colombians for the jobs the Germans had held, but in the meantime to staff the airline with its employees.<sup>98</sup>

This agreement with Colombia was the prototype of later agreements with other South American countries aimed

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<sup>98</sup> Ibid., p. 723-24; Burden, p. 73 for the last two paragraphs.

at getting rid of Axis citizen control of airlines serving their countries. Pan American would be used again where applicable as an instrument of United States foreign policy. The success of this policy in Colombia was gratifying to the State Department for Colombia definitely lined up with the United States at a time when she was desperately needed. Of course, the Colombian Government in time received a nationalized airline out of the deal, but it was clear that she was cooperating even before this kind of agreement was contemplated.

A final military problem during this period was the supplying of war materials to Latin American countries. Mention has already been made of this problem with Brazil, but many other Latin American countries also wanted arms from the United States. There were no legal restrictions on arms sales to Latin America because the embargo on arms shipments did not apply to Latin America. Latin America had been exempted from this legislation because of the necessities of hemisphere defense as well as the wish to insure inter-American friendship. Still, great confusion over policy existed in the fall of 1939.

General Marshall backed up the general policy in force of not selling Government-owned small arms to foreign countries. The question was, should Latin America be declared a special case? Sumner Welles wanted President

Roosevelt to make a policy decision which, it was hoped, would settle the whole matter.<sup>99</sup>

Roosevelt did call for a change in policy, but this apparently came about purely by accident. In December, 1939, while entertaining the President of Haiti, Roosevelt, without consulting either the War or State Departments, promised to supply Haiti with some Army owned rifles and machine guns.<sup>100</sup> This commitment apparently ended any more objections on the grounds of principle to the sale of small arms, although Haiti finally decided not to buy them because of their prohibitive cost.

Chile also requested a large amount of arms in the fall of 1939. She wanted anti-aircraft guns, howitzers, and mortars and she received United States permission to buy them from private firms within the United States. Chile soon found out that the costs involved would be prohibitive, and in December, 1939, requested assistance in obtaining Government-owned war supplies. What Chile really wanted to do was to purchase two cruisers and two destroyers for her Navy and anti-aircraft and artillery pieces for her Army. Sumner Welles urged cooperation because of the weak condition of the Chilean military forces. Admiral Stark took the view that it was possible to sell

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<sup>99</sup>Conn and Fairchild, The Framework . . . , p. 210.

<sup>100</sup>Ibid.



some old destroyers to Chile, but he was opposed to it because they could be used for hemispheric defense better by the United States Navy. The Army surveyed its stocks and decided that only obsolete equipment, such as Enfield rifles and old mortars, could be offered, and no ammunition was available except that for a few old mountain guns. Chile was disappointed because what she wanted was modern equipment at a price she could afford. This was an impossibility because, as General Marshall explained, the Army needed all of its modern equipment and could not even guarantee when orders for future delivery would be filled.<sup>101</sup>

The result was that the only thing Latin America got during the "Phony War" period was a few small-caliber guns and some coastal defense artillery, and none of the latter were in immediately usable condition or were furnished with ammunition. Thus, despite the shift in policy which permitted government sales of arms to Latin America, the effect of the shift was slight. It would take the critical situation of the summer of 1940 before much action would be taken, and then new difficulties would stand in the way of delivering many of the requested arms.<sup>102</sup>

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<sup>101</sup>Ibid., pp. 210-211.

<sup>102</sup>Ibid., pp. 211, 270; Langer and Gleason, The Challenge . . ., p. 276.

Perhaps it would not be entirely fair to characterize the "Phony War" period as one of immediate panic and then postponement, but in all areas of American relations with Latin America there were cases in which this was true. As long as England and France held out and controlled the seas the threat to the Americas was minimal, and United States policy reflected this feeling. It would take an unforeseen crisis to shake this relative complacency, and this crisis was rapidly shaping up.

### CHAPTER III

#### THE CRITICAL SPRING AND SUMMER OF 1940

On April 9 the "Phony War" ended with the Nazi invasions of Norway and Denmark. Both the Administration and private citizens in the United States condemned this aggression. However, while the vast majority of Americans were willing to protest verbally, they were overwhelming against any overt actions. The Administration reflected this feeling and Roosevelt's major action was to issue a public statement denouncing the Nazi invasions. Because the so-called isolationists still carried public opinion with them, Roosevelt felt little could be done at that time. In fact, the United States even rejected a Uruguayan proposal for a joint inter-American protest on the grounds that a previous attempt in the case of Finland had not met with unanimity, and there was no reason to think this one would either.<sup>1</sup>

Despite Allied confidence in their ability to defeat the Germans, when the next challenge came in May,

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<sup>1</sup>Foreign Relations, 1940, I, pp. 724-727.



they were rudely awakened to German power. The debacle began on May 10 with the German attack on Holland and Belgium. German armored divisions quickly split the Allied armies and caused the Dutch and Belgians to capitulate. The British and French troops which were cut off were evacuated from Dunkirk in an early miracle of the war, but the way was now open for the Nazis in northern France. Italy entered the war on June 10 and attacked southern France while the Nazis were racing toward Paris. By June 22 it was all over. France was defeated, and England was left alone to carry out the struggle against the Axis. Many people now thought it would only be a short period of time before Germany controlled all of Europe.

These surprising developments had both direct and indirect influences on the foreign policy of the United States. While this had been going on, the United States had manifested much sympathy but had taken little, if any, overt action toward Europe. However, in the case of Latin America, much more action was taken.

The Roosevelt Administration had been trying to make judicious Export-Import Bank loans to Latin American nations in order to help their economies. However, these economic relations were complicated so often by debt questions that a way was needed to circumvent the political power of the F.B.P.C. Proposals for an Inter-American Bank had been circulating in the Pan American Union since 1890.



These ideas were resurrected in the late fall of 1939 and given to the recently created Inter-American Financial and Economic Advisory Committee for study. In their study the Committee was assisted by a group of experts drawn from the United States Departments of State and Treasury, the Board of Governors of the Federal Reserve System, and the Federal Loan Agency.<sup>2</sup>

Both the State and Treasury Departments initially were enthusiastic about the proposed Bank. The Treasury saw many possible benefits for the United States if this Bank could complement the functions of the Export-Import Bank. The main advantage over the existing system would be that Latin American countries in total or partial default on their debts to United States citizens could borrow money without getting involved in the always testy negotiations with the F.B.P.C.<sup>3</sup> This was in the national interest of the United States in that internal politics could be circumvented while the main aim of lining up the Latin American countries could go on unencumbered.

Other advantages to the United States also were apparent. If the Bank could render technical assistance

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<sup>2</sup>Hull to Roosevelt, July 3, 1940, ibid., V, pp. 347-351.

<sup>3</sup>Morgenthau Diaries, Vol. 224, November 28, 1939, p. 199.



to countries in need, the old cry of dollar diplomacy would be absent since the Bank would be a genuine inter-American instrument in which the Latin American nations would have the predominant power. It was also thought that there would be less danger of defaults because the Bank would be partially owned by the debtor country. There were even hopes that, because the Bank would promote inter-American trade and give expert advice, the settlement of outstanding debts would be facilitated. This was in the national interest for the settlement of debts could promote private capital investments. This, in turn, would help alleviate the economic dislocations caused by the war.<sup>4</sup>

Despite differences of opinion among the Treasury Department, the State Department and the Federal Reserve Board, work on the Bank went on into early 1940. On February 7, the charter, which was primarily the work of Mr. Harry White of the Treasury Department, was approved by the Inter-American Financial and Economic Advisory Committee. Under the charter the Bank was to begin operating when governments representing at least 145 shares in the Bank had ratified the agreement.<sup>5</sup>

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<sup>4</sup>Ibid., pp. 199-200.

<sup>5</sup>Ibid., Vol. 237, January 23, 1940, p. 255; Blum, II, p. 57; Office of Inter-American Affairs, Americas United: A Summary of the Cooperative Effort of the American Republics Since September 1939 (Washington: Government Printing Office, 1943), p. 11.



On February 16, Sumner Welles, in his capacity as Chairman of the Inter-American Financial and Economic Advisory Committee, wrote to Cordell Hull asking whether the United States Government had any "fundamental objection" to the proposed charter which might prevent it from signing the Convention. On March 13, Hull replied that the United States was in favor of the Bank and would sign the proposed Convention on April 14 (Pan American Day). The Administration then prepared a questionnaire to sound out Latin American opinion on the proposed Bank. By early April sobering reports were coming in from the Latin American countries. Many countries were either uncertain or hostile toward the Bank, and five countries did not even reply. It was apparent by April 9, the day the "Phony War" ended, that at least nine Latin American countries including Venezuela, Chile, Argentina, Uruguay, and Peru would not participate. The countries that did reply were unanimous that the Bank was needed to provide long-term developmental capital to Latin America. This was something the Export-Import Bank was reluctant to do.<sup>6</sup>

Because there were so many comments and suggestions which needed to be studied, the Pan American Day deadline

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<sup>6</sup>Department of State Bulletin, Vol. II, March 16, 1940, p. 305; Morgenthau Diaries, Vol. 246, ca; April 1, 1940, p. 389; ibid., Vol. 251, April 9, 1940, pp. 342-46; Hull to Welles, March 13, 1940, Foreign Relations, 1940, V, pp. 346-47.

was not met. The Inter-American Financial and Economic Advisory Committee approved the final texts for the Bank on April 16 and opened the Convention for signature. On May 10 the United States, Colombia, the Dominican Republic, Ecuador, Mexico, Nicaragua, and Paraguay signed the Convention. Brazil signed on May 13, and it was hoped that many of the other Latin American countries would soon fall in line.<sup>7</sup>

The State Department explained United States interest by emphasizing that the Bank was of major importance for the economic implementation of the Good Neighbor Policy. The Administration recognized that closer economic relations were needed especially now that hopes for European peace were completely gone. Economic dislocations would continue until steps could be taken to supplement the inadequate existing machinery of the Export-Import Bank. To Roosevelt, the Export-Import Bank was inadequate despite changes in its loan policies that in theory allowed loans to nations in partial or total default on debts on American citizens. He was still having trouble with the economic conservatism of the institution, and he was undoubtedly aware of Jesse Jones' feeling that, despite the President's wish for a certain action, ultimate responsibility rested with Mr. Jones and the directors of the Export-Import Bank.

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<sup>7</sup>Hull to Roosevelt, July 3, 1940, Foreign Relations, 1940, V, p. 351.



This had caused embarrassment in the past, particularly in mid-April when the State Department had promised Chile a \$12 million dollar loan in advance of the regular meeting of the directors of the Export-Import Bank. When they met they refused the loan.<sup>8</sup>

Despite the reluctance of the majority of the Latin American countries, great hopes were held for the Inter-American Bank. It had come along at just the right time as far as the United States was concerned. Because of the war, Latin American markets were rapidly drying up in Europe, and something had to be done to stimulate the inter-American economy. Europe had normally absorbed over half of Latin American exports, and now her share would fall drastically due to the British blockade and the British economy drive at home. Although the proposed Inter-American Bank was only one of a series of economic proposals dealing with Latin America, it was hoped that quick ratification by Congress of the Convention signed on May 10 would stimulate other countries to ratify. If this were done, the Bank could go into effect immediately and hopefully begin alleviating the economic quandary that gripped Latin

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<sup>8</sup>Department of State Bulletin, II, May 11, 1940, pp. 523-24; Morgenthau Diaries, Vol. 255, April 19, 1940, p. 328.

America. To carry this out, Roosevelt sent the Convention to the Senate on July 5 recommending favorable consideration.<sup>9</sup>

Unfortunately for Administration hopes, the Senate not only did not act quickly, it refused to act at all. Domestic political interests won out over the Latin American economic policy of the Administration in this case. American bankers complained of possible competition even though they had long been reluctant to get involved in financing Latin American trade. Some Senators also feared that they would lose control once the institution was set up because the Bank would be given powers that could not be changed for twenty years. The result was that little if anything happened until the first hearings were held before the Committee on Foreign Relations in May, 1941. A subcommittee prepared a very favorable report, but at the request of Senator Carter Glass the Committee took no action except to refer the Convention to the Banking and Currency Committee. There the matter rested throughout 1941. In January, 1942 an attempt was made to have the Convention reported out to complement the opening of the Rio de Janeiro meeting of Foreign Ministers. This failed and nothing happened throughout the period of World War II. Finally the Convention was withdrawn from the Senate by

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<sup>9</sup>Welles to Roosevelt, March 25, 1942, Official File 4909; Foreign Relations, 1940, V, p. 351.

President Truman in April, 1947.<sup>10</sup> One can only speculate whether the Bank would have worked had the United States participated, but it was a total failure without this anticipated support. Its failure was another victory for vested interests within the United States.

Although the Inter-American Bank ultimately was still-born, the project at least showed that, at a critical time, the Roosevelt Administration was trying to adapt the Good Neighbor Policy to include more effective economic and financial assistance to Latin America. Since the Latin American countries were so split themselves on the question of the Bank, the failure of the United States to ratify the Convention did not lead to much criticism and did not injure the overall Latin American policy of the United States.

Another project of the Inter-American Financial and Economic Advisory Committee during this period was the formation of the Inter-American Development Commission. This was created on January 15, 1940 just three days after President Roosevelt called for a "new approach" toward Latin America which included giving Latin Americans an immediate share in and ultimate control of United States owned industry once bonds were paid off in twenty-five to thirty years. However, plans for the Inter-American

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<sup>10</sup>Welles to Roosevelt, March 25, 1942, Official File 4909; Foreign Relations, 1940, V, pp. 351-52.

Development Commission were not so radical and were aimed more at the immediate future. Its purpose was to encourage the establishment and development of enterprises of mixed United States and local ownership and management in Latin America. These businesses would be encouraged to produce non-competitive products that could be sold in the United States or other Western Hemisphere countries. The aim was to alleviate dislocations brought about by the war by stimulating inter-American trade.<sup>11</sup> This would be especially valuable if products could be manufactured or processed which were formerly obtained in Europe or if Latin America could provide the United States with new and complementary products.

Although the Commission was set up in January, it took some months before it was officially organized. In April, membership of the five-man Commission, which included two United States citizens, was decided upon, and finally on June 3 it began to function. The first two projects were chosen by late June. One involved the establishment of small industries to supply the types of retail merchandise formerly obtained in Europe. The other was a Brazilian project involving the production of high

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<sup>11</sup>Humphrey, p. 216; Franklin D. Roosevelt, "Press Conferences," XV, January 12, 1940, pp. 75-78; Jones and Myer (eds.), Documents . . . , 1940-1941, pp. 112-114; Inter-American Financial and Economic Advisory Committee, Handbook . . . , p. 84.

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quality tapioca flour, It would take time for these projects to be carried out, but the fact that the Commission was organized and functioning under United States leadership in the critical summer of 1940 was a distinct plus for United States foreign policy. Both Sumner and Welles and Laurence Duggan thought the Commission had great possibilities for the future.<sup>12</sup>

At about the same time that the Inter-American Bank and the Inter-American Development Commission were being formulated under the auspices of the Inter-American Financial and Economic Advisory Committee, the Government remained fearful that these projects alone would not do enough to protect the Latin American economies. By early April, even before the renewed blitzkrieg in Europe, a Division of Monetary Research Report pointed out the economic problems that would soon hit Latin America. Before the war, total Latin American annual exports to Europe had averaged over one billion dollars. When the war began, many Latin Americans thought that these exports would increase substantially. Both sides were good customers and both would require more goods, especially

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<sup>12</sup>Inter-American Financial and Economic Advisory Committee, Handbook . . . , p. 84; Welles to Roosevelt, April 13, 1940, Official File 3950; Laurence Duggan, "The Political and Economic Solidarity of the Americas," Commercial Policy Series, Number 66 (Washington: Government Printing Office, 1941), p. 12.

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strategic materials and food, as wartime demands increased. However, the Report emphasized that Latin Americans were beginning to realize that the war would be of little advantage to them. There were a number of reasons for this. Since the British Navy controlled the Atlantic, the large German market was being eliminated, and low-cost German goods could not be imported. The main substitutes were higher-cost United States products. Instead of the hoped-for rapid increases of Allied buying, the Allies showed a preference for Empire goods. The British had purchased 200,000 tons of meat from Argentina on October 17, 1939 after a hard bargain but none since then. The Allies' policy of rationing food also decreased demands for the wheat, corn, and beef of Latin America. On top of this, the Allies made clearing agreements which restricted their freedom to buy in the cheap and available markets in Latin America.<sup>13</sup>

Once the Germans started to roll through Europe, the Administration feared for the economic and political solidarity of Latin America. They believed that the Latin American countries in which German minorities were strong, such as Brazil, Argentina, Chile and Uruguay, might be forced to make deals with the Nazis that could compromise

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<sup>13</sup> Morgenthau Diaries, Vol. 246, ca., April 1, 1940, p. 388.



their economic and political independence. Also, since the Germans dominated Europe, their barter trading might soon compel many of the Latin American countries to align themselves economically and politically with the Nazis because of their need for markets. Latin American countries that resisted the Nazi influences could be ruined economically until internal changes were made that would suit the Germans.<sup>14</sup>

There was widespread confusion among Administration leaders over what actions the United States ought to take to counteract possible Nazi pressures. Finally, on May 24, Assistant Secretary of State Adolf Berle proposed that the 21 American Republics make an immediate agreement that all their commercial negotiations would be carried out in bloc rather than by the individual countries. This was a radical proposal for the solution of a potentially serious problem. The idea had originally been proposed by Colombia at the Lima Conference and had been referred to the Pan American Union for study. Berle resurrected it, and it became the basis for the controversial Cartel plan.<sup>15</sup>

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<sup>14</sup>Berle to Welles, May 24, 1940, Foreign Relations, 1940, V, p. 353.

<sup>15</sup>Ibid.

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The basic problem was to find markets for the surplus products of Latin America. Unfortunately many of those products such as wheat and beef were also a surplus problem of the United States. There was some hope that, since the United States was rearming, markets could be found for large increases of such strategic materials as tin and copper that formerly had been sold in Europe. However, the best estimate of the amount of new Latin American products the United States could absorb was less than \$200 million dollars worth. On the basis of prewar trade this would mean that the Latin American nations would still need markets for more than \$800 million dollars worth of products.<sup>16</sup>

No simple solution could even be found for the United States purchase of the critically needed strategic materials. If this could have been done, it would have brought some relief to selected Latin American countries. The major problem was financing these purchases in lieu of a Congressional appropriation. The only hope was to use the Treasury Department's Stabilization Fund, but Secretary Morgenthau had always resisted using the Fund except when Congress explicitly authorized him to do so. This time was no exception. This meant that Congress would

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<sup>16</sup>Memorandum of Emilio Collado of the Division of American Republics, June 10, 1940, ibid., pp. 354-61.

have to be approached for the money needed to carry out any program of large purchases.

Various plans were being circulated that went into great detail on what the United States should do. In fact it was said that "practically every governmental agency" as well as many private groups were working on plans for hemisphere economic defense. Laurence Duggan called for State Department leadership on the grounds that this would "head off some of the half-baked ideas" that were circulating. Finally, an Inter-departmental Committee was set up under the direction of Assistant Secretary Berle to coordinate the ideas and to recommend actions.<sup>17</sup>

At this point Mr. Nelson Rockefeller had a memorandum prepared entitled Hemisphere Economic Policy. This was presented to President Roosevelt through Secretary of Commerce Harry Hopkins on June 14, and it particularly caught the President's fancy. He included it in a note sent to Secretary of State Hull on June 15 requesting the combined judgment of the Secretaries of State, Treasury, Agriculture, and Commerce over what action the Administration should take regarding Latin America.<sup>18</sup>

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<sup>17</sup>Duggan to Welles, June 12, 1940, ibid., p. 367; Duggan to Welles, June 14, 1940, ibid., p. 368.

<sup>18</sup>Memorandum entitled Hemisphere Economic Policy, undated and unsigned but recognized as Nelson Rockefeller's, June 14, 1940 memorandum, Official File 4053; Roosevelt to Hull, June 15, 1940, ibid.

Rockefeller's memorandum was similar to other plans in that it called for an inter-American pool under a single management to absorb agricultural and mineral surpluses. However, it also called for a reduction or elimination of tariffs, hemisphere investments by both private industry and the Federal Government, a solution to the external debt problem recognizing that debts should not stand in the way of constructive financial and trade assistance and ultimately should be refunded, and a vigorous program of cultural, scientific and educational relations to be pursued concurrently with the economic program. To carry out this program Rockefeller suggested that the President appoint an executive to coordinate all these proposed actions.<sup>19</sup> At this point Roosevelt was more immediately concerned with the Cartel program, but he kept Rockefeller's proposals in mind and ultimately acted upon them by appointing Rockefeller to head the very program he proposed.

On June 17, the four cabinet members mentioned in the President's June 15th note met to reach some decision on the Latin American export surplus problem. On June 20, they reported their specific proposals to the President.

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<sup>19</sup>Roosevelt to Hull, June 15, 1940, *ibid*; U.S., Office of Inter-American Affairs, History of the Office of the Coordinator of Inter-American Affairs (Washington: Government Printing Office, 1947), p. 5.

They called for the United States to supplement its military defense by effective action in economic defense in order to safeguard and strengthen the economy of the Western Hemisphere. This would require the expansion of both the income and purchasing power of producers in the Western Hemisphere. Since the basic problem was overproduction and underconsumption due to the European War, three separate recommendations were designed to alleviate the problem. The long-range plan was for an Inter-American Trading Corporation (Cartel) to be set up under strong central direction but with control spread equally among the participating countries. This agency would be in charge of the joint marketing of all the surplus staples for export. It was recognized that this cooperative plan would take some time to implement so two other plans for unilateral United States actions were recommended. The first called for the Reconstruction Finance Corporation to be allowed to increase its capital by one billion dollars in order to organize a corporation or corporations to purchase and dispose of certain Latin American products. The second called for rapid action aimed at developing new industries and production in Latin America as well

as new credits and increased attention toward the debt problem.<sup>20</sup>

The President accepted his Secretaries' plans and made them public at a Press Conference on June 21. He emphasized that the measures were part of a program of economic defense designed to supplement the military defense program of the United States. They were also intended to help safeguard the peace of the Western Hemisphere as well as protect its economy.

Roosevelt recognized what the spectre of a Cartel would conjure up to many domestic interests when he said, "This does not mean the immediate importation of the whole beef crop of Argentina, for example, despite what some people will say." It would be difficult to convince many Americans that the proposed Cartel was in their interest, for there were fears that the Cartel would obligate the United States to pick up all hemisphere surpluses even though it might have surpluses of the same crop or mineral.<sup>21</sup>

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<sup>20</sup>Department of State Bulletin, II, June 22, 1940, p. 675; Jones and Myer (eds.), Documents . . . , 1939-1940, p. 162; Acting Secretary of State, Secretaries of Treasury, Agriculture, and Commerce to Roosevelt, June 20, 1940, Official File 4053.

<sup>21</sup>Franklin D. Roosevelt, "Press Conferences," XV, June 21, 1940, pp. 586-87; Roosevelt, June 21, 1940, Official File 87.

Once plans were made public, discussions about the proposed Cartel began to be influenced by internal political pressures and foreign opinion. It was quickly denounced within the United States as being expensive and unnecessary, a threat to the farmers, visionary, and nothing more than Hitlerian-styled economic imperialism. In Latin America the old bogey of Yankee imperialism was resurrected, but the fear of German economic or military retaliation was probably just as important in the fanning of Latin American opposition. At the same time, United States economists quickly pointed out the major difficulty of any Cartel. This was that any long-range plan for buying surpluses could not succeed unless it was accompanied by the control of production.<sup>22</sup>

Discussions continued within the United States Government on the Cartel, but in the meantime a more tangible economic action was taken. One of the three recommendations of the four Cabinet members in their June 20 report to Roosevelt was for the Reconstruction Finance Corporation to increase its capital and to create subsidiary corporations. This was done on June 25th, and

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<sup>22</sup>Bidwell, pp. 55-56; William Diebold, New Directions in Our Trade Policy (New York: Council on Foreign Relations, 1941), p. 128; New York Times, August 5, 1940.





on June 28th the Rubber Reserve and the Metals Reserve Companies were established. Each had a capital of \$5,000,000. Both of these companies later expanded, and while both were significant in buying Latin American strategic materials, the Metals Reserve Company was particularly important in acquiring Chilean copper, Bolivian tin and a multitude of other strategic metals of the Western Hemisphere.

Roosevelt remained hopeful that some kind of Cartel could be developed that would meet with both domestic and Latin American approval. On June 25th he reported that progress was being made and that within a week or two something definite would be done. The next day Secretary of Agriculture Wallace sent Roosevelt a confidential note which must have been sobering to the President. Wallace explained, "politically speaking we must be prepared, of course, in case of need to buy up at equivalent prices products in the United States. . . ." <sup>23</sup> In other words, in order to get the support of farmers, all of their surpluses would have to be purchased as well as the surpluses of the Latin American nations. This was an extremely radical proposal and a practical impossibility.

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<sup>23</sup> Franklin D. Roosevelt, "Press Conferences," XV, June 25, 1940, p. 597; Wallace to Roosevelt, June 25, 1940, Memorandum with revisions based on Roosevelt's suggestions, President's Secretary's File: Agriculture Department. The above quote was handwritten by Wallace on the first page of the typed note.

This same note went into great detail on the proposed Cartel. Its main point was that, for the Cartel to work, surpluses would have to be kept moving into consumption. The best way would be to export the surpluses to the rest of the world, but this was extremely difficult because of the war. Whatever could not be directly exported out of the Western Hemisphere would have to be stored either on an ever-normal granary basis within the hemisphere or distributed to the impoverished people of both North and South America. This last plan was known as the "safety valve" without which huge inventories could easily wreck the whole Cartel. The way this plan would be carried out involved an elaborate two currency system using reciprocal dollars for trade between the hemispheres and United States dollars as the currency of the Western Hemisphere.<sup>24</sup>

On June 27th a meeting of the minds was held. President Roosevelt, Secretary Hull, Morgenthau, Wallace, and Hopkins attended along with their advisors. Roosevelt was particularly concerned that action be taken at once because if England fell he was certain the Nazis would quickly make effective trade arrangements with Latin America. Wallace reiterated his plea that in order for

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<sup>24</sup>Wallace to Roosevelt, June 26, 1940, President's Secretary's File: Agriculture Department.

Figure 1. The effect of the number of trials on the number of correct responses. The number of correct responses was plotted against the number of trials for each condition. The number of correct responses increased with the number of trials for all conditions. The number of correct responses was highest for the condition with the highest number of trials (10 trials) and lowest for the condition with the lowest number of trials (2 trials).

any plan to be successful farmers in the United States would have to support it. This was a difficult problem because the Administration had had scant luck in reducing surpluses within the United States. Roosevelt particularly liked the idea for a special hemisphere currency but explained that the "dollar" was out because of Latin American "susceptibilities." In its place he suggested the "christobal." It was finally decided to continue looking into the proposed Cartel using a committee consisting of the four Cabinet members with James Forrestal, the President's administrative assistant, as coordinator.<sup>25</sup>

In his press conference the next day, Roosevelt explained that progress was continuing on the Cartel but that details about it would not be forthcoming until it was ready to be submitted to the other American Republics and Congress. Politically this was imperative, for its radicalism would meet with instant condemnation by the more conservative members of Congress. When asked about Latin American reactions to the Cartel, Roosevelt hedged and said there was "very general interest."<sup>26</sup>

Just as things were apparently looking up for the establishment of the Cartel, the plan was abruptly dropped.

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<sup>25</sup>Morgenthau Diaries, Vol. 276, June 27, 1940, pp. 177-78.

<sup>26</sup>Franklin D. Roosevelt, "Press Conferences," XV, June 28, 1940, pp. 600-01.



The reasons for this abandonment are presently unknown, but strong circumstantial evidence suggests that Cordell Hull, long the proponent of the reciprocal trade agreements program, used his influence to defeat the proposal. Certainly other factors such as domestic politics and Latin American coolness played a part in the defeat of the Cartel. The fact that on July 1st the Germans began to put diplomatic pressure on several Latin American states in order to get them to oppose any plans to eliminate European products from new world trade was not known until July 8 in the State Department and does not appear to have influenced the decision on the Cartel.<sup>27</sup>

President Roosevelt said that the Cartel plan was still under study as of July 9, but the plan may have been eliminated as early as July 3 as the result of a report from the Independent Committee of Experts to the Cabinet Committee.<sup>28</sup> Certainly the Cartel had been dropped by July 11 when Sumner Welles spoke in confidence before the Inter-American Financial and Economic Advisory Committee. Without saying that the Cartel plan had been dropped, he

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<sup>27</sup>Langer and Gleason, Challenge . . ., p. 635; Wertebaker, p. 124, Wertebaker said Hull scotched it for sure; Chargé in Nicaragua to Hull, July 8, 1940, Foreign Relations, 1940, I, pp. 796-97.

<sup>28</sup>Franklin D. Roosevelt, "Press Conferences," XVI, July 9, 1940, p. 30; As of June 1, 1966 the report referred to is still classified. See Morgenthau Diaries, Vol. 279, July 3, 1940.

called for the resumption of the "normal current of trade with Europe as soon as possible" as long as politics or political interference were avoided. This would tacitly encourage trade with Germany and would be diametrically opposed to the Cartel plan. Welles then promised United States cooperation with the other American Republics in dealing with their economic problems. What was significant was that this new cooperation was to come through increasing the powers of the Export-Import Bank. It, not the Cartel, would then be in the position to cooperate in long term development, in monetary and exchange matters, in temporary financing and storage of export products until they could be marketed, and even possibly in repayments made in commodities instead of cash.<sup>29</sup>

The Cartel clearly was dead, but its corpse was decapitated by Secretary Hull's address on July 22 at the Havana Conference. He said:

Prosperity for the American republics or for any part of the world cannot be achieved--even the necessities of the war-torn areas of the earth cannot be met--by regimented or restricted trade, especially directed under a policy of national or regional autarchy.<sup>30</sup>

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<sup>29</sup>Wells to Inter-American Financial and Economic Advisory Committee, July 11, 1940, Foreign Relations, 1940, V, pp. 371-73.

<sup>30</sup>Gantenbein (ed.), p. 209. (Address by Hull at Havana, July 22, 1940).



Despite these rather clear evidences that the Cartel plan was no longer being considered, President Roosevelt on July 23 assured a reporter that the proposed increase in the powers of the Export-Import Bank was strictly supplemental to the Cartel program. Finally, on August 9 the Administration publicly stated that the Cartel plan was "definitely and completely abandoned."<sup>31</sup>

About the best that can be said about the Cartel plan was that even though it failed, some projects that were later successful were, in part, based on it. These included the increase in both the scope and funds of the Export-Import Bank in September, the creation of the office of Coordinator of Commercial and Cultural Relations between the American Republics<sup>32</sup> in August, and the Inter-American Coffee Agreement in November, which amounted to a Cartel for coffee.<sup>33</sup> All these were pluses for United States foreign policy, but they were no substitute for the economic solidarity that might have come from the Cartel. Hull and the rest of the Roosevelt Administration were

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<sup>31</sup>Franklin D. Roosevelt, "Press Conferences," XVI, July 23, 1940, p. 56; New York Times, August 10, 1940.

<sup>32</sup>This office is better known as the Office of the Coordinator of Inter-American Affairs. It took this name on July 30, 1941. See Chapter 1, footnote 48.

<sup>33</sup>They will be discussed later.

too timid, and their failure to take this innovative action was a threat to hemispheric economic solidarity as long as Germany appeared to be winning the war.

Although the Cartel was dropped by early July, two other United States plans promised preference or help to Latin America. The first was the export control act passed on July 2. This was a measure that required the licensing of certain strategic and other essential commodities before they could be exported. Licenses would be issued only by the Secretary of State. They would normally be difficult to get, particularly as the United States added to the list. However, Latin America, as well as Great Britain, was intentionally favored in carrying out the act. The result was that the Latin American nations could often get licenses when most other countries were turned down.

The promise of help for Latin America came about on July 11 at a conference held in Secretary Morgenthau's office. The President's administrative assistant, James Forrestal, asked Morgenthau point-blank what he would do in the way of making Stabilization loans to Latin American countries. This had long been a difficult problem. Since Morgenthau had opposed the use of the Stabilization Fund for financing purchases in Latin America, there was uncertainty over his position in this case. However, he was eager to cooperate as long as he was in charge of all

the arrangements. His pledge of cooperation was later repeated by Secretary Hull before the Havana Conference. Because it was well received by the Latin Americans there, it resulted in a great political coup for the United States. Currency stabilization was an extremely difficult problem for most of the Latin American nations due to the war. While Morgenthau promised "immediate and sympathetic consideration," no firm commitments were made although they would be expected.<sup>34</sup> Thus, the United States got the benefits of a general promise, and in fact, did begin to offer Stabilization Loans to various Latin American countries.

However, the main source of loans available to the Latin American nations continued to be the Export-Import Bank. Political complications remained if the Latin American country requesting a credit was in partial or total default on its debts to the United States citizens. The F.B.P.C. continued to press for debt settlements despite the added difficulties that the war had brought about. The State Department and the Export-Import Bank continued to be in the middle, but, at least, they had a policy to follow. According to Warren Pierson, the

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<sup>34</sup>Morgenthau Diaries, Vol. 281, July 11, 1940, p. 278; ibid., Vol. 286, July 23, 1940, pp. 141-42; Morgenthau to White, July 24, 1940, Foreign Relations, 1940, V, p. 242.

President of the Export-Import Bank, they examined each situation in light of the facts and in the national interest. If a country expressed a willingness to repay old debts, conservative credits could be granted.<sup>35</sup> However, this question of "willingness to pay" was the major problem, and the F.B.P.C. and State Department had disagreed in the past and would again during the crisis of the summer of 1940.

During the "Phony War" period the F.B.P.C. and the State Department had been in near chronic disagreement, particularly over the Colombian and Brazilian debt negotiations. In both cases Export-Import Bank loans were not forthcoming until after a temporary debt settlement was reached. During the blitzkrieg of the late spring and early summer of 1940 two Latin American countries in complete default on their dollar bonds requested Export-Import Bank loans. The question was whether loans would be tied to debt settlements or the rather tenuous term "willingness to pay"?

In the case of Ecuador, the State Department had pressed for an Export-Import Bank loan of \$1,250,000 in

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<sup>35</sup>Statement by Warren Pierson, President of the Export-Import Bank, made on April 11, 1940, quoted in "Export-Import Loans to Latin America," Foreign Policy Reports, June 15, 1941, p. 90.

April, 1940. At that time Jesse Jones turned down the request and took a backhanded slap at Roosevelt by indicating that despite the President's desires the directors of the Export-Import Bank held the ultimate responsibility for loans.<sup>36</sup>

The situation remained this way until May 31 when the President of Ecuador made a direct and urgent request for funds explaining that if depreciation of the sucre continued he expected an attempted coup d'etat. Ecuador was in deep economic trouble because the French who had long been one of the biggest buyers of Ecuadorean coffee had almost ceased buying it, while the three-fifths of Ecuadorean coffee that normally went to Germany was completely lost due to the war. Perhaps it was because the State Department was then carrying on delicate negotiations aimed at getting rid of German influences in Ecuadorean airlines,<sup>37</sup> but, in any event, Jesse Jones quickly agreed to an Export-Import Bank loan to help Ecuador out of its exchange difficulties. A loan was announced on June 4 in the amount of \$1,150,000. Nearly all of the loan was to be used specifically to pay for purchases already made in the United States and not paid for because of the failure of Ecuador's cocoa crop and

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<sup>36</sup>Morgenthau Diaries, Vol. 255, April 19, 1940, p. 328.

<sup>37</sup>This will be covered in some detail later.

the loss of the French and German markets.<sup>38</sup> Perhaps it was because all this happened so fast, but there is no evidence that the F.B.P.C. objected to the loan. Certainly the spread of war was especially important in its quick approval.

Peru was the other country in total default on its debt which requested an Export-Import Bank loan in the spring of 1940. It, too, was in financial trouble due to the war emergency. Peru's major problem was how to counteract the anticipated depreciation of its currency should Great Britain block its surplus exchange. Britain also normally purchased \$5,000,000 worth of Peruvian cotton but because of the war would not do so that year. Ambassador Norweb in Peru recommended consideration of the proposed loan saying that the Peruvian government was a good moral risk and emphasizing that this action could well have a decided influence on the administration in power. He also mentioned that Japan had offered to buy more Peruvian cotton on a barter basis but that Peru did not want to obligate herself further to Japan. Economic, political,

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<sup>38</sup>Long to Hull, May 31, 1940, Foreign Relations, 1940, V, pp. 874-75; Hull to Long, June 4, 1940, ibid., p. 875.

and military considerations were thus combined in this case as they had been and would be in many others.<sup>39</sup>

Secretary Hull promised that the United States would give careful consideration to the Peruvian request. However, it was clear that the request from a country in total default troubled him. He hoped that Peru would make some temporary settlement on its dollar debt in order to make the people of the United States more sympathetic to the Peruvian request.<sup>40</sup> This was an extremely unrealistic position to take since negotiations on the debt were not then being held. Negotiations in the past between the F.B.P.C. and Colombia or Brazil had gone on for many months before even a temporary solution could be reached. Since this problem was immediate and getting worse, he must have known negotiations were not possible. Possibly he hoped that Peru would unilaterally make a temporary settlement. In either case, his dilemma showed that political fear of the F.B.P.C. still was strong within the State Department.

On June 1 Ambassador Norweb in Peru replied to Hull that Peru had no intention to make even a

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<sup>39</sup> Norweb to Hull, May 22, 1940, ibid., pp. 1135-36.

<sup>40</sup> Hull to Norweb, May 24, 1940, ibid., pp. 1136-37; Hull to Norweb, May 31, 1940, p. 1137.

temporary arrangement on its dollar debt. In the past, when Peru had been more prosperous, an offer had been made which had been rejected by the bondholders. Even if an offer could have been made in June, it would not have approached the earlier rejected offer. The dilemma was now complete. These complications with the F.B.P.C. could have prevented a loan to Peru. However, Secretary Hull made up his mind very quickly that, although the Peruvian debt in the past had prevented Export-Import Bank loans, the rapidly deteriorating situation in June, 1940 made it imperative that action be taken. On June 11 the Export-Import Bank notified Peru that a credit of \$2,000,000 would be forthcoming. Hull also promised that a more comprehensive longer-term program of cooperation would be next on the agenda. This program, however, would include consideration of the dollar debt problem.<sup>41</sup>

It was clear in both these cases that the necessities of the time overcame any reluctance on the part of Hull to back the loans. Still, the influence of the F.B.P.C. was being felt, and Hull covered himself from any possible criticism by promoting the idea of considering a debt settlement if later discussions on economic cooperation were held. This could be held up to the

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<sup>41</sup>Norweb to Hull, June 1, 1940, ibid., pp. 137-39; Hull to Norweb, June 10, 1940, ibid., pp. 113-40.



F.B.P.C. if they tried to make political capital of the loans to Ecuador and Peru. Yet these actions by the State Department in the cases of Ecuador and Peru were rather cautious steps brought about by necessity. The powers of the F.B.P.C. over United States public opinion had to be reckoned with in any State Department actions.

The powers of the Export-Import Bank were still quite minimal by the summer of 1940. Its capital had been doubled from \$100,000,000 to \$200,000,000 in March, 1940, but the Administration felt that this was inadequate due to the war. Besides this, there were many difficulties about the Export-Import Bank's stated policy that loans should be used to buy United States products. This policy had been broken many times beginning with the developmental loan to Haiti in 1938. Yet many of the Latin American countries continued to run into trouble with the Export-Import Bank if they changed their minds on what they wanted to do with the Bank's credits after the credits were promised. These delays and misunderstandings caused a great deal of undesirable irritation to be felt by the Latin American countries involved in negotiating with the United States. What was needed was a broadening of the scope of the Export-Import Bank to take into account the necessities brought about by the war. An increase in capital also was needed in anticipation of Latin American needs.

Roosevelt had wanted a substantial increase in the capital of the Export-Import Bank since 1939. When the Cartel plan was dropped in early July, it was imperative that something be done to take up the slack. Since the Havana Conference was looming on the horizon, the Administration wanted to impress upon the Latin Americans that the United States was vitally interested in their economic welfare. This was true in itself, but it was hoped that the publication of United States economic intentions would serve as a spur to the eventual success of the Havana Conference.

With this in mind a program for an expanded Export-Import Bank was developed. Sumner Welles brought the Administration's plan before the Inter-American Financial and Economic Advisory Committee on July 11--less than two weeks before the Havana Conference was to meet. Welles spoke generally about United States economic cooperation with Latin America but got more specific when discussing the Export-Import Bank. He said that the Administration was backing proposed legislation which would extend both the volume and character of operations of the Export-Import Bank. Once this legislation was passed, cooperative efforts in long term development and monetary and exchange matters would be expanded. Since surplus commodities were a great problem, the United States through the Export-Import Bank would seek to assist the temporary financing

and storage of export products until they could be sold. It was even anticipated that eventual repayments in some cases might be made in commodities.<sup>42</sup> This would take the carrot away from the German barter trade policy, and it was a long way from Hull's old goals of liberal and reciprocal trade. Yet these types of financial transactions were necessary and would be popular in Latin America.

On July 22, just as the Havana Conference was to meet, President Roosevelt publicly called on Congress to increase the size and powers of the Export-Import Bank. He wanted the Bank's capital to be increased from \$200,000,000 to \$700,000,000, and he wanted some of the restrictions on its operations to be removed so that the Bank could be of greater assistance to the Latin American nations. Specific new powers were to include the handling and orderly marketing of some of the surplus products of the Western Hemisphere.<sup>43</sup> This was a smart move by Roosevelt, particularly the proposals regarding Latin American surpluses. These were chronic problems and if the United States could help solve them, good hemispheric

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<sup>42</sup> Welles statement before the Inter-American Financial and Economic Advisory Committee, July 11, 1940, ibid., pp. 371-72.

<sup>43</sup> Department of State Bulletin, III, July 27, 1940, p. 41.

relations would be promoted. It evidently impressed some of the Latin American nations as the Havana Conference followed the program of the United States. It would all be fruitless however, unless Congress carried out the President's wishes.

It was apparent that major changes in the Export-Import Bank's operations were contemplated. Jesse Jones' testimony before the House Committee on Banking and Currency pointed this out. He had testified first back in February, 1940 when the capital of the Export-Import Bank had been raised from \$100,000,000 to \$200,000,000. At that time he had promised that every dollar borrowed by foreign countries would be spent in the United States. In August, in his testimony before the same committee in connection with the \$500,000,000 lending increase that was earmarked for Latin America, he promised only that the Bank would have an understanding with each borrowing country as to what part of each loan was to be spent in the United States. The Bank would not attempt to control the remainder. The major reason that the original conception of the Bank was being changed, according to Jones, was to permit the Bank to play a part in the national defense program.<sup>44</sup> This promised increased benefits to

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<sup>44</sup>"Export-Import Loans to Latin America," Foreign Policy Reports, June 15, 1941, p. 89; See Also U.S., Congress, House, Committee on Banking and Currency, Hearings before the House of Representatives Committee on Banking and Currency on H.R. 10212 superseded by H.R. 10361, 76th Cong., 3d Sess., 1940, p. 58.

Latin America. It meant that Latin Americans could at least use portions of Export-Import Bank loans for projects of their own choice.

The old debt problem was resurrected at this time no doubt due to the political susceptibilities of the members of the House of Representatives. However, Jesse Jones took a firm stand that must have appalled the F.B.P.C. He declared that no Export-Import loan would be conditioned on prior repayment of other loans.<sup>45</sup> This action was both brave and gratifying considering prior relations with the F.B.P.C. and the wartime needs of Latin America. This policy should have been begun in September, 1939, if not before.

By August, the proposed changes in the powers of the Export-Import Bank had become a hot political issue. Senator Wagner of New York was the floor leader for the Administration's bill. The predominantly Republican opposition was led by Senators Taft of Ohio and Vandenberg of Michigan. In a Senate report of August 6, Senator Wagner praised the Bank's actions in the past and called for its expansion in order to help secure the total defense of the United States. The minority report was extremely critical and pointed out the fears that were held by more conservative or traditional Americans. One

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<sup>45</sup>Hearings on H.R. 10361 . . . , pp. 90, 125.

fear was that this proposed increase in money and powers would be used like a Cartel even though the original Cartel plan was dead. The minority thus thought it was a smoke-screen to resurrect a discredited policy. They thought that any attempt to control surpluses was harmful and that this type of aid to Latin America was not advisable. Their major fear however, was that this type of legislation would drag the United States closer to war because of its "distinctly anti-German flavor."<sup>46</sup>

On August 20, Jesse Jones sent an Administration-backed letter to the House Banking and Currency Committee supporting an increase in the Bank's lending powers. His first point re-emphasized the original reason for the Bank--that of financing Latin American purchases in the United States.<sup>47</sup> To many Senators and Representatives the fact that up to this time nearly every dollar of the monies loaned by the Bank had been spent in the United States was more important than what the Bank could do to aid the Latin American nations. There was a mercantilist fervor among many members which crossed party boundaries and which saw increased exports only as ends that helped business in the United States. They gave little if any

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<sup>46</sup>Dulles, Commercial Policy Series, Number 75, pp. 14-15.

<sup>47</sup>New York Times, August 21, 1940.

thought to helping the Latin American countries by increasing United States imports. This was a difficulty that often complicated the Administration's wishes on Latin American policy.

Jones also mentioned that if the Bank were enlarged, it could assist some of the Latin American countries in solving war-caused economic problems as well as helping their industries in order to make them less dependent on other countries. These wishes were reasonable and relatively non-controversial. However, Jones felt obliged to emphasize that loans would be "modest" and "carefully made." They would be especially useful in assisting the production or the growing of things which were needed in the United States but not produced or grown here. This alluded to the main difficulty of surplus and competitive agricultural products. Jones felt constrained to mention that it was "not contemplated that loans would be made on surplus agricultural commodities" except that consideration would be given to Latin American countries who sought to assist their own citizens in the "orderly marketing of some of their agricultural surpluses." That would be done in order to avoid demoralized prices that would affect United States farmers. He further

promised that no loans would be considered if they were thought to be inimical to United States farming interests.<sup>48</sup>

This near double-talk did not end the controversy about the Bank. The opposition now attempted to restrict the use of the increased money by amendment. Both Senator Taft and Senator Vandenberg still feared that the Bank would be used as a Cartel for agricultural surpluses. An amendment by Taft sought to limit credits to the financing of strategic and critical materials needed by the United States but not produced in appreciable quantities. Senator Wagner led the Administration's fight against the amendment. It was defeated on September 11 by sixteen votes although twenty-nine Senators abstained. With the defeat of this measure, the bill had clear sailing, and it was passed in the Senate the same day. On September 26, the increased powers of the Bank became law.<sup>49</sup>

The Administration had won a hard fight, and the Bank's powers had been broadened. In contrast to its previous limitations of financing United States exports, its new purpose was "to assist in the development of the resources, the stabilization of the economies and the orderly marketing of the products of the countries of the

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<sup>48</sup>Ibid.

<sup>49</sup>U.S., Congressional Record, 76th Cong., 3d Sess., 1940, LXXXVI, Part II, pp. 11900-11918.





Western Hemisphere. . . ." The new act also dropped the \$20,000,000 limitation on loans to one country and earmarked \$500,000,000 of the Bank's \$700,000,000 capital especially for Latin America. Even more important was the act's removal of the limitation on the financing of war material exports. Previous to this, Latin American nations could buy arms if they were available but only on a cash and carry basis. Now credits could legally be allowed.<sup>50</sup>

The Export-Import Bank had now become a definite instrument of United States foreign policy. The aim was to use the Bank to assist in the economic, political, and military defense of the Western Hemisphere. The Cartel had failed, but the new purposes of the Bank at least filled part of the vacuum. Latin Americans could now get credits more easily. This new policy was immediately taken advantage of by the Administration and Brazil for the construction of the famous Volta Redonda steel mill.

This project had been under discussion since May, 1939. Originally the Brazilians had hoped that the United States Steel Company would be the financier for the project. Although the company sent executives to Brazil in 1939 to survey the possibilities of the project, they decided against it in January, 1940. This greatly

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<sup>50</sup>U.S. Statutes at Large, 76th Cong., 2d and 3d Sess., 1939-1941, pp. 961-62.

disappointed President Vargas of Brazil and also the State Department which was concerned about Vargas' claim that he would turn to other sources if necessary to get the project completed. This obviously meant either the Japanese or the gigantic Krupp cartel of Germany which served German foreign policy. Neither of these would be acceptable to the State Department. Consequently, the State Department began discussions with the Brazilian ambassador in order to find a solution to the dilemma.<sup>51</sup>

Discussions began in January, 1940 but little if any progress was discernible by June. Brazil suggested a possible Export-Import Bank loan, but Mr. Jones, the Federal Loan Administrator, although agreeing to consider it, hoped to persuade either United States Steel to reconsider or to convince Bethlehem Steel to take up the project. Word was received on July 8 that the Krupp interests were offering very advantageous terms to Brazil and that German agents were having some success in getting the Brazilian Army to put pressure on President Vargas. This was a serious situation in light of United States interests, but little could be done until the Brazilian Steel Commission arrived in the United States.

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<sup>51</sup>Memorandum of Conversation by Herbert Feis, January 22, 1940, Foreign Relations, 1940, V, pp. 600-01.

On August 7, Sumner Welles wrote Jesse Jones emphasizing the State Department's wish that United States interests, either private or governmental, carry out the financing of the Brazilian steel project. Word had been received that all the ruling elements of Brazil considered this project to be of such importance that they would sacrifice anything to get it. This meant that if United States financing fell through, the Germans would be allowed to build the plant. Both Ambassador Caffrey and the State Department felt that this would insure Germany's predominance in Brazilian economic and military life for many years. In other words, Welles was telling Jesse Jones not to let them down.

Jones met with the Brazilian Steel Commissioners. He also introduced them to the officials of the Export-Import Bank and to various steel companies. However, no action could be taken by the Export-Import Bank because of the \$20,000,000 loan limitation to any one country. As previously mentioned, Jones was actively supporting the new administration bill which would eliminate that provision, but nothing definite could be done until the measure was passed.

In early September, the Brazilian Foreign Minister informed the United States officials that the Krupp interests were making very attractive offers. This was

certainly a source of anxiety for the Administration. But once the bill passed the Senate on September 11, the pressure was much less.

President Roosevelt signed the bill increasing the Bank's powers on September 26, and, on the same day the agreement on the loan to Brazil also was signed. According to the agreement, the Export-Import Bank promised to loan Brazil \$20,000,000 for the purchase of materials and equipment for the proposed mill. This greatly solidified Brazilian-United States relations because President Vargas was elated about the plan. Both Sumner Welles and Oswaldo Aranha, Brazil's Foreign Minister, agreed that this scheme was an example of collaboration which would bring prosperity to Brazil while reaffirming the policy of reciprocal cooperation between the United States and Brazil.<sup>52</sup> More projects like this would bring great economic advantages to the new world while preventing German political and economic inroads.

This Brazilian undertaking showed that the increased economic powers of the Export-Import Bank would quickly be put to uses affecting the national interest. However, the other new provision of the act which allowed credits for arms shipments to Latin American countries

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<sup>52</sup>For the last five paragraphs see ibid., pp. 600-615.

caused as many difficulties as it solved. More details will be found in the section on military policy, but the basic problem was that now that Latin America could finance purchases of arms, there were few if any available that could be sent to them.

Another major project in the summer of 1940 came about as a repercussion from Nelson Rockefeller's June 14th memorandum entitled Hemisphere Economic Policy. This had called for a number of changes and innovations in hemispheric economic and cultural affairs and had greatly impressed the President. Many recommendations were made in late June and July to implement some of Rockefeller's programs. Finally on August 1, a group of White House advisors decided that instead of handling this work under an administrative assistant to the White House, as Rockefeller had suggested, it would be more effective to create a separate agency. A memorandum was prepared which suggested the appointment of a coordinator of Latin American Commercial and Cultural Relations. This coordinator would have direct access to the President although his office would be under the Advisory Commission to the Council on National Defense which had been set up the previous May. He would work in close cooperation with the administrative assistant to the President in charge of Latin American affairs. He would also be a member and chairman of an Inter-Departmental Committee on

Inter-American Affairs which would consist of the president of the Export-Import Bank, one representative of the State, Commerce, Agriculture, and Treasury Departments and others as needed from time to time. This Committee which was created in the order establishing the new agency had an extremely important job. It was to "consider and correlate proposals of the Government with respect to Hemispheric defense, commercial and cultural relations, and to make recommendations for action by appropriate Government departments and agencies."<sup>53</sup>

Under the right man, this new agency could have a great deal of influence and power in inter-American affairs. In fact, the agency apparently was created in order to fill a power gap. A flexible agency was needed to carry on a program of hemispheric unity because existing agencies were hamstrung by law and precedent. Also, since the Coordinator was directly responsible to the chief executive, the President would get another first hand look into the crucial field of Latin American affairs.<sup>54</sup>

For the position of Coordinator President Roosevelt picked the young Republican millionaire from New York who had been responsible for the June memorandum on Hemisphere

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<sup>53</sup>History of the Office of the Coordinator of Inter-American Affairs, p. 7.

<sup>54</sup>Ibid., p. 277.

Economic Policy. Nelson Rockefeller had long been interested in and was well versed in Latin American affairs. Some of the powers given him by the enabling act made it apparent that he would play a large part in the Administration's Latin American policy. He was to establish and maintain liaison with a number of public and private agencies concerned with the commercial and cultural aspects of hemispheric defense. He had the power to review existing laws, to coordinate research, and to recommend to the Inter-departmental Committee on Inter-American Affairs new legislation needed to carry out the government's program. He was instructed to cooperate with the Department of State in the formulation and execution of a program designed to use governmental and private facilities in the fields of arts and sciences, education and travel, the radio, press, and motion pictures which would further national defense. But he was responsible directly to the President, and he was periodically to make reports covering his activities.<sup>55</sup>

The orders establishing this agency were based on the emergency situation in the summer of 1940. The Administration felt that if England fell there was a good chance the Western Hemisphere would be attacked. Thus, the new agency was to do all it could to line up Latin

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<sup>55</sup>Ibid., pp. 7-8.



America behind the United States, particularly by facilitating commercial matters and promoting cultural exchange and better relations.<sup>56</sup>

The founding of the Coordinator's office implied that existing agencies either could not or were not carrying out their jobs. Leading State Department officials felt that the new agency was an implied criticism of their efforts and perhaps it was. For this reason they opposed the formation of the new agency. Once it was established, relations with the State Department often were chilly and prone to misunderstanding. The major reason for this was because the enabling legislation was so ambiguous on the connection between the State Department and the Coordinator's office. The legislation said the Coordinator was to cooperate with the State Department. The State Department felt that this implied that the Coordinator's office was under their direction. But Rockefeller's office emphasized that because of its coordination function, this was not the case. The whole problem of jurisdiction would not be settled until 1941. Until then Rockefeller often needed the support and friendship of Harry Hopkins, Henry Wallace, and Jesse Jones to keep the agency in existence.<sup>57</sup>

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<sup>56</sup>Ibid., p. 165.

<sup>57</sup>Ibid., p. 181. In April, 1941 Roosevelt sided with the State Department.

The major effects of this new agency would not be felt for some time in Latin America. But its establishment showed a real concern for Latin American interests. Latin Americans could appreciate this.

One other small but significant action in the economic field, was taken in September, 1940. On September 27, the day after Germany, Italy, and Japan announced their Tripartite Pact, President Roosevelt wrote a directive to all members of his Advisory Commission to the Council of National Defense as well as to the five Cabinet members most concerned with foreign affairs. This directive discussed the Latin American economic problems brought about by the war. It concluded that since Latin America had lost markets for 40% of her exports, economic and political deterioration might soon set in. This would compromise hemispheric defense and solidarity. To counteract this Roosevelt ordered his subordinates to give "priority of consideration" to the purchase of Latin American products for defense needs. This was no simple solution, but it did mean that the United States would be buying more hides, wool, manganese, nitrates, tin, copper and other strategic and critical materials from Latin America than ever before.<sup>58</sup> This could not help but

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<sup>58</sup> Roosevelt to Advisory Committee to the Council on National Defense and to five Cabinet members, September 27, 1940, Official File 87.

impress Latin Americans that the United States was determined to help them out of their difficulties. At the same time, by making Latin American countries more dependent on the United States and less dependent on the Axis powers, a re-identification of interests might result. This would reduce Axis influence and aid hemispheric defense.

It is normally difficult to trace the origins of various policies. However, in this case, President Roosevelt announced the plan after a conference with Nelson Rockefeller, the Coordinator of Latin American Commercial and Cultural Relations. Whether it was Rockefeller's idea or one of his subordinates is not important. What was important was that action was being taken after an initiative from the newest government agency dealing with Latin American affairs. If the Coordinator's office could continue to come up with plans or ideas that would draw Latin America and the United States closer together, the ends might well justify any extra costs.<sup>59</sup>

The Roosevelt Administration had taken some time to react to the Nazi blitzkrieg before new economic ideas were put forth and changes contemplated. This was even more true in the case of cultural and social relations,

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<sup>59</sup>History of the Office of the Coordinator of Inter-American Affairs, pp. 12-13.

but now, for the first time, there would be a direct relationship between commercial and cultural relations. Previous to the summer of 1940 they were completely separated. Commercial relations had been used to promote foreign policy objectives, but cultural relations had been promoted for their own sake with little or no considerations toward influencing Latin America to follow the wishes of the United States. This all changed when Nelson Rockefeller became the Coordinator of Commercial and Cultural Relations between the American Republics in August, 1940. This agency's ideas, plans, and actions did not take the place of the State Department's Division of Cultural Relations, but they greatly increased cultural activities in the long run and added these activities to the broader program of lining up Latin America.

Until its establishment, the concerns of the United States in cultural relations continued to be small indeed. Sending official representatives to conferences such as the First Inter-American Congress on Indian Life, the Eighth American Scientific Congress, and the Inter-American Union of the Caribbean, all of which met in the spring of 1940, apparently were ends in themselves. Appropriations to carry on cultural activities were extremely small totaling only a few hundred thousand dollars even after a supplemental appropriation in June, 1940 that Under Secretary of State Welles pleaded for. This request

for an extra \$552,000 only raised the total request for fiscal 1941 to a little under \$700,000 for all of Latin America. Even then, Congress only appropriated \$500,000.<sup>60</sup>

The cultural activities part of Rockefeller's position was small compared to its national defense and economic relations parts, but it still was significant. Among his official duties, he was ordered to formulate and execute a program of cultural relations in cooperation with the State Department. This program would emphasize the strengthening of the bonds between the United States and the other American Republics as one part of the national defense program. Here, for the first time, the Roosevelt Administration recognized the large aspects of cultural affairs. They would no longer be pursued half-heartedly and for their own sake at least as long as the war emergency lasted.<sup>61</sup>

New institutions were not particularly needed by the War, Navy, or State Departments during the crisis of 1940, but new ideas were imperative. Until the Nazi blitzkrieg military relations had been cordial, but they had been carried on in a spirit of complacency. This was

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<sup>60</sup> Welles to Roosevelt, June 13, 1940, Official File 87; Department of State Bulletin, II, June 22, 1940, p. 702.

<sup>61</sup> See Official File 813-B, August 17, 1940.

due mainly to the mentality of the "Phony War" period and to the realization that so long as the British and French fleets ruled the seas there was little danger to the Western Hemisphere. Although the military leaders of the United States recognized that hemispheric defense was second in importance only to the defense of the United States, they were slow in finding ways to carry out a concrete policy. This failure was not caused by lack of support because even the so-called isolationists would normally support closer military relations with the Latin American nations. Yet, it was not until after Denmark and Norway had been attacked that the United States began to take meaningful actions.

As a result of the German attacks on Denmark and Norway in April there was some inter-American discussion over whether a collective protest by all the American nations would be in order. The United States, which had supported this idea in the case of Finland some months earlier, rejected the idea now. The State Department felt that only unanimity was meaningful but that, as in the Finnish case, unanimity was impossible. Therefore in the interests of inter-American solidarity no protest would be better than a less than unanimous one.<sup>62</sup>

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<sup>62</sup>Hull to Caffrey, April 16, 1940, Foreign Relations, 1940, I, p. 726.

At this point the Argentine Foreign Minister, Dr. José María Cantilo, dropped a bombshell. He suggested that the American Republics give up their "fiction of neutrality" and agree to become non-belligerents. This put the State Department in an ambivalent position. Hull and Welles were no doubt pleased with this initiative toward Pan Americanism from a country that had traditionally been opposed to the hemispheric aspirations of the United States. However, Welles was against the idea of non-belligerency since this would require the abandonment of the neutrality agreements that had been achieved at the Panama Conference in September, 1939. Welles also feared that the reaction of Congress and the public would be hostile. To them, this change in policy would be evidence that the United States was moving toward direct involvement in the European War. Two of Welles' other criticisms consisted of the complaints that if this was carried out the example that the Western Hemisphere was holding up for the world would be lost and that the unanimity of the Western Hemisphere would break down over non-belligerency.<sup>63</sup>

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<sup>63</sup> Armour to Hull, April 19, 1940, ibid., pp. 743-44; Memorandum of Conversation by Welles, April 26, 1940, ibid., pp. 745-48.

Norman Armour, the United States Ambassador to Argentina, felt that the Argentine non-belligerency plan consisted of something more than its ostensible purposes. Cantilo had previously explained to Armour that despite the United States desire to stay out of the war, he did not see how this would be possible. Taken in this light, Armour saw the Argentine proposal as a plan to keep the other American Republics in line with the United States so that if the United States entered the war, it would be "natural and logical" for them to enter it also.<sup>64</sup> If Armour's assumption was correct, the Argentine plan was a bold effort to align itself with the United States. However, Armour also mentioned that Dr. Cantilo had alluded to a similar problem that had occurred during World War I. At that time, the United States had rejected an Argentine proposal for a conference of the American Republics to discuss Germany's unrestricted submarine warfare. To Dr. Cantilo this rejection justified the later Argentine action of staying out of World War I even after the United States declared war in 1917. Taken in this light, the Argentine proposal for non-belligerency could be seen as a radical plan that they knew the United States would reject. Thus, they would be free to carry

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<sup>64</sup> Armour to Hull, April 22, 1940, ibid., pp. 748-50.



out their own foreign policy wishes without fear of chastisement if the United States entered the war.

Although this information was sent to the State Department on April 22, it played no part in the State Department's April 24 decision to reject the Argentine plan because it was not received until April 30. In its official note of rejection the State Department followed Sumner Welles' ideas. The plan was just too radical for the United States to handle. The future was uncertain enough without making it more uncertain by switching from the known rights of neutrality to the unknowns of non-belligerency. Still, by rejecting this plan, the United States might have unwittingly given up the last, best hope of getting Argentina to line up with the United States.

Despite the United States rejection of its plan, the Argentine Government reiterated its hope that, although non-belligerency had been turned down, a more watchful neutrality was necessary. To carry this out, Dr. Cantilo wanted tri-partite negotiations held among Argentina, Brazil, and the United States in order to agree on a declaration reinforcing their precarious neutrality. The Argentine government was of the opinion that the neutral states had only the responsibilities and none of the guarantees of the failing system of neutrality. Cantilo wanted Argentina, Brazil, and the United States to agree to make some unanimous statement insisting that the

belligerents respect their neutral rights.<sup>65</sup> This again put pressure on the United States Government. Consultations were held with Brazil in hopes that a common policy could be reached regarding the Argentine proposal, but Oswaldo Aranha, the Brazilian Foreign Minister was known to favor some of the things the Argentines wanted.<sup>66</sup>

At this point Hitler invaded the Low Countries. This allowed the United States a breathing period as attention was focused on the new Nazi aggressions. Yet it was apparent that the United States wanted nothing to do with the Argentine suggestions. In fact it was at this time that the secrecy surrounding these proposals was broken through an apparent leak to the Associated Press in Washington. Although the State Department denied authorizing or perpetrating the leak, it was to the advantage of the United States to get the proposals out in the open. If the people of the United States would accept the Argentine position, this would be fine, but if their reaction was unfavorable, which was more likely, this would give the United States a good excuse to back the status quo. Besides this, the State Department plainly did not trust the Argentine Government. They thought that the

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<sup>65</sup> Armour to Hull, May 7, 1940, ibid., pp. 758-59.

<sup>66</sup> Caffrey to Hull, May 9, 1940, ibid., p. 760.

Argentine proposals were either dictated by Allied pressure or by some ulterior motive.<sup>67</sup>

At this point much of the pressure on the United States Government was removed by a Uruguayan proposal calling for a united American protest against the new Nazi attacks. The Argentine proposals could now be swept under the table while the American Republics concentrated on the new proposal. While the Uruguayan proposal was being discussed, the pro-German and anti-government elements in Argentina forced President Ortiz and Dr. Cantilo to back down.<sup>68</sup> The result was that a bold Argentine move toward Pan-Americanism had been thwarted under circumstances which at least partially blamed the United States. The United States had been stuck between two conflicting possibilities. It had been a long fight to line up Latin America in a neutrality benevolent to the United States, and it would have been a dangerous threat to inter-American solidarity to go beyond neutrality. At the same time, public opinion in the United States would oppose anything that appeared to drag the United States closer to war. Therefore the wish for stronger action against the Nazis

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<sup>67</sup>Hull to Caffrey, May 11, 1940, *ibid.*, p. 762-63; Armour to Hull, May 12, 1940, *ibid.*, pp. 764-65; Hull to Caffrey, May 13, 1940, pp. 766-67.

<sup>68</sup>Armour to Hull, May 24, 1940, *ibid.*, pp. 769-70.

was tempered by the desire to continue the hardfought security of the status quo in Inter-American Affairs. The State Department made the only choice it could under the circumstances, but in the process probably lost any chance it had to reach a consensus of opinion with the Argentine Government.

Regarding the Uruguayan request for United States support for its proposal condemning the Nazi aggression against the Low Countries, it is interesting that the United States was so eager to back this proposal when it had refused to back a similar proposal after the April invasions of Norway and Denmark. It is apparent that the United States support of the Uruguayan proposal removed pressure from the State Department regarding the Argentine proposal of moves toward non-belligerency. The Uruguayan proposal, which invoked parts of the resolutions passed at the Panama Conference, was circulated to all the American Republics on May 13. After an initial flurry of counter-proposals, all the American Republics agreed to the Uruguayan text of protest and it was published in the newspaper on May 18. The significance of this unanimous move can easily be overestimated, for it involved nothing more than a verbal display of inter-American unity. It had no effect on Hitler's plans.

The State Department did become positive of one very important thing in early May. This was that President Ortiz of Argentina wanted to cooperate with the United States. He informed Ambassador Armour of this in mid-May and promised that in case the United States entered the war, Argentina would enter also.<sup>69</sup> The State Department must have appreciated this vote of confidence, but they undoubtedly tempered their feelings because they knew that strong elements of the Argentine population, including parts of the army, favored Nazi Germany. However, as long as Ortiz remained in power, Washington would have a sympathetic friend in Argentina.

Since the United States rejected the Argentine plan of non-belligerency despite the increased Nazi threat due to the invasion of the Low Countries, what could be done to tighten up the defense of the Western Hemisphere? Adolf Berle, the Assistant Secretary of State, agreed with a Brazilian initiative of May 13 that the United States ought to take some constructive actions. President Roosevelt agreed, and on May 16, he directed his military advisors to prepare plans immediately for developing closer

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<sup>69</sup> Armour to Welles, May 17, 1940, ibid., pp. 739-40; Armour to Hull, May 24, 1940, ibid., pp. 769-70.

military relations with Latin America.<sup>70</sup> There was little doubt that the Nazi invasion of the Low Countries brought about this greater interest in hemisphere defense, for before May 10, the United States was primarily concerned with the defense of the Brazilian, South Atlantic Island of Fernando do Noronha. After May 10 bilateral defense give way to the question of a multi-lateral, continental defense.

Planners from the Army, Navy, and State Departments hurriedly made suggestions for a list of topics to be discussed with the Latin American nations. Within a week these proposals had been decided upon and approved by the President. On May 23, a circular telegram sent to the United States Ambassadors in Argentina, Brazil, Chile, Colombia, Ecuador, Peru, Uruguay and Venezuela,<sup>71</sup> called for informal conversations to be undertaken between the military and naval authorities of the respective republics and specially designated officers of the United States. If approved by the respective countries, these talks were to be carried out in secret and were to deal exclusively

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<sup>70</sup>Memorandum by Berle, May 14, 1940, ibid., V, pp. 14-15; Conn and Fairchild, The Framework . . . , pp. 175-76.

<sup>71</sup>Within 10 days, similar telegrams were sent to Haiti, Dominican Republic, Costa Rica, El Salvador, Guatemala, Nicaragua, and Honduras. See Foreign Relations, 1940, V, p. 16 and footnote p. 16.

with the deteriorating world situation. The major aim of the United States was to bring about a coordination of action in the event of any Axis aggression, but Hull explicitly repeated that this was not to be construed as a military alliance or even military or naval commitments on the part of the United States.

Ultimately all the countries approached approved the State Department's proposal for the informal talks. Mexico decided she would prefer to carry on talks in Washington rather than in Mexico City, and Bolivia, Paraguay, and Panama were not consulted.<sup>72</sup> The other sixteen Latin American countries agreed to the talks. Most of them were enthusiastic, but Argentina was notably cold. The conversations began between June 9 and June 24, and some of them lasted until just before the July meeting of the American nations at Havana. The major topics discussed included: how could the American Republics cooperate best in hemisphere defense; what assistance could they offer the United States and other American Republics; what aid did they need; and would bases and communications systems be made available to other American nations in case of war.<sup>73</sup>

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<sup>72</sup>A possible reason Bolivia and Paraguay were not consulted was because of the recent Chaco War. Panama had no army of her own.

<sup>73</sup>Conn and Fairchild, The Framework . . . , pp. 176-77.

While the plans for the military staff conversations were progressing, President Roosevelt was concerned with shoring up all aspects of the defense establishment of the United States. In a message to Congress on May 16, in which his main purpose was to get large increases in the Navy and Army appropriations, he used shock tactics by mentioning the aircraft flying times from Africa and South America to the United States. This was preliminary to his request that the aircraft manufacturing capabilities of the United States be increased from 12,000 planes per year to 50,000. His final request was for a President's Emergency Fund to be used at his discretion for any emergency affecting the national security or defense.<sup>74</sup> This Fund was set up by Congress in June, 1940 and subsequently was very useful in financing some clandestine hemispheric defense projects such as the airport development program made in conjunction with Pan American Airways.

On May 22, a sobering War Plans Division Report was made available to the President. It listed four probable complications with which United States foreign policy would have to deal. These were the possibility of Nazi-inspired revolutions in Brazil and Mexico, a

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<sup>74</sup> Ibid., pp. 41-42, Department of State Bulletin, II, May 18, 1940, pp. 529-32; Official File 3 (Commerce Department), May 16, 1940.



Japanese attack on United States possessions in the Far East, and a German victory in Europe followed by Nazi aggression against the Western Hemisphere. The report concluded that the United States was woefully weak to meet these threats. In fact, for at least a year, the United States military would have to concern itself with Western Hemisphere operations only. Germany and Japan would have an almost free hand in their respective spheres because of the weakness of the United States. The best the United States could do for the next year would be to prevent Axis occupation of Allied new world colonies, to defend the continental United States and its possessions east of the 180° meridian, and to concentrate on the defense of Latin America. The President met with General Marshall, Admiral Stark, and Sumner Welles on May 23, and they unanimously agreed that the War Plans Division Report would be the basis for the United States policy.<sup>75</sup>

There were a number of early opportunities in Latin America to test the new United States policy. Information began to flow in from United States diplomats that pro-Nazi revolts were likely in Argentina, Brazil and Uruguay. The potential for a Nazi victory appeared

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<sup>75</sup>Conn and Fairchild, The Framework . . . , p. 32.

especially probable in Brazil and Uruguay. Consequently, the United States took actions to counteract the German threats.

In Brazil's case, British Admiralty intelligence reported to the State Department on May 24 that the Nazis might be preparing an expeditionary force to send against Brazil. This, combined with other sources of information, prompted President Roosevelt to call on the Army and Navy planners to draw up immediately a joint plan for sending a force to Brazil in case the reports were accurate. This project with the code name Pot of Gold was drawn up in the next three days. The plan, which would go into effect only in an extreme emergency and with the permission of the Brazilian Government, called for the sending of a large American expeditionary force to hold Brazilian coastal strong points from Belem to Rio de Janeiro.<sup>76</sup> The obvious limitation of this plan, outside of its logistical impossibilities, was that it could not be carried out unilaterally. To do so would revive the latent anti-Americanism of Latin America and sabotage all the hard-won gains of the past decade. It was fortunate that the United States had overestimated the German capabilities because, if Pot of Gold had become necessary in May or

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<sup>76</sup>Ibid., pp. 32-33.

June, 1940, the result would have been a fiasco. No units were ready to go, not enough air transportation was available, and the existing airfields en route to Brazil were antiquated and inadequate.

In Uruguay's case the chances for a successful Nazi putsch appeared even more imminent. As early as May 15, the American Ambassador had noticed an increase in Nazi activities. According to him, this was compounded by the Uruguayan Government's apathy and inability to take meaningful action. By May 26, the Uruguayan Government had begun to take action against the Nazi Fifth Column, and it looked like diplomatic relations with Germany soon would be broken. The United States, at this point, was prepared to back Uruguay should the break occur. However, if the expected Nazi putsch was successful, the United States reaction would have to be conditioned on consultations with the other American states. Britain proposed to send in a contingent of her marines which were available on nearby British cruisers, but Sumner Welles told the British Ambassador that this action would cause more problems than it would solve.<sup>77</sup>

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<sup>77</sup> Foreign Relations, 1940, V, pp. 1147-1151, passim.

News of the tragic defeat of the Belgian Army and the potentially disastrous evacuation at Dunkirk was received the same day as a dispatch from Edmund Wilson, the United States Minister in Uruguay. Wilson repeated many of his previous opinions, but he especially emphasized that the situation was deteriorating and that an armed movement was a possibility. In a telegram the next day both the United States Ambassador to Argentina, Norman Armour (who was then visiting Uruguay), and Wilson agreed that the best way to save the situation would be for the United States to send a large naval force to visit the east coast of South America. They thought this would lend moral support to the South American countries that opposed the Nazis but who were equally disheartened by Allied defeats. These South American countries also lacked confidence in the United States apparently because their requests for United States military aid could not be met for some time. The two American diplomats thought the proposed fleet movement would strengthen the position of the anti-Nazi elements in South America and give added assurance that the United States was prepared and able to give immediate aid if requested.<sup>78</sup>

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<sup>78</sup>Wilson to Hull, May 30, 1940, ibid., pp. 1151-52; Wilson to Hull, May 31, 1940, ibid., p. 1152.

Even before this joint dispatch had been received in Washington, President Roosevelt had decided to take action. He ordered the heavy cruiser Quincy, which was then in the Caribbean Sea, to go immediately to Rio de Janeiro and then to Montevideo, ostensibly for courtesy visits. Sumner Welles thought that this action was too little to be effective and requested that a much larger complement of ships be sent. The Chief of Naval Operations, Admiral Stark, disagreed however, and Roosevelt followed his advice. Stark opposed withdrawing any of the American forces in the Pacific to take up the slack in the South Atlantic for fear of losing the Pacific fleet's deterrent effect on Japan. The usefulness of the United States ships off the South American coast was, at best, conjectural since the days of gun-boat diplomacy were over. If the proposed fleet intervened in the domestic affairs of any of the Latin American countries, the old cries of imperialism would be revived, but if the fleet took no action in the event of a Nazi-inspired overthrow of one of the governments, the ultimate effect might be worse. Stark's solution to this dilemma was to play for the middle ground by suggesting that one more heavy cruiser, the Wichita, be sent immediately with other ships to follow

later if necessary. Roosevelt agreed completely and ordered the Wichita to leave Norfolk on June 7 for the South Atlantic.<sup>79</sup>

Sumner Welles still pressed for more action. He continued to disagree with the middle-of-the-road policy and was especially insistent that if a German controlled coup occurred in one of the South Atlantic countries, the United States and the other Latin American countries should intervene provided that the legitimate government of the country asked them to. The only alternative would involve burying the Monroe Doctrine.<sup>80</sup> This perhaps was the wisest policy, but it certainly would have been difficult to carry out without stirring up widespread anti-Yankee propaganda.

The situation in Uruguay seemed to get worse in the first two weeks of June. A Uruguayan parliamentary investigating committee discovered secret German documents which indicated that a pro-Nazi fifth column was at work. According to the captured plan, Germany sought an armed takeover of Uruguay. This was to be followed by Uruguay's transformation into a German agricultural colony. Upon

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<sup>79</sup>Hull to Wilson, May 31, 1940, ibid., p. 1153; Welles to Roosevelt, June 1, 1940, ibid., pp. 1153-54; Roosevelt to Welles, June 3, 1940 (Enclosing Admiral Stark's Memorandum), ibid., pp. 1154-56.

<sup>80</sup>Welles to Roosevelt, June 3, 1940, ibid., p. 1157.

learning this the Uruguayan Government dissolved all illegal organizations. The German Minister sought to keep German-Uruguay relations on an even keel by ordering the liquidation of the German Labor Front, the Nazi Party, and other pro-German groups. However, the Uruguay police still arrested a number of Nazi officials. Public excitement again rose, especially after protests from the German Embassy threatened to cause a new crisis.<sup>81</sup>

Mr. Wilson continued to warn the State Department that the danger to Uruguayan independence was increasing and that it might be impossible to prevent a Nazi victory in South America if the Allies failed in Europe. These were somber times indeed as a German victory on the European continent was a foregone conclusion after the Dunkirk evacuation. Italy entered the war on June 10, and the humiliated French Army surrendered on June 18. President Roosevelt, in his Charlottesville Speech of June 10, promised all aid short of war to Great Britain, but this must have done little to gladden the hearts of the Uruguayans who were confronted with an immediate threat to their free existence.

Brazil, not the United States, stepped in at this point. Because of its greater immediate stake in Uruguay, Brazil sent a million rounds of ammunition to the Uruguayan

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<sup>81</sup>Larger and Gleason, The Challenge . . . , p. 613.

Government and moved some of its own troops toward the Uruguayan border in early June. In contrast, the United States appeared satisfied that the impending arrival of the Quincy would help put a damper on any Nazi plans. While more Nazis were being arrested and France fell, both the State Department and Mr. Wilson were concerned with how best to promote inter-American solidarity. The occasion was to be a speech that Mr. Wilson would make on June 22 at a luncheon honoring the Quincy's arrival. The key passages of the speech were written by the State Department. They emphasized that the United States was prepared to cooperate with the other American Republics, whenever desired, to help crush any non-American activities that threatened the political and economic freedom of the Western Hemisphere.<sup>82</sup>

This unequivocal promise was a great step forward, but it was no substitute for action. The action in this case came on June 25 when Brazil let Uruguay have all the arms she asked for. This included 20,000 rifles, 10,000,000 rounds of ammunition, 500 machine guns, and other amounts of artillery, hand grenades, and gas masks.

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<sup>82</sup>Ibid., pp. 613-14; Hull to Wilson, June 15, 1940, Foreign Relations, 1940, V, pp. 1159-60.



This equipment was immediately sent and payment was deferred.<sup>83</sup> The ironic thing about this whole episode was in comparing the Brazilian action with the pious platitudes of the United States. The United States had promised the Latin American nations arms the year before, but mainly because of United States needs and the fact that payment was demanded in cash, few had been sent as of June, 1940. In contrast, Brazil stepped in during a time of great crisis and supplied Uruguay with arms apparently without worrying about payments. This was something that red tape in the United States made unthinkable.

As it happened, the Nazi threat to Uruguay began to slack off after June, 1940. But this was because of internal factors in Uruguay as well as the Brazilian support, not because of declarations prompted by Washington. To counteract the German threat in the future, the United States would have to move from thought to action. Material support would be more impressive and useful in lining up Latin America than words would be. The United

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<sup>83</sup>Caffrey to Hull, June 25, 1940, *ibid.*, p. 1164; Hull to Wilson, June 1, 1940, *ibid.*, p. 1167. Even the Joint Resolution that the President signed on June 15, 1940 was limited to providing coast defense and anti-aircraft material (and ammunition for them) and naval vessels. Small arms and ammunition were not included, and nothing was on credit.

States had been lucky that Uruguay could handle itself in June, 1940, because according to the latest strategic war plan, Rainbow 4, Uruguay was beyond the range of United States military operations. Something would have to be done to increase the military power of the United States in order that situations such as in Uruguay were not allowed to sabotage the defense of the hemisphere.

The United States defense policy that culminated in Rainbow 4 had undergone a radical shift in May and June, 1940 due mainly to the Allied defeats. About May 20 plans for Rainbow 2 and 3 had been dropped in favor of the quick development of Rainbow 4. Rainbow 4, as approved by the Joint Board on June 7, assumed that after Britain and France were defeated, the United States would be faced with a hostile coalition of Germany, Japan, and Italy. With the British and French fleets either captured or scuttled, the Western Hemisphere would no longer be protected by this traditional buffer. Thus, the United States would have to draw its power inward and allow Japanese hegemony in the Pacific and German and Italian hegemony in Europe and Africa. The long range aim of the United States was to protect the whole Western Hemisphere, but for the foreseeable future, United States forces would have to concentrate on defending North America and the northern part of South America. Once sufficient forces were built up, operations would be extended to southern

South America. Therefore, the plan aimed at a defensive holding action until military power was increased enough to permit limited offensive action.<sup>84</sup>

This was a sobering and pessimistic plan, but a necessary one in light of the Nazi victories and the Japanese-United States hostility. The key to the whole plan lay in the condition of British and French fleets. If they were surrendered, Germany and Italy would have a combined naval strength in the Atlantic equal or greater than the combined United States fleets in the Atlantic and Pacific. Because of the Axis necessity to recondition and man the fleets if they were captured, the United States planners said there would be two critical dates to be remembered. The first date was the date of the loss of the British and French fleets, and the second would be six months later when the Axis would be ready to attack. Consequently, if the Allied fleets were lost, the United States would have to mobilize fully in order to prepare for the contemplated Axis attack.<sup>85</sup>

Limited mobilization had begun as early as May 16 when President Roosevelt requested large additional appropriations for national defense. By early June, Congress had authorized over 1.3 billion dollars for

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<sup>84</sup>Conn and Fairchild, The Framework . . . , pp. 34-35.

<sup>85</sup>Ibid., pp. 35-36.

defense including 200 million dollars for an Emergency Fund to be used at the President's discretion. The President made supplementary requests for funds on May 31 and July 10 so that by September, 1940 Congress had appropriated or authorized the expenditure of more than eight billion dollars in fiscal 1941 for military use.<sup>86</sup> This was more than the total spent for defense in the first seven years of the Roosevelt Administration. Undoubtedly, a large measure of these hurried appropriations were passed due to the fear and dismay in the United States because of the French defeat in June.

During the time that the President was striving so hard to get added appropriations for defense, the informal military staff discussions between representatives from the United States and sixteen out of the twenty Latin American Republics began in the Latin American capitals. The first round of these hemispheric defense meetings was carried on in June and early July under the auspices of the local senior diplomatic representative of the United States. Military officers representing the War and Navy Departments met with leading governmental officials in each of the participating Latin American countries.

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<sup>86</sup>Ibid., p. 42.

Less than a week after the talks began, President Roosevelt approved a Joint Resolution which authorized United States military and naval assistance to Latin America.<sup>87</sup> This was the type of action that would impress the vast majority of Latin American leaders who had long been requesting United States military aid. It is clear that in anticipation of France's fall and because of the discussions then going on in Latin America, the President's action was a clever political move. He was attempting to buoy Latin American spirits and to increase the prestige of the United States during this time of great crisis. This resolution authorized the manufacture or procurement of coast defense and anti-aircraft material and ammunition as well as the construction of naval vessels for Latin American countries. The catch, however, was that no transaction was to result either in expense to the United States or in the extension of credits. Thus, any country wanting to purchase this military hardware had to pay cash. A further requirement, that no agreements could be made that would interfere with or delay the United States in using its shipyards and arsenals for its own defense, also watered down the effectiveness of the resolution. Therefore, the United States was free to turn down Latin

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<sup>87</sup> Jones and Myers (eds.), Documents . . . , 1939-1940, pp. 173-74.

American arms requests on the grounds that they were needed in the United States. Latin America would get only obsolete or obsolescent arms under this Joint Resolution, but they did not know it at the time.

Despite the limitations of the Joint Resolution, the talks generally went well. With the exception of Argentina, all the Latin American nations that were approached agreed that the danger to the Western Hemisphere was immediate and great and that they were willing to cooperate with the United States in upholding the peace of the hemisphere. The one universal plea was for modern United States military aid and credits to pay for it. No country claimed to be able to pay cash. Modern military equipment was the very thing that the United States was most reluctant to part with and which legally could not be sold on credit. The Export-Import Bank could not use its credit system for arms purchases due to restrictions in its charter, and the Reconstruction Finance Corporation had given assurances to Congress that its funds would not be used for the purchase of arms. At this point it was decided to break off the conversations until more formal discussions could be held after the forthcoming Havana Foreign Ministers Conference in late July.<sup>88</sup>

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<sup>88</sup>Foreign Relations, 1940, V, pp. 14-175, passim;  
Conn and Fairchild, The Framework . . . , pp. 177-78,  
Lange and Gleason, The Challenge . . . , p. 617. After  
 September 26, 1940, the enlarged Export-Import Bank was  
 allowed to use its credits for financing arms purchases.

Mexico, in its separate discussions with United States officials, left no doubt that she would line up with the United States. She stressed, however, the necessities of getting war material on credit in order to do her share. Brazil took much the same position. She agreed to cooperate fully in military and naval matters with the United States. Foreign Minister Aranha was willing to expand the Brazilian airfields on Fernando do Noronha and in Natal and to permit the use of these fields by the United States armed forces in case of aggression or subversive movements. On the other hand, the Brazilian Government was becoming increasingly skeptical about receiving adequate amounts of armaments from the United States in comparison with the amount of military equipment that Germany was sending her through neutral countries. Aranha summed up the whole problem when he said: "You hold conversations with us and the Germans give us arms."<sup>89</sup>

The United States Government realized that the Germans were supplying Brazil and other Latin American countries with war materials in an effort to wean them away from the United States. However, after June, 1940,

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<sup>89</sup>Memorandum of conversation by Liaison Officer Chapin, June 11, 1940, Foreign Relations, 1940, V, pp. 137-38; Caffrey to Hull, June 7, 1940, pp. 45-46; Langer and Gleason, The Challenge . . . , p. 619; Conn and Fairchild, The Framework . . . , p. 334.

as the United States rearmed, surplus military equipment was all but eliminated. This was especially true once large sales of military supplies began to be made in an effort to save Britain. Even obsolete equipment that the Latin American nations had not wanted in the first place was no longer available.

President Roosevelt agreed with a joint memorandum submitted by the Chief of Staff, General Marshall and the Chief of Naval Operations, Admiral Stark on June 22. One part of this memorandum dealt with the Latin American arms problem and stated that the United States should provide small amounts of munitions at intervals on credit if necessary.<sup>90</sup> Thus the President had a policy, but he had no legal way to carry it out. It was apparent that he was doing all he could to placate Latin American fears, but his hands were tied.

Requests for armaments continued to come in during June and July, 1940, including a Brazilian request for aid totalling over \$180,000,000. In reaction to this, a secret statement of policy was drawn up in early July and signed by the President on August 1. Under this policy a system of priorities was set up that showed exactly which Latin American countries the Roosevelt Administration believed most important to the defense of the hemisphere and the

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<sup>90</sup>Conn and Fairchild, The Framework . . . , p. 38.



United States. Brazil and Mexico were given first priority followed by Ecuador, Venezuela, and Colombia as second priority. Third priority included the Caribbean and Central American countries while the last priority included the South American republics south of Ecuador and Brazil. Under this plan only Brazil and Mexico were to be strengthened to defend against an armed attack until the United States forces could arrive in sufficient force to ensure success. The Central American, Caribbean, and northern South American countries were only to be supplied with enough arms to secure internal stability or to repel a minor attack from overseas. The needs of the rest of the South American countries were not even to be determined until after the requirements for all the other Latin American countries had been set.<sup>91</sup>

Other parts of this policy dealt with economic and financial relations as they referred to military and political strategy. For example, credits were to be given if needed for purchases. Military, naval, and industrial personnel from the United States were to be made available to the Latin American countries. Finally, economic relations between the United States and the Latin American

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<sup>91</sup>Ibid., p. 213; Langer and Gleason, The Challenge . . ., p. 620.

countries were to be adjusted in order to assure Latin America's political cooperation. Any losses resulting from this policy were to be considered a proper charge against the defense of the United States.<sup>92</sup> This latter plan hinted at, but did not promise, a break with the F.B.P.C. This was what was really needed to impress Latin Americans that the Roosevelt Administration really was looking out for their interests. Unfortunately, no break occurred at this time.

Militarily, this new policy meant that the United States was temporarily writing off the defense of South America below the Brazilian bulge. It was hoped that by December, 1940 the policy could be re-evaluated because then the strength of the United States was projected as being sufficient to protect the whole hemisphere. Theoretically, the United States was reneging on the spirit of the Lima Agreements, but so long as no crisis occurred no one would be the wiser. In fact, had a crisis occurred that would have required United States military participation in southern South America, the policy would undoubtedly have been revised if the Administration considered it in the national interest. Until then it was a stop-gap measure that would remain secret and, hopefully, unused.

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<sup>92</sup>Conn and Fairchild, The Framework . . . , p. 213; Langer and Gleason, The Challenge . . . , p. 620.

On the other hand, Latin American hopes for armaments from the United States continued to be disappointed. In fact, the whole story between June, 1940 and December, 1941 could be summed up in a few words. The United States had good intentions, but because of commitments to the British and the needs of the rapidly increasing defense establishment in the United States, the actual amount of arms available for Latin America was nowhere near the previously projected supply. Besides this, the Latin American countries continually calculated their essential armament needs well above the United States Army estimates. The basic United States Army plan was to furnish Latin American nations with only enough arms to protect their internal security and to repulse an external attack until United States forces could arrive. The Latin Americans wanted much more, but, in fact, they were not even receiving the benefits of the Army's basic plan. This was a great frustration for the Latin Americans, and it obviously was a great irritant in inter-American relations before Pearl Harbor.

Another smaller, but still important problem that was tackled in the critical summer of 1940 dealt with the military officers of the Americas. Specifically, the United States Government had long wanted to station more military officers in Latin America, as well as to increase contacts by inviting Latin American officers to visit the

United States and to attend service schools. This program had been frustrated for two years because of a lack of money. After the President received the appropriation for his Emergency Fund, Sumner Welles, General Marshall and Admiral Stark collaborated in a plan designed to tap this fund. This plan gave the War Department \$500,000 and the Navy Department \$300,000 to send missions and invite officers from countries which normally could not afford this expense. More important was the provision that allowed military and naval intelligence to use part of the money in these funds in order to counteract and offset Axis activities. Welles emphasized the necessity of having a fund that could be tapped immediately in the event of unforeseen situations that demanded rapid action, and Roosevelt wholeheartedly agreed.<sup>93</sup>

Outside of the increase in intelligence activities,<sup>94</sup> the immediate effects of this new plan were limited. On July 31 agreements were signed for both a Naval and an Aviation Mission with Peru. This early promise did not materialize exactly as the Army wished.

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<sup>93</sup>Welles to Roosevelt, June 21, 1940, Official File 25-S; Conn and Fairchild, The Framework . . . , p. 184.

<sup>94</sup>The War Department earmarked one fifth of its appropriation from the Emergency Fund for confidential military intelligence activities. See Conn and Fairchild, The Framework . . . , p. 184.

The Army hoped to increase the military missions from the seven missions and twenty-four men that were there in July, 1940 to nineteen or twenty missions and a doubling of the manpower within a short time. By December, 1941 the number of Army missions had increased to twelve, but only thirty-two men were assigned to them.<sup>95</sup> This was well below the Army's expectations, and it emphasized the difficulties involved in getting both the permission to send the missions and competent officers to staff them.

The United States was more successful in getting military attachés assigned to Latin America. By December, 1941 the number of military attaches had nearly trebled.<sup>96</sup> Since a military attaché often is engaged in military intelligence activities, it is evident that good use was made of the part of the President's appropriation that dealt with confidential military intelligence activities. If military attachés are combined with military missions, the Army was represented by one or the other in all Latin American capitals by December, 1941. This was a great improvement in less than eighteen months.

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<sup>95</sup> Department of State Bulletin, III, August 3, 1940, p. 99; Welles to Roosevelt, September 12, 1940, Official File 287; Welles to Roosevelt, September 25, 1940, ibid.

<sup>96</sup> Conn and Fairchild, The Framework . . . , pp. 184-85.

The other part of the plan--to get senior officers in the Latin American armies to visit the United States--also worked well. Plans were made in mid-1940 by the Military Intelligence Division, and beginning in October, 1940, two groups of about twenty officers each toured military establishments in the United States. More than half of the ranking military commanders in Latin America came and were wined and dined by General Marshall and his staff. This created an exceptional opportunity to acquaint the Latin Americans with the growing power of the United States as well as to establish personal acquaintances which would be useful in future military relations. Army officers in the United States and in Latin America were enthusiastic over this precedent and the effects it would have on lining up Latin America.<sup>97</sup>

While the plans for the military missions and visits were being formulated, another more serious problem had resulted from the German successes in Europe. On June 17, France sued for an armistice. The immediate result of this was the United States call for an inter-American conference to meet at Havana to discuss what the American Republics should do about France's possessions in the Western Hemisphere. Coupled with this was a note

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<sup>97</sup>Ibid., p. 185.

sent to Germany and Italy warning them to keep their hands off the French colonies. By June 18, both the House and the Senate had passed the Pittman-Bloom Resolution which authorized the President to purchase or acquire by peaceful means, the possessions of non-American nations in the Western Hemisphere. The United States would fight if necessary to prevent the transfer of French territory to either Germany or Italy. Yet, the larger plan was to meet with the Latin American Republics in order to coordinate policies and set up some sort of a program that would enhance inter-American solidarity while repulsing the apparent Axis threat. Roosevelt had the Congressional authority to act on his own and take over the French possessions, but he was firmly opposed to the territorial expansion of the United States. He would use unilateral action only as a last resort preferring a plan that would emphasize the solidarity of the Americas and hoping the Havana Conference would result in both a policy and machinery to implement it.

During the interim from the call for the Havana Conference until the day it met, the Roosevelt Administration sought to do all it could to convene the conference quickly. Despite the deteriorating European situation, the Conference did not meet until July 21--over one month after it was called. In the meantime Roosevelt and the State Department had submitted a proposed agenda for the

conference and sought to rally support for it. They also sought to impress the most important Latin American leaders and, hopefully, to receive pledges of cooperation in return. Economic and military plums also were added in this effort to influence the Latin Americans favorably. President Vargas of Brazil, whose stock had measurable dropped in the United States since his alleged pro-Fascist speech in early June, received a friendly telegram, drafted by Sumner Welles and sent under President Roosevelt's signature, expressing personal friendship and hopes for cooperation at Havana.<sup>98</sup> Roosevelt received reassuring words from Ambassador Daniels who told him that Mexico would cooperate fully at Havana. This was especially welcome and it was in sharp contrast to the many individuals in the United States who were hysterical in their denunciations of the Mexican Government as being both pro-Nazi and pro-Communist. Influential Congressmen had joined the crusade with one senator going so far as to say that "Mexico is as much German as any portion of Germany." Daniels informed Roosevelt that, although these were irritants to good relations, President Cárdenas admired President Roosevelt and was seeking to pattern his government on the New Deal. Besides that, Daniels

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<sup>98</sup>Roosevelt to President Vargas of Brazil, June 26, 1940, Official File 4074.



assured the State Department that the long talked about and predicted revolt against Cárdenas' policies would not occur despite the nearness of the Mexican presidential election.<sup>99</sup>

Relations with Argentina, as usual, were more difficult, and consequently the United States sought to influence Argentina in more ways. Dr. Cantilo, the Argentine Foreign Minister, received an invitation from Secretary Hull to visit the United States after the Havana Conference in order to discuss matters of mutual interest with President Roosevelt and other high government officials.<sup>100</sup> This invitation was intended to influence Cantilo's attitude at Havana. On June 26, the Export-Import Bank offered the Central Bank of Argentina a loan of \$20,000,000, and on June 29 an Executive Agreement was made with Argentina for a detail of Military Aviation instructors. This latter agreement superseded an agreement signed on September 12, 1939. The State Department also was contemplating sending some economic experts to Argentina to help her solve her export crisis.

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<sup>99</sup>Ambassador Daniels to Roosevelt, June 28, 1940, President's Secretary's File--Mexico; Daniels to Hull, July 5, 1940, Official File 146 (Mexico).

<sup>100</sup>Hull to Armour, June 22, 1940, Foreign Relations, 1940, V, pp. 196-97. Ultimately Dr. Cantilo did not even go to Havana.

All these were intended to influence Argentina to be more favorable to United States wishes, but, in early July, President Ortiz was forced to resign from active affairs due to ill health.<sup>101</sup>

Ramon Castillo was named Acting President on July 4. Although the United States did not know what to expect from this change, relations that were never too good began to deteriorate even more after Ortiz's illness. The Argentine army and civilian conservatives, both of which had strong pro-Fascist elements, strengthened their positions as a result of the change in governments. The new government was more nationalistic than the old and would be reluctant to make any commitments that would tend to draw Argentina toward war or to impede economic relations with whichever side was victorious in Europe. All this was not immediately apparent to Washington, but certainly, when President Ortiz stepped down, it was regarded as a potential blow to hemispheric solidarity. Even before the Havana Conference began, Argentina had disagreed with the United States draft of a proposed convention and resolution dealing with European possessions in the Western Hemisphere.<sup>102</sup>

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<sup>101</sup>Langer and Gleason, The Challenge . . ., p. 692; Department of State Bulletin, II, June 29, 1940, p. 719.

<sup>102</sup>Alton Frye, Nazi Germany and the American Hemisphere, 1939-1941 (New York: Yale University Press, 1967), p. 163; Langer and Gleason, The Challenge . . ., p. 691-95.

It was obvious that as the date for the Havana Conference approached, Germany was doing all it could to increase pressure on the Latin American Republics through subversive measures. On July 7, Argentine police were tipped off to a planned Nazi-inspired insurrection and were able to foil it. There were rumors of similar uprisings in many other South American countries. In Chile, the United States Ambassador, Claude Bowers, complained that although the British were giving him all the intelligence information they had, it was insufficient compared with the "enormous espionage system under the direction of Gestapo agents from Germany." What was especially appalling to Bowers was the large number of domestic companies, including General Motors and Goodyear, that knowingly employed Nazi agents in their businesses. He attributed this to the United States firms' lack of "nationalistic fervor" compared with the British and Germans. Bowers' greatest fear was over what he called the "band wagon" people, and those people who were worried about German trade pressure. Each of these might sympathize with the British and the United States, but when it got down to making a choice, the German victories and the \$45,000,000 in trade that Germany was dangling before their eyes

might be sufficient to change their minds. For these reasons, Bowers believed that the Havana Conference could be of vital importance in lining up the Americas.<sup>103</sup>

On the very eve of the Havana Conference a very sobering note was received from the Minister of Finance of Argentina. Since Argentine acquiescence would obviously be the key to success at Havana, the note gave a hint of the difficulties that had to be overcome before better Argentine-United States relations could come about. Argentina's major economic problem was that she had a large balance of blocked currency while her free currencies showed a projected yearly deficit of four-hundred fifty million pesos. Since her reserves of gold and foreign exchange totaled only two-hundred fifty million pesos, they would be exhausted in about six months. To prevent this from happening, Argentina planned to take emergency measures to reduce free currency imports. Ultimately, this might include the blocking of all private and corporate financial transfers to the free currency countries. In the meantime, Germany, thinking the war would soon be over, was cultivating Argentine friendship and was promising to begin purchases and shipments by late September

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<sup>103</sup> Langer and Gleason, The Challenge . . ., p. 689; Claude Bowers to Roosevelt, July 10, 1940, Official File 303.

to help Argentina alleviate her difficulties.<sup>104</sup> These German promises were important considerations to many Latin American countries. As long as Germany appeared to be winning it would be dangerous to align themselves more closely with her enemies.

Consequently, the Finance Minister warned the United States Government that, due to Argentina's trade difficulties, any country would be welcome to buy Argentine products. Argentine public opinion demanded this, and a political crisis would occur unless the Argentine Government followed public opinion. He challenged the United States to do all it could to help alleviate the Argentine problems by greatly increasing its purchases of goods such as linseed, wool, hides, and meat. He believed that once Argentina was financially strong, she would be ready to cooperate with the other American Republics in any long term continental plans. However, he did not believe that public opinion would favor much Argentine cooperation at the forthcoming Havana Conference.<sup>105</sup>

The day before the Conference opened a public opinion poll was conducted in the United States. This

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<sup>104</sup>Morgenthau Diaries, Vol. 284, July 19, 1940, pp. 152-53.

<sup>105</sup>Ibid., pp. 153-54.

poll, although not published until September, 1940, gave clear, although not necessarily accurate, indications of the beliefs of the people on a number of subjects dealing with trade and war. Only 49% of the people believed that the United States should spend hundreds of millions of dollars for South American (principally Argentine) farm products in order to prevent German control of South American trade. This, of course, showed that vested interest groups, such as farmers and cattlemens associations who opposed this, had a majority of people on their side. However, 67% of the people believed that if Germany began to get control of South America, the United States should send its Army and Navy there, and 70% of the people believed that Germany was trying to get control of the South American countries. What this means was that the danger was seen but that two-thirds of the people preferred that no preventive action be taken.

On the question of helping England at the risk of war, 59% wanted to keep out of war, while only 37% favored helping England win, even at the risk of going to war.<sup>106</sup> These figures were obviously somewhat ambiguous, and they reflected a basic desire to avoid war (only 13% said they

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<sup>106</sup>Hadley Cantril, "America Faces the War," Public Opinion Quarterly, IV, September, 1940, pp. 390-93.

would vote for war). It was clear that most people preferred procrastination to action. Even though Germany was seen as both an economic and military threat to the hemisphere, not even a majority of the people favored economic aid to prevent German inroads, while only slightly over one-third of the people believed that England was worth saving. This head-in-the-sand attitude would have to be changed if the United States was to succeed in lining up Latin America.

As the Havana Conference convened, President Roosevelt tried a political tactic aimed at getting the Conference off to a good start. He dramatically called on Congress to increase the lending power of the Export-Import Bank by \$500,000,000 in order to alleviate the surplus problems of Latin America. Once the Conference convened, it was apparent that solutions to economic difficulties went hand in hand with two other major problems to be discussed by the Conference. These were the problems of the possible transfer or occupation of French or Dutch colonies in the Western Hemisphere and the threat of subversion from outside the hemisphere.

The focal point of the Conference was the problem of European possessions. Before the Conference, the United States had promised to prevent the transfer of these colonies from one non-American power to another. The United States hoped that in the interests of

solidarity this unilateral action could be continentalized. In Hull's first address of July 22 he called for the establishment of a collective trusteeship, but his ideas were almost immediately rebutted by Dr. Leopoldo Melo, the Argentine delegate, who warned against attempting solutions to all possible problems in advance.<sup>107</sup> This set the tone for a conference that was increasingly to be built around this Argentine-United States split. Unless the deadlock could be bridged, the heretofore solidarity of the Americas would break down.

Although other delegates attempted to persuade the Argentine delegation to follow the lead of the United States, nothing was accomplished until Secretary Hull took a desperate chance and appealed directly to President Ortiz in Argentina. This meant that Hull went over the heads of the Argentine delegation at Havana and even the Argentine Acting-President. Despite this, Hull succeeded and got substantially what he wanted when the Argentine delegation's instructions were changed. The result was the Act of Havana. This Act allowed the American Republics to set up an emergency committee, composed of representatives of all the Republics, which had the power to assume

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<sup>107</sup>Howard Trueblood, "The Havana Conference of 1940," Foreign Policy Reports, XVI (September 15, 1940), p. 160.



the administration of any European territory in the Western Hemisphere that was attacked or threatened. If the need was so urgent that the committees action would be too slow, any of the American Republics had the right to do what it needed to to protect itself and the continent.<sup>108</sup> This was practically a blank cheque which could only be carried out by the United States and was exactly what the United States wanted. Although the Act of Havana never had to be implemented, it served as a warning to the Nazis and as an example of the solidarity of the American Republics because coupled with this was an affirmation of the principle that an attack on one American nation was an attack on all of them.

The United States also got much of what it wanted with respect to subversive activities. The governments agreed to confer should any state request such consultation because of subversion. Many steps were taken to prevent subversion, including exchanges of information on known subversives, agreements not to aid rebellion in any Republic, recommendations prohibiting political activities of foreigners and the entry of foreigners, and a

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<sup>108</sup>Hull, I, pp. 825-27; Langer and Gleason, The Challenge . . . , p. 697.

resolution restricting political activities of diplomatic and consular officers.<sup>109</sup>

Economic cooperation certainly did not live up to its June promise since, in the meantime, Roosevelt's cartel plan had been scuttled. The United States Government realized that something had to be done with the huge surpluses of Latin America, but it could not promise any specific action until it knew whether the increase in the Export-Import Bank would be passed and some of the restrictions on the use of the funds dropped. Consequently, the United States delegation encouraged Latin American inquiries and assured them that proposals for economic and financial cooperation would be given careful and sympathetic consideration in Washington. A carrot with a string attached was dangled before the Latin Americans' eyes when Secretary Morgenthau was persuaded to send a dramatic telegram to the Conference promising that he would carefully consider the possibilities of using the Stabilization Fund to help out the Latin Americans.<sup>110</sup> Thus, the wishes of the United States were followed in economic discussions and no unbreakable commitments were made.

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<sup>109</sup>Humphrey, p. 182; Hull, I, p. 827.

<sup>110</sup>Morgenthau Diaries, Vol. 288, August 2, 1940, pp. 197-98; Hull, I, p. 828.

The Roosevelt Administration was greatly pleased with the overall results of the Havana Conference. President Roosevelt called it "an extraordinarily successful conference." He said that it was particularly successful in its actions in defense of the Western Hemisphere, especially those dealing with European colonies, subversion and economic realtions.<sup>111</sup> The Conference had placed an Inter-American stamp of approval on what was predominantly a United States program. This was helpful for both the defense of the United States and the hemisphere for it created sort of a band wagon psychology in the United States where it was received warmly by both the press and people. This would help the administration in preparing and passing the necessary laws and agreements that would facilitate its plans for closer unity in the Americas.

Soon after the Havana Conference ended, the military staff discussions that had been recessed in July were resumed under a new policy. This new policy was suggested by the Military Intelligence Division and approved by the Chief of Staff and Secretary of War on July 26. Its basic objective was better mutual understanding between the Latin American countries and the United States. It was recognized that the most critical period of hemisphere defense would be the next twelve months. Since the United States, because of its own shortages of modern military

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<sup>111</sup>Franklin D. Roosevelt, "Press Conferences," XVI, August, 6, 1940, pp. 96-98.

equipment, could not do much to improve the military strength of the armed forces of the Latin American nations during this time, the only alternative seemed to be to cultivate Latin American friendship and support in hopes that it would pay dividends later. Thus the basic objective of the United States during this period was to try to get permission from the Latin American countries to use their land, air, and sea bases should an external attack occur. There were many details in the staff conversations that varied from country to country, but in one way or another their basic aim was increased cooperation.<sup>112</sup>

These staff conversations were carried on from August through October, 1940 with all the American Republics except Mexico and Panama. Mexico had been carrying on discussions with the United States, but for political reasons, they were held in Washington instead of Mexico City. Since Panama did not have an army and because of the special agreements required due to the Panama Canal, military arrangements were conducted by the United States General in charge of the Panama Canal Department. Each country approached, with the sole exception of Argentina, concluded military staff agreements with the

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<sup>112</sup>Conn and Fairchild, The Framework . . . , pp. 178-79.

United States as a result of these conferences. These agreements had to have the approval of the Department of State and its counterpart in the Latin American countries before they went into effect. Despite ratification delays that sometimes lasted into early 1941, the staff agreements were generally honored after 1940 by the Latin American nations. The United States Army was also satisfied by them.<sup>113</sup>

These successes however, did not mean all was well in Latin American military affairs. One of the three largest and strongest Latin American nations, Argentina, had flatly refused to sign a military staff agreement in the early autumn of 1940. This was partly due to Argentina's traditional hostility and rivalry with the United States over leadership in South America. Strong elements in Argentina favored a Nazi victory while fear for her economy required Argentina to play the middle ground in order to take advantage of whichever side won. Brazil's case was even more crucial because of its strategic location. To sweeten the atmosphere surrounding the staff talks, the State Department, on August 2, agreed to furnish Brazil with some aviation material and automotive equipment. In the short run this helped since

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<sup>113</sup>Ibid., pp. 180-81.

by September 23 Brazil had agreed to align itself with the United States "without any reservations" in case of aggression. In the long run, it became difficult if not impossible for the United States to carry out its end of the military supply bargain. This was disillusioning to the Brazilians and relations were strained.<sup>114</sup> Mexico also had to worry about internal politics in making any military agreements with the United States. Many Mexicans continued to fear that United States wishes for base rights would turn out to be permanent arrangements. This distrust of the United States was a carryover from the nineteenth century, but it was exacerbated when a bill was introduced in the United States Congress requesting the acquisition of Baja California.<sup>115</sup> Despite setbacks such as this and the bad feelings resulting from the oil expropriations of 1938, the United States and Mexico signed Army and Navy Staff Agreements in late July. Although Mexico did not ratify these agreements until after Pearl Harbor, this was mainly due to internal Mexican politics.

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<sup>114</sup>Hull to Caffrey, August 2, 1940, Foreign Relations, 1940, V, p. 50; Caffrey to Hull, September 3, 1940, ibid., p. 51; Conn and Fairchild, The Framework . . ., pp. 276-78.

<sup>115</sup>Memorandum by Assistant Chief of Division of American Republics, June 13, 1940, Foreign Relations, 1940, V, pp. 141-42.

The Roosevelt Administration was continually reassured by outgoing President Cárdenas and incoming President Avila Camacho as well as by the United States envoys in Mexico that despite these problems Mexico was aligning itself with the United States.<sup>116</sup>

While these military staff discussions had been going on, the Roosevelt Administration had taken a number of other steps designed to help Great Britain while lining up Latin America. The first was the export control of aviation gasoline over eighty-six octane. After July 31 this was to be exported only to Great Britain and to the countries of the Western Hemisphere. The major aim of the act was to prevent the sale of aviation gas to Great Britain's enemies, but it was apparent that by exempting Latin America from the act's provisions the Roosevelt Administration was seeking to keep Latin America in line by impressing on the American Republics that the United States needed them and was looking out for their welfare. President Roosevelt believed that there was "a complete meeting of the minds" among the American nations and that

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<sup>116</sup>Daniels to Roosevelt, September 20, 1940, President's Secretary's File--Mexico; Langer and Gleason, The Challenge . . . , p. 700; Conn and Fairchild, The Framework . . . , pp. 334-36.

this step might be called a "Pan American defense measure."<sup>117</sup> Discounting the obvious propaganda, the American Republics could not have been displeased with this action as theoretically it meant that, because sales were cut off to Europe and Asia, more gas would be available for them.

The next major step was the Destroyer-Base Agreement with Great Britain on September 2nd. Discussions for some sort of an exchange had been going on with Great Britain since mid-May, 1940. After the Ogdensburg Agreement of August 18 that set up a Canadian-American Permanent Joint Board on Defense, the agreement with Britain was quickly reached. The basic deal was to trade fifty overage destroyers for the rights to naval and air bases on eight British owned territories from Newfoundland to British Guiana. These bases were potentially very useful to the United States in its aim of defending the hemisphere, but the major purpose of the agreement was to help Great Britain resist the expected Nazi invasion of England. Most of the people of the United States and most

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<sup>117</sup>Department of State Bulletin, III, August 3, 1940, p. 94; Franklin D. Roosevelt, "Press Conference," XVI, August 6, 1940, p. 98.



of their representatives in Congress thought the United States had received a good deal.<sup>118</sup> However the deal was rationalized, it was a clear departure from neutrality and the beginning of a limited participation in the war. From then on the United States would be prepared to furnish all possible aid to Great Britain short of war, and neutrality laws would be bent, if not broken. As in the new rule on aviation gasoline, the United States used the destroyer-base deal as an open invitation to the Latin American nations. They were invited to use these bases on a cooperative basis for the common defense of the hemisphere.<sup>119</sup> This unilateral action by the United States was popular in Latin America and served as another example of how the United States sought to keep the Latin American nations involved and friendly. Hemisphere defense was from then on merged with the broader policy of supporting the active victims of Nazi aggression.

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<sup>118</sup> Hamilton Fish, a major spokesman for the so-called isolationists, had long been in favor of trading outmoded planes for Latin American bases. However, he was not in favor of the Destroyer-Bases deal with England. He thought it was illegal (Charles Lindbergh told him this) because England was a belligerent. See Congressional Record, June 5, 1950, p. 7616.

<sup>119</sup> Department of State Bulletin, III, September 7, 1940, p. 196. Conn and Fairchild, The Framework . . . , pp. 62, 82.

On September 26, Congress authorized the expansion of the powers of the Export-Import Bank to allow the bank to extend credits to the Latin American nations for the purchase of arms. This had long been must legislation for the Roosevelt Administration. Once it was passed, they anticipated that Latin American complaints, that they could not afford United States arms, would be alleviated.<sup>120</sup> This act did help and Latin Americans at least could see benefits in the future.

Finally, on the same day the bill for the expanded Export-Import Bank was passed, the Roosevelt Administration put an embargo, effective October 16, 1940, on iron and steel scrap. This was directly aimed at Japan. The provisions of the order took note of the allies of the United States by excluding Great Britain and the Latin American countries from its provisions. This would be the rule for the future and Latin America would appreciate it.

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<sup>120</sup>The problem was that arms still were not available even with financing. By the time they were available the Lend-Lease Act had been passed. Therefore, much of the military equipment sent to Latin America went through Lend-Lease not through Export-Import Bank credits.

## CHAPTER IV

### FROM THE TRIPARTITE PACT THROUGH LEND-LEASE

On September 27, 1940 Germany, Italy and Japan signed the Tripartite Pact. This agreement, which allied the three major potential enemies of the United States, can be interpreted as being aimed in part as intimidating the United States by threatening a united Axis front should the United States, in its efforts to aid Great Britain, come into conflict with any one of the signatories. The Pact was propagandized as a great step toward peace, but peace only after the Germans and Italians controlled Europe and the Japanese controlled East Asia. The reaction to the Pact among Administration leaders varied greatly. Some thought it was nothing but a bluff while others expected Japan to attempt to gobble up Indo-China and the Dutch East Indies in the near future. The Pact had been expected, but it still was a shock. The President reacted indecisively. He did not attempt to clamp an oil embargo on the Japanese for fear that this would cause them to increase their purchases of Mexican

oil or drive them to attack the Dutch East Indies.<sup>1</sup> The result was that the United States policy was to remain firm without jumping to conclusions that would provoke war with Japan. From then until March, 1941, the Roosevelt Administration attempted to get Congressional and public support for increased aid to Britain. The passage of the Lend-Lease Act solved this problem and practically insured that the United States would do all it could in the future to prevent the defeat of the British.

In the meantime Great Britain alone was facing the Nazis in Europe. Hitler had hoped that the British would see the folly of resisting after France's fall and that they would submit to his wishes and end the war. However, the British, under the leadership of the charismatic Winston Churchill, were determined to resist all Nazi attempts to subjugate them. Germany planned to invade England on September 21, but they could not get air superiority over the Royal Air Force. September ended, cold weather set in, and, on October 12, Hitler postponed the invasion until the spring of 1941. Even without direct knowledge of this decision, it was apparent both to the British and United States leaders that Britain had won a reprieve until better weather. This would give the

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<sup>1</sup>William L. Langer and S. Everett Gleason, The Undeclared War (New York: Harpers, 1953), pp. 30, 32, 36, 38.

United States some added time to increase the military and economic strength of the British, Canadians, Latin Americans and herself.<sup>2</sup>

As the United States became more and more committed to the British cause, its Latin American policy put increased emphasis on the military aspects of both economic and cultural policies. This was in the national interest of the United States, but it was viewed with ambivalence by many Latin Americans. The United States had taken the lead in lining up Latin America in a neutrality benevolent to the United States. Once the United States became the "Arsenal of Democracy," neutrality was in danger of being abandoned. If it were abandoned and if the United States entered the war, Latin American nations also might be dragged into the war against their will. Thus, viewed from Latin America, United States support for Great Britain could be viewed as a return to unilateral policies--especially since the Latin American countries were not always consulted on proposed moves to help the Allies.<sup>3</sup>

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<sup>2</sup>Ibid., pp. 53-55.

<sup>3</sup>Professor Arthur P. Whitaker presented a view similar to this. It is a useful corrective to the idea that, in general, United States-Latin American multilateral relations continually improved during the period from the Havana Conference to the attack on Pearl Harbor. Whitaker, however, did emphasize that bilateral relations often did improve. See Arthur P. Whitaker (ed.), Inter-American Affairs, 1942 (New York: Columbia University Press, 1943), pp. 6-7.

There was one notable success in the multilateral economic relations of the United States with the Latin American countries during the autumn of 1940. One major Latin American product which had been adversely affected by both the war and by a drop in prices was coffee. To face this problem the Third Pan American Coffee Conference met in New York City in June, 1940. The State Department was invited to send an observer in order to acquaint itself with the problems of the coffee-producing countries. On June 24, after a request by the President of the Coffee Conference, Secretary of State Hull agreed to cooperate with the Conference to find a solution to their difficulties. Hull hedged on exactly what he would do but promised State Department sympathy for a plan that would control the production and marketing of coffee if it would protect the consumers as well as the producers.<sup>4</sup>

The Coffee Conference came up with a quota plan for each of the Latin American countries and hoped that the United States would agree to these quotas while limiting coffee imports from non-Latin American areas. Both Sumner Welles and Laurence Duggan were enthusiastic about the general idea, and their support helped convince the

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<sup>4</sup>Hull to President of the Third American Coffee Conference, June 24, 1940, Foreign Relations, 1940, V, pp. 381-82.

State Department to go along with the idea. However, at this point some of the Latin American nations, notably Guatemala, were upset about some of the details of the proposed plan. Consequently, when the Conference voted on the quota plan, it was passed by a majority, but it was not a unanimous vote.<sup>5</sup> Unless all the coffee-producing countries in the Western Hemisphere and the United States signed this agreement, it would fail because a non-quota country could increase production and damage the market. This would lower the price and influence other nations to abrogate the pact. Thus, when the Coffee Conference adjourned just before the Havana Conference, it appeared that no practical results would follow.

One of the resolutions passed at Havana directed the Inter-American Financial and Economic Advisory Committee to be in charge of a program to increase the markets and to expand the consumption of products such as coffee. Since this repeated the point of a resolution that the Coffee Conference had passed just before it adjourned, this Committee became the driving force for a

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<sup>5</sup>Inter-American Financial and Economic Advisory Committee: Handbook . . . , p. 96; Chargé in Guatemala to Hull, July 9, 1940, Foreign Relations, 1940, V, pp. 391-92.

coffee quota agreement.<sup>6</sup> Thus it became the duty of the Inter-American Financial and Economic Advisory Committee to obtain the unanimity that would be needed to make any coffee agreement work.

President Roosevelt liked the plans for a "coffee cartel" and hoped that the United States could market more than previously by distributing some of the coffee under the Stamp Plan to needy Americans.<sup>7</sup> With this type of support it was apparent that the main difficulty lay among the squabbling Latin American countries, each seeking a larger percentage of the market than their rivals. It was claimed that some Latin American countries were trying to get quotas above their present production. These problems delayed any plans for unanimous ratification of the proposed agreements.<sup>8</sup>

Finally, by November, self-interest overcame the reluctance of the last Latin American country and the quota agreement was signed. This stabilized a market that had continually been falling since the outbreak of war.

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<sup>6</sup>Memorandum of Paul C. Daniels of the Division of American Republics, July 8, 1940, Foreign Relations, 1940, V, p. 390; Sumner Welles, President of the Inter-American Financial and Economic Advisory Committee to Hull, September 9, 1940, ibid., pp. 394-95.

<sup>7</sup>Roosevelt memorandum to Hull and Wallace, September 16, 1940, Official File 1.

<sup>8</sup>Braden to Hull, September 18, 1940 Foreign Relations, 1940, V, p. 399.



Some grades of coffee had dropped as much as 42% in less than a year compared to prewar prices.<sup>9</sup> The United States support for this agreement provided an unusual example of a consumer country banding together with the producing countries in order to raise the price of coffee and thus its own wholesale and retail coffee prices. In this case, it was clearly to the advantage of the United States, as well as to the Latin American countries, to do this. The market would now be stabilized instead of disintegrating; prices would rise; and Latin American buying power would be increased. This would help their balance of payments and could possibly increase their purchases of manufactured goods from the United States. The United States had allowed its maximum quota to be set several hundred thousand bags above what it had normally purchased in previous years, and this particularly pleased the Latin Americans. Consumer prices in the United States went up because of this agreement, but it was one case where United States citizens paid more due to the overall national interest rather than to the private manipulation of prices.

This agreement helped alleviate one belief that many Latin Americans had about the United States--that the

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<sup>9</sup>America's United, p. 18; Inter-American Financial and Economic Advisory Committee: Handbook . . ., pp. 96-97.

export-import interests in the United States were taking advantage of the lack of competition in the war period to sell high and buy low. The agreement led to a general rise in coffee prices. This helped to increase Latin American solidarity with the United States. The United States Senate ratified the agreement in early February, 1941, and President Roosevelt completed this ratification on February 12.<sup>10</sup> With this success the United States could well be pleased that it had succeeded in carrying out one of the major resolutions of the Havana Conference--to create instruments of Inter-American cooperation for the orderly marketing of important commodities.

The coffee agreement was the only multilateral economic agreement of any importance during this period. But, there were many bilateral economic agreements that were aimed at bettering the economies of some of the Latin American nations, at helping the United States acquire critical commodities, and at insuring the continuance of hemispheric solidarity. United States-Bolivian negotiations over the purchase of Bolivian tin concentrates are a good example of the type of bilateral agreements that were sought. These negotiations began in Washington in late June, 1940.

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<sup>10</sup>Bidwell, pp. 61-62; Welles to Roosevelt, February 20, 1941, Official File 4317.

In 1939 the United States had purchased only five-hundred tons of tin out of Bolivia's production of over 27,000 tons. In the prewar years nearly all of the tin that Bolivia exported went to England for smelting. Some of this was then resold to the United States because the United States had only limited facilities for smelting tin ore. By June, 1940 the United States Government authorized the subsidization of United States tin smelters if a program could be worked out with Bolivia. Most Bolivian companies favored this idea, for their English market was deteriorating as the war grew in intensity. The Bolivian Government also wished to diversify its market outlets in order to raise tin prices through increased competition.<sup>11</sup>

The founding of the Metals Reserve Company under the Reconstruction Finance Corporation in late June, 1940 opened the door to a possible tin purchase agreement. Negotiations continued throughout the summer. They were complicated by German overtures to buy Bolivian tin, by the Patino tin interests in Bolivia which wanted all of the Bolivian tin to be sold to their smelters in England, and by the difficulties of setting up smelting companies

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<sup>11</sup>Bidwell, p. 59; Duggan, Commercial Policy Series, Number 66, p. 9; Memorandum of Mr. Roy Veatch, June 26, 1940, Foreign Relations, 1940, V, pp. 524-25.

in the United States. By September, many of the British tin buying contracts with Bolivia were expiring. The British feared that the United States might be trying to take the contracts away from them. Consequently they put pressure on the United States to let them continue to control Bolivian tin, and they put pressure on the Bolivian tin companies to try to force them to sign a new contract that would commit the Bolivians to sell their tin ore to Great Britain for the next five years. The Bolivian Government opposed this latter pressure because they knew if they sold their ore in England they would have to accept half payment in blocked sterling. This meant that Bolivia, which already had a dollar exchange problem, would become even more short of dollars. The British, who were literally fighting for their lives, were obviously seeking to get every possible advantage for themselves whether or not it hurt Bolivia. This was especially true for the British owned Patino Tin Company. Its interests were at stake because it was the majority owner of a smelter in England.<sup>12</sup>

Laurence Duggan, the Chief of the Division of the American Republics, was disconcerted upon learning about the British maneuverings. He thought the Patino interests

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<sup>12</sup>Foreign Relations, 1940, V, pp. 524-541, passim. See especially Memorandum by Adviser on International Economic Affairs to Welles, September 26, 1940, ibid., pp. 540-41.

were behind the British position, and he was "amazed" that the British showed such a disregard of the Bolivian needs. It was apparent that the British hoped to purchase Bolivian tin without exchange, therefore the question was how was Bolivia going to survive?<sup>13</sup>

The United States Government was determined to do something to alleviate Bolivia's tin problem but did not want to hurt the British war effort. The question of the monopolistic and greedy Patino interests was another matter. Sumner Welles was especially insistent that the tin smelter to be built in the United States was to offer competition to the Patino interests in the smelting of Bolivian ores. Negotiations began between the Metals Reserve Company and the Bolivian companies on October 9. By October 19 a five year agreement was reached subject to the approval and guarantee of performance by the Bolivian Government. Under the agreement the Metals Reserve Company assented to purchase enough tin concentrates to make 18,000 long tons of fine tin per year.<sup>14</sup> Since the terms did not include the purchase of any ores from the Patino properties in Bolivia, it was obvious

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<sup>13</sup>Duggan to Feis, September 27, 1940, ibid., p. 542.

<sup>14</sup>Memorandum by Assistant Adviser on International Economic Affairs (Stinebower), October 9, 1940, ibid., pp. 544-45; Hull to Minister in Bolivia (Jenkins), October 19, 1940, ibid., p. 546.

that the United States was agreeing to purchase nearly all the non-Patino tin in Bolivia.

The Bolivian Government appreciated the purchase agreement, and it guaranteed the performance of the several companies involved. This accord was much more than a simple economic agreement to the two countries involved. The Bolivian Minister to the United States saw it as a "logical complementation in the plan of our continental economy" and as something whose continuance, after the five years, was highly desirable. He further saw it as part of a "wise and beneficial policy of inter-American solidarity."<sup>15</sup> Since this was the main idea that the United States wished to impress upon Bolivians in particular and Latin Americans in general, the State Department could well be happy about the agreement. At a critical time the Roosevelt Administration had tried to line up a hemispheric nation and help itself at the expense of the only country actively fighting the Axis menace. This showed the length the United States would go to influence Latin America favorably.

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<sup>15</sup>The Bolivian Minister (Guachalla) to Hull, November 4, 1940, *ibid.*, p. 547; Hull to Guachalla, November 6, 1940, *ibid.*, pp. 547-49; In May 1941 the United States contracted to purchase the entire Bolivian tungsten production. See Chapter 5.

Chile was another Latin American country with overwhelming economic problems in the autumn of 1940. Chile's major difficulty was that she, like most of the other Latin American countries, was dependent upon one or two major commodities to earn almost all her foreign exchange. Copper and nitrates were the two exports upon which the economic stability of Chile was based. Both of them were in desperate trouble by late 1940. Germany and the other blockaded nations had formerly purchased about one half of these two exports. Now they were unlikely to purchase any. Great Britain, because of her wish to conserve her foreign exchange, now was purchasing all her copper from within the British Empire. The United States up to this time had purchased only small amounts of these minerals from Chile. With Chile's markets contracting, her only apparent choice was to increase her sales to Japan or to persuade the United States to begin taking up the slack. Since Japan was a potential enemy of the United States and since President Roosevelt had promised in 1939 that the United States would not permit the Latin American nations to suffer economic privation as a result of endorsing hemisphere solidarity, Chile looked to the United States for help.<sup>16</sup>

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<sup>16</sup>Morgenthau Diaries, Vol. 322, October 15, 1940, pp. 35 ff.

In June, 1940 the United States, through the Export-Import Bank had loaned Chile \$12,000,000 to purchase industrial machinery, equipment, and supplies in the United States. This was considered by Chile to be much too little. Even this agreement was running into embarrassing difficulties in the utilization of the credit so that by September, 1940 Chile was not even getting the benefits of this modest loan. This was causing increasing irritation in the Chilean Government particularly since an opposition newspaper claimed that the difficulties were the result of the United States Government's lack of confidence in Chile's Popular Front Government. This allegation was false, and the difficulties apparently were cleared up by late September. Chile still needed much more economic help however.<sup>17</sup>

In October, the Chilean Ambassador met with Secretary of Commerce Jesse Jones. He explained the Chilean dilemma about sales to Japan and requested that the United States help solve Chile's problems through the purchase of copper and nitrates and through three loans totaling \$34,000,000. These were to be used for exchange stabilization, for the construction of a hydroelectric iron and steel plant, and for the immediate import of

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<sup>17</sup> Bowers to Hull, September 16, 1940, Foreign Relations, 1940, V, p. 685; Bowers to Hull, September 23, 1940, ibid., p. 687.



100,000 tons of coal from the United States. Secretary Jones, in turn, requested the advice of the State Department. Despite the large increase in the Banks capitalization the State Department remained conservative and recommended credits totaling just one-half of what Chile wanted. Secretary Morgenthau, of the Treasury Department, also studied Chile's memorandum requesting economic assistance. He suggested that the State Department might be able to arrange for purchases of Chilean nitrates for stockpiling in the United States. Since President Roosevelt had directed that priority to be given to Latin American countries in the purchase of strategic and critical materials, Morgenthau's recommendations were followed. This would help Chile solve her nitrate problems, but no mention was made of her much larger copper problem. Secretary Morgenthau hoped that the Export-Import Bank would advance a long-term commercial credit to Chile, and, for his own part, he promised to consider a Treasury Stabilization loan that would help cover Chile's short term requirements in foreign exchange.<sup>18</sup>

A more immediate Chilean problem was the exchange arrears owed to businesses in the United States. This difficulty was increasing in intensity in late 1940. By

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<sup>18</sup>Langer and Gleason, The Undeclared War, p. 165; Blum, II, p. 321.

November, 1940 Chile owed seventy-one businesses based in the United States over \$6,000,000. A total of nearly \$2,500,000 more was owed to over 500 small exporters in the United States. Unless some provision was made for the payment of these debts Chile could not afford to purchase the coal and other materials she needed from United States firms.<sup>19</sup>

In early December, Chile reached the end of her rope and temporarily suspended amortization on her foreign debt in order to divert funds to her Exchange Control Commission. This action did not immediately raise the ire of the Foreign Bondholders Protective Council. This was well in that they could have further complicated the already complicated financial negotiations then going on. The same day that Chile did this the Export-Import Bank agreed to extend a \$5,000,000 credit to the Central Bank of Chile, and the Defense Supplies Corporation made known its promise to purchase for stockpile 300,000 tons of Chilean nitrates. This latter agreement was worth about \$3,500,000 for Chile's foreign exchange balance. In addition negotiations were then being held over the purchase of copper. Sumner Welles believed that the first two agreements could be utilized by Chile to liquidate

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<sup>19</sup> Bowers to Hull, November 12, 1940, Foreign Relations, 1940, V, pp. 688-89.

her exchange arrears due United States exporters while increased copper sales could lead to an improvement in Chile's balance of payments in the future. Welles, however, believed that these contemplated operations would fall short of relieving the projected deficits of Chile during 1941. He wanted broader cooperations between Chile and the United States in the future in order to promote the hemispheric defense policy of the United States<sup>20</sup>

This was where the matter rested in early 1941. Fortunately for Chile and the United States economic projections for 1941 proved to be much too pessimistic. The United States found that it needed much more copper than it had earlier contemplated. Consequently, its rapid increases in purchasing Chilean copper throughout 1941 helped to alleviate Chile's economic problems. This was fortunate for the aspirations of the United States because, if Chile had been forced by necessity to sell copper to Japan, cracks in hemispheric solidarity could have widened.

Argentina was a country with many of the same problems as those of Chile. Argentina, however, did not have as much rapport with or trust of the United States

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<sup>20</sup>Welles to Morgenthau, December 4, 1940, Foreign Relations, 1940, V, pp. 689-90; Bowers to Hull, December 4, 1940, ibid., p. 690-91.

as did most of the other Latin American countries. Nevertheless, because of Argentina's size, location, power, and prestige, the United States Government continually tried to get Argentina more deeply involved in hemispheric solidarity.

As early as June, 1940 the United States Ambassador to Argentina, Norman Armour, warned Secretary of State Hull that an economic crisis was imminent in Argentina. He believed that the United States would have to provide Argentina and other South American countries with alternatives to the Axis economic offers in order to insure hemisphere solidarity and keep them out of the Axis orbit. Since it was in June, 1940 that the expectations of a German victory reached their highpoint, this was clearly a cause for action. Armour pointed out that many Argentines, some of whom were normally friendly toward the United States, did not think the United States could either adequately protect the whole Western Hemisphere or solve Argentina's economic problems. Armour believed that the United States would have to convince Argentina of its ability to help through early purchases of Argentine products such as wool, hides, quebracho, preserved meats, and animal by-products. Unilateral United States actions in these and other areas might be enough to check any

trend toward defeatism and to bring about a closer solidarity with Argentina.<sup>21</sup>

According to Dr. Raul Prebisch, the general manager of Argentina's Central Bank who had discussed Argentina's financial problems with the Argentine Minister of Finance, the country had two alternatives. One was progressively to restrict imports in order to protect the exchange balance. The second was to borrow money on a large scale. Neither was a good solution, but since the first invited internal political trouble, Prebisch looked to the United States for the second. The Argentine Government wanted to finance a substantial part of imports from the United States through the Export-Import Bank. They wanted an additional loan to help Argentina meet the service on its external public debt and other official foreign payments. Finally, they wanted the United States to purchase large amounts of exportable products in order to improve Argentina's exchange balance.<sup>22</sup>

The United States Government acted with amazing speed upon these requests so that by June 22 the Export-Import Bank agreed to extend a credit totaling \$20,000,000

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<sup>21</sup> Armour to Hull, June 14, 1940, ibid., pp. 460-62.

<sup>22</sup> Armour to Hull, June 17, 1940, ibid., pp. 463-64.

to Argentina. Since this credit was the maximum allowed under the rules of the Export-Import Bank, it was apparent that the United States was greatly disturbed over the economic situation in Argentina. No small part of this rapid action was due to the knowledge that Germany was offering Argentina merchandise for delivery in October and attempting to wean Argentina away from hemispheric solidarity.<sup>23</sup>

After the Havana meeting in July some abortive attempts were made to send United States Government officials to Argentina to discuss economic relations. Due to the failure of these somewhat clandestine attempts, the President of the Export-Import Bank, Mr. Warren L. Pierson, was sent to Buenos Aires in September. He was to discuss the possibilities of further credits for Argentina.<sup>24</sup> At about the same time, discussions were being held in the United States looking toward the possible purchase of Argentine wool and hides for defense purposes.

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<sup>23</sup> Armour to Hull, June 17, 1940, ibid.; Hull to Armour, June 22, 1940, ibid., pp. 466-67.

<sup>24</sup> Armour to Welles, July 19, 1940, ibid., pp. 471-72; Tuck to Welles, August 10, 1940, ibid., pp. 472-73. Hopefully by this time the Export-Import Bank would have the authority to loan more money. They did as of September 26, 1940.

Suggestions for a corn marketing agreement were also being discussed.<sup>25</sup>

The Argentine Minister of Finance, Dr. Federico Pinedo, wanted the United States Treasury Department to send one of its experts to accompany Mr. Pierson in order that a monetary and exchange agreement might also be worked out. The State Department, however, believed that negotiations on this point ought to be carried on in Washington. This type of an arrangement would constitute a new departure for the Treasury Department which had previously employed the Stabilization Fund only when it was completely collateraled by gold and silver bullion. This was significant because Secretary Morgenthau had heretofore been adamantly opposed to use of the Stabilization Fund in any way not explicitly permitted by Congress. In late September at the time Warren Pierson was beginning his Export-Import Bank negotiations in Argentina, the Argentine Government was preparing to send one of its financial experts to begin stabilization negotiations in Washington.<sup>26</sup>

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<sup>25</sup>Welles to Tuck, August 12, 1940, ibid., pp. 473-74. These discussions, which had been going on since mid-May, 1940, dealt with possible agreements on the sale of corn (maize) to Great Britain and other countries. They failed in late January, 1941. See ibid., pp. 484-504.

<sup>26</sup>Tuck to Hull, September 4, 1940, ibid., pp. 475-76; Hull to Tuck, September 20, 1940, ibid., p. 477; Tuck to Hull, September 24, 1940, ibid., p. 478.

On October 1st, Assistant Secretary of State Adolf Berle suggested that the United States extend a credit of \$50,000,000 to Argentina. Secretary Morgenthau showed that his thinking had changed when he agreed, provided that both Secretary of State Hull and Secretary of Commerce Jones concurred. In the long run this was a breakthrough, but in the short run this meant that Warren Pierson would not be authorized to make commitments while in Argentina.

The Argentine Government would have to send officials to Washington. This angered them as they believed that the United States was just seeking a way to sell them out. Nevertheless, Argentina acquiesced, and Dr. Prebisch of the Argentine Central Bank was sent to the United States where negotiations were again opened in late November.<sup>27</sup>

Since the Treasury Department's November survey on Argentina's economic problems forecast an exchange deficit of between \$80,000,000 to \$100,000,000 in 1941, the United States decided to offer a much larger loan than ever before. Jesse Jones and others recommended that the United States offer Argentina \$100,000,000, half from the Export-Import Bank and the other half from the Treasury

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<sup>27</sup>Morgenthau Diaries, Vol. 317, October 1, 1940, p. 28; Hull to Tuck, October 3, 1940, Foreign Relations, 1940, V, pp. 478-79; Langer and Gleason, The Undeclared War, p. 166.



Department's Stabilization Fund. In return, the United States hoped that a trade agreement which would provide for the nondiscriminatory treatment of United States exports could be concluded.<sup>28</sup> The United States also expected cooperation in the establishment of military bases and in the control of Nazi propaganda and subversion in Latin America.<sup>29</sup>

On December 11 an agreement was reached on a portion of the negotiations. As of that date the Export-Import Bank agreed to cancel the earlier \$20,000,000 loan which had not been used and substitute for it a \$60,000,000 loan to be made available at the rate of \$5,000,000 per month throughout 1941. On December 27, the second part of the negotiations was concluded with the Treasury Department's agreement to use its Stabilization Fund to buy up to \$50,000,000 worth of Argentine pesos in 1941. The total amount involved, \$110,000,000, was unprecedented, and it showed the extent the United States was now willing to go to influence the policies of one of its most important Latin American neighbors.<sup>30</sup>

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<sup>28</sup>Previous negotiations with Argentina over a trade agreement had been broken off on January 8, 1940.

<sup>29</sup>Blum, II, p. 321.

<sup>30</sup>Hull to Armour, December 7, 1940, Foreign Relations, 1940, V, p. 482; Hull to Armour, December 28, 1940, ibid., p. 483; Jones and Myers (eds.), Documents . . . , 1940-1941, p. 120.

What was ironic about both transactions was that neither of them ever got the necessary enabling act from the Argentine legislature; consequently, not one cent was forwarded to Argentina as a result of the agreements. Originally this was due to internal Argentine politics, but once Argentina's financial position began to improve in early 1941, due to her sales of cotton and wheat to Spain (much of which probably ended up in Germany) and to her increased exports to the United States, she did not need this financial help.<sup>31</sup> Thus the Stabilization credits and the Export-Import Bank loan played no part in Argentine trade and finance. Yet they were important as a symbol of friendship and solidarity, and they were something Argentina could have fallen back on had her earlier dire predictions of economic troubles in 1941 come true.

Problems caused by Latin American debts to United States bondholders were not as prevalent in late 1940 and early 1941 as they had been before. This was probably due in part to the relative success that the State Department and the F.B.P.C. had had in early 1940 in negotiating temporary debt settlements with Colombia and Brazil as well as to the relative de-emphasis of the question of debt settlements due to the widened war in Europe and its threat

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<sup>31</sup>Blum, II, p. 322; Edward Elsassser, "Argentine Relations with the Export-Import Bank, 1934-1945," Inter-American Economic Affairs (Spring, 1955), p. 92.

to the Americas.<sup>32</sup> Nevertheless the F.B.P.C. was particularly determined to negotiate a better permanent debt settlement with Colombia. Since the F.B.P.C. and the Colombian Government had only reached the temporary debt settlement after intervention by the State Department and since there was both personal and national Colombian antagonism directed against the F.B.P.C., renewed negotiations would entail much work on the part of the State Department.

The temporary settlement of the Colombian debt had been agreed upon in February, 1940.<sup>33</sup> In May discussions were opened between Mr. John C. Traphagen, a representative of the F.B.P.C., and the Colombian Ambassador to the United States, Mr. Gabriel Turbay. Their intention was to consider grounds on which a permanent debt settlement could be made. Time was limited because the Colombian Government had given their President special powers which would expire on July 20, 1940. After these powers expired, President Santos could not legally make a permanent settlement.<sup>34</sup>

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<sup>32</sup>Nevertheless the United States Government still refused to consider Export-Import Bank credits to Mexico and Bolivia--the two countries that had expropriated companies of the United States.

<sup>33</sup>See Chapter II.

<sup>34</sup>A logical explanation for the necessity of these limiting powers would be to put pressure on the F.B.P.C. to agree to a quick settlement. See also, Braden to Hull, June 26, 1940, Foreign Relations, 1940, V, p. 703.

A permanent debt settlement was as much a political question as an economic one in both Colombia and the United States. The Colombian Government claimed that it was facing serious financial difficulties in the summer of 1940. The price of coffee had fallen enough so that its export value had been reduced by 40%. Public revenues were decreasing so that public expenditures on even some essential services were being restricted. The implication was that, as a consequence of this bleak economic future, public opinion in Colombia would soon insist that service on the debt could not be warranted while so many citizens were having to make sacrifices. Because of this fear of public opinion, the Colombian Government wanted a guarantee that they could temporarily suspend the provisions of the agreement if necessitated by economic and fiscal conditions.<sup>35</sup> In the United States, the strong political position of the F.B.P.C. practically forced the State Department to keep its interests in mind lest they claim that the State Department was selling out on the rights of the United States bondholders.

Because the negotiations between Mr. Turbay and Mr. Traphagen were not making much headway, the State

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<sup>35</sup>Memorandum--Translation, Colombian Embassy to Department of State, July 1, 1940, ibid., p. 704.

Department intervened on July 6--two weeks before the special powers were to expire. Sumner Welles, Jesse Jones and the Under Secretary of the Treasury, Daniel Bell, met with Mr. Turbay and Mr. Traphagen and offered themselves as friendly intermediaries. After a long discussion Jesse Jones submitted a plan for a permanent debt settlement that involved a compromise from the positions taken on both sides. Finally, Mr. Turbay agreed to recommend its adoption to his Government while Mr. Traphagen would only agree to convene the Executive Committee of the F.B.P.C. and request them to either accept the proposal or reject it. Both sides understood that, if a permanent settlement were to be reached on the terms that were offered, it would have to be concluded before July 13. This would allow the Colombian Government time to proclaim the necessary decrees before the special powers of its President expired on July 20.<sup>36</sup>

The President of the Foreign Bondholders Protective Council, Mr. Francis White was less than ecstatic about the formula for settling the Colombian debt. He tried to stall by demanding a letter from the State Department telling what the offer comprised even though his intermediary, Mr. Traphagen, could have, and probably did, tell him.

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<sup>36</sup>Memorandum of Welles, July 6, 1940, ibid., p. 706.

When the Executive Committee of the F.B.P.C. met on July 15, they voted against the Jones Plan. They demanded the right to fix the interest rate on the bonds at 3 1/2%<sup>37</sup> (rather than the 3% offer). They also rejected the Colombian proviso that service on the debt could be temporarily suspended if economic conditions in Colombia warranted it.<sup>38</sup> It was apparent that the F.B.P.C. preferred to continue the temporary debt arrangement.

The Colombian Government was incensed at the attitude of the F.B.P.C. and decided to go over its head by making a direct offer to the bondholders. Ambassador Turbay noted that the intention of his government was to accept the Jones proposal and to ask the bondholders themselves to accept it also as soon as the Colombian Loan Commission approved the plan. Since this all could not be done before President Santos' special powers elapsed on July 20, a special decree was authorized that allowed the setting aside of this arbitrary date. Although Ambassador Turbay and his government detested the attitude of the F.B.P.C., they praised Welles, Jones, and Bell for

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<sup>37</sup> Previously the United States Government had supported the 3 1/2% rate. For an explanation see, Duggan to Welles, December 17, 1940, ibid., p. 715.

<sup>38</sup> Duggan to Welles, July 12, 1940, ibid., p. 707; Memorandum of telephone conversation by Duggan, July 15, 1940, ibid., p. 708-09.

their help and counsel.<sup>39</sup> This agreement in principle, between the Colombian Government and these members of the State, Commerce, and Treasury Departments, made it clear that in the future the United States Government would align itself with Colombia if it thought the F.B.P.C. was being unreasonable.

The matter lay dormant from late July until November 28, when the Colombian Government indicated that it was ready to go ahead with the foreign debt settlement along the lines discussed the previous summer. The State Department hoped that it could get the F.B.P.C. either to act favorably on the proposal or at least to remain passive. However, White made it clear on December 12 that the F.B.P.C. was still opposed to the professed Colombian right to postpone interest or amortization payments if economic or fiscal conditions made this necessary. Laurence Duggan, the Advisor on Political Relations of the State Department, believed that this provision was only an attempt by Colombia to be honest, for any sovereign nation could suspend its debt payments if it wished. Colombia was opposed to any more negotiations with the F.B.P.C. on the grounds that there was nothing further to negotiate,

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<sup>39</sup>Turbay to Welles, July 18, 1940, ibid., pp. 710-11.





but wanted the F.B.P.C. to recommend the debt proposal. Since they knew that the chances were slim, they requested that the United State Government issue a statement supporting the Colombian position. This was what the State Department had planned to do if necessary.<sup>40</sup>

By this time the Colombian Government was holding out for a permanent debt settlement or nothing. They argued, in fact, that their government no longer was empowered to enter into a temporary settlement. On the other hand the F.B.P.C. wanted another temporary settlement because they hoped this would allow a more favorable permanent settlement at a later time. The State Department sided completely with the Colombian view by informing White, that it saw "no reason to question the legal position of the Colombian Government. . . ." Welles thought, in fact, that by letting White know of the State Department's position, it might have a salutary effect on the uncompromising attitude of the F.B.P.C. The State Department was agreed that it would be "highly undesirable," if the F.B.P.C. again sabotaged the proposed permanent settlement by issuing a statement opposing it, particularly since the plan was favored by the State Department.<sup>41</sup>

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<sup>40</sup>Duggan to Welles, December 13, 1940, ibid., pp. 713-14.

<sup>41</sup>Duggan to Welles, December 17, 1940, ibid., p. 716; Welles to White, December 20, 1940, ibid., p. 716; Memorandum by Bonsal to Welles, December 22, 1940, ibid., p. 717.

White remained unsympathetic. With the temporary settlement set to expire on January 1, 1941, he again sought to mark time and to complicate the issue by new proposals. He even claimed that the F.B.P.C. had no detailed offer before it; but he promised that should an offer be received he would pass it on to the bondholders along with both the State Department's comments and the F.B.P.C.'s views so that the bondholders would have opinions on which to base their voting. To circumvent some of the obvious hostility of the F.B.P.C. toward the permanent settlement, the State Department decided to suggest to the Colombian Embassy that it issue a brief statement describing the Colombian offer of a permanent settlement. This was to be immediately followed by a State Department press release praising the reasonable Colombian action and recommending that both the bondholders and "organizations purporting to represent them" should give it their careful consideration. The reason for this strategy was to get the settlement off to a favorable start while avoiding public discussions of Mr. White's technically detailed points. This plan would also give the State Department more time to consult with Colombian officials on some of the points.<sup>42</sup>

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<sup>42</sup>Bonsal to Welles, December 27, 1940, ibid., pp. 717-19.

This procedure was followed on December 30 when the permanent debt offer was released to the press. The previously agreed upon settlement proposal had an added sweetener, which had been proposed by Francis White on December 26, that the Colombian Government would not offer to other holders of outstanding external bonds terms more favorable than those offered to the bondholders in the United States. The State Department declaration that the offer was a "fair effort" on Colombia's part to adjust its obligations led to a difference of opinion with the Colombian Ambassador who felt the statement should be that it was a "fair settlement." By this time it was too late to recall the Press Release. Despite this small conflict, the Ambassador's doubts were probably removed the next morning when the New York Times headlined "Plan of Colombia on Debt Approved--United States State Department, Loan Agency and the Treasury Recommend Refunding."<sup>43</sup>

In its wish to line up Colombia the United States had clearly taken almost unprecedented action. It had gone on record in opposition to a powerful domestic interest group and in favor of a foreign country which was

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<sup>43</sup>Bonsal to Welles, December 31, 1940, ibid., pp. 721-22; New York Times, December 31, 1940. It should be noted that the bonds involved were the 1927 and 1928 6% External Gold Bonds of the Republic of Colombia. In 1941, negotiations about Agricultural Mortgage Bonds and other Colombian debts would be attempted, but the agreement on the External Gold Bonds was more important.

not paying all of its debts. Colombia's strategic position in regard to the Panama Canal was an important consideration in getting the State Department to back the Colombian position. With a permanent debt settlement passed, the United States Government would have no trouble justifying increased economic and military aid to Colombia. This aid, which was sorely needed, would back up and stabilize the government, and make it politically expedient for the two countries to work closer together. The United States expected that its friendship would be reciprocated.<sup>44</sup>

In retrospect, it is apparent that the State Department had waited much too long before changing its policy. The old policy should have been scrapped when war began. Instead, the national interest, as defined by the State Department, had taken 16 months to overcome the natural inertia brought about by the shrill voices of the domestic vested interests. A decision finally had been made to support the Colombian position so that hemispheric solidarity took precedence over internal politics. More decisions of this kind were needed to insure the lining up of Latin America.

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<sup>44</sup>On June 5, 1941, the Colombian offer was sent directly to the bondholders. See Turbay to Duggan, June 5, 1941, Foreign Relations, 1941, VII, p. 70. An Export-Import Bank loan of \$12,000,000 was approved on June 6, 1941 for Colombia. There were no specific conditions that Colombia's other debts had to be cleared up before the loan could be granted. See Hull to Braden, June 7, 1941, ibid., p. 72.

Peru was another country in total default on her debt to United States citizens. Previously, during the "Phony War" period, the United States had turned down a Peruvian request for an Export-Import loan. After the German blitzkrieg, Peru's economic position had begun to deteriorate, and the United States took a new look at its loan policy in order to try to help Peru. British financial and trade pressure combined with United States reluctance to buy products of Peru, such as cotton, and petroleum, that were competitive with United States products, were largely the causes of the deterioration of Peru's exchange and trade situation. Ironically, the United States was the leading import supplier of Peru, with a 1939 share of about 40%, as well as Peru's leading market. In 1939 the United States had replaced Great Britain and now took almost 30% of Peru's exports. Great Britain closely followed the United States as a market for Peru, but by May 1940, it was contemplated that, because of the wider war, Britain would soon block free sterling exchange. This in turn would quickly depreciate the Peruvian currency and require imports to be restricted.<sup>45</sup>

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<sup>45</sup>Diebold, p. 67; Norweb to Hull, May 22, 1940, Foreign Relations, 1940, V, pp. 1135-36.

This was the problem with which the United States was confronted. Should it attempt to buoy the Peruvians at the risk of unleashing the powerful domestic political interests such as the Foreign Bondholders Protective Council? Hull recognized the dilemma on May 31 when he told Ambassador Norweb in Peru that Peru could best help the United States by agreeing to a temporary debt settlement. Nevertheless, the Peruvian Government quickly made it known that it had no intention of making a temporary debt settlement in the near future because of the war emergency. Peru also knew that it could not afford to even match an earlier debt offer that had been turned down by the F.B.P.C. Despite the Peruvian refusal, the State Department quickly assented to a loan and arranged to have the Export-Import Bank offer Peru 2 million dollars to be used for exchange advances for imports previously purchased.<sup>46</sup>

This was only a temporary arrangement, but it showed that the State Department could move fast in an emergency and could put its conception of the national interest above domestic political interests. By the late autumn of 1940 Peru still had not used this 2 million

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<sup>46</sup>Hull to Norweb, May 31, 1940, Foreign Relations, 1940, V, p. 1137; Norweb to Hull, June 1, 1940, ibid., p. 1139; Hull to Norweb, June 10, 1940, ibid., p. 1140.

dollars, but in the meantime it was serving as reserve backing for the Peruvian sol. Since the autumn had brought further economic problems such as the end of Japanese purchases of Peruvian cotton, another financial crisis was in the offing. This led to a Peruvian request for a much larger Export-Import loan. Since this was not so much of an emergency request, this loan took more time, but on December 16 the Export-Import Bank announced that a credit of \$10,000,000 had been approved for Peru. The earlier credit was then cancelled. This new credit was well received by Peru's Government and especially its Finance Minister who alluded to it as an example of Pan American cooperation.<sup>47</sup> This was true of course, but the loan was not just beneficial to Peru. Since it was to be used to buy United States goods, it benefitted domestic businesses at the same time it was helping to alleviate Peru's economic exchange problems. Still it was a good example of a loan that furthered hemispheric solidarity. It would have been very easy for the State Department to refuse to help Peru due to her debt defaults, but Hull decided that solidarity in the increasingly serious war situation was preferable to the precedents of the past.

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<sup>47</sup>Hull to Chargé in Peru (McGurk), December 16, 1940, ibid., pp. 1141-42.

Mexico's case was similar to Bolivia's in that she not only had expropriated United States-owned properties without a final agreement on the amount of compensation, but was also in total default on her debts owed United States citizens. Parallel attempts at negotiating these differences had been going on for some time when in March, 1940 the United States and Mexico combined all negotiations and sought a general settlement of outstanding questions between the two countries. This agreement was not reached until November 19, 1941. However, because the United States Government consistently needed and sought Mexican friendship and support and generally got it during the trying times before settlement, some mention of the difficulties should be made here.

The State Department was probably concerned as much about the Mexican situation as any other area in Latin America. Mexico's proximity to the United States required that the two countries remain on as friendly terms as possible, since, if Mexico came under the influence of an unfriendly power, much of the United States would be directly threatened. This necessity for good relations, however, was complicated by the Mexican oil and land expropriations. The State Department felt obligated to back what it considered the legitimate interests of the United States oil companies and private



individuals involved. That this seemingly paradoxical situation could be overcome without a long-range deterioration in relations between the two countries speaks well for the diplomats involved on both sides. It was especially fortunate that the United States had as its Ambassador to Mexico, Josephus Daniels, who, despite frequent castigation by business interests and disappointed individuals in the United States, stood solidly behind the concepts of negotiation and conciliation instead of the abuse and recriminations hurled by a substantial portion of the United States population who had heard only one side of the question.

Mexico's Ambassador to the United States, Francisco Castillo Nájera, President Cárdenas, and Foreign Minister Hay were just as competent as their counterparts in the United States, and they were willing to work just as hard to avoid conflicts. On top of this the Mexican Government was as anti-Fascist, if not more anti-Fascist, than the Government of the United States. These facts certainly helped improve diplomatic relations between the two countries.

Negotiations for a general settlement of claims with Mexico continued throughout the spring and summer of 1940. On October 7, 1940 a revised plan was submitted to the Mexican Embassy from the Department of State to cover

all the outstanding problems then pending between the United States and Mexico. This proposed agreement covered claims of the United States against Mexico such as the general and agrarian claims as well as all other property claims. It also covered Mexican claims against the United States. Once these claims had been agreed upon the United States promised to cooperate with Mexico to stabilize the Mexican currency. It was hoped that this agreement would coincide with a settlement of the petroleum expropriation controversy. As an added incentive to promote a petroleum settlement, the United States Government promised to discuss with Mexico possible credits for highway construction as well as an agreement for silver purchases in Mexico. In return, Mexico was asked to begin discussions with representatives of the United States bondholders in order to reach an agreement to renew her debt service. Other topics such as water distribution rights, railroad indebtedness and a trade agreement were also to be discussed.<sup>48</sup>

This, indeed, was a large order to be filled. The need for settlement was extremely great, however. If oil and agrarian claims settlements and a debt settlement could be made, an albatross would be removed from around

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<sup>48</sup> Department of State to Mexican Embassy, October 7, 1940, ibid., pp. 1048-50.

the neck of the State Department, and normal relations would begin. On the other hand, United States help in such things as stabilizing the Mexican currency, in giving credits for highway construction, and in agreeing to buy increased amounts of Mexican silver would tie the two countries closer together economically. Close economic and political ties could possibly lead to the close military ties that the State and War Departments desired.

Conversations then continued in Washington among Mexican and State Department officials using the proposals of October 7 as the basis for discussions. Verbal sparring went on throughout October and early November with each side seeking to get the other to reduce its more extravagant claims. Each side would lose political face if it appeared to give in to the other. This was especially critical to the Roosevelt Administration as it was facing a November election while the Mexicans had already had their election earlier that year. Soon after Roosevelt was re-elected in November, the Mexican Government gave in on one major demand of the State Department. They agreed to increase their offer of a general claims settlement from \$30 million dollars to the minimum United States offer of \$40 million dollars. This concession which, according to the Mexican Government, came about because of its desire to reach a settlement and to show its

friendship to the United States was hedged only to the extent that the monetary commitments involved would have to be in yearly amounts that Mexico could easily afford.<sup>49</sup>

The Mexican Government also put forth its minimum demands for agreements on questions other than those of general claims. These included Mexico's wish for a monetary stabilization credit of \$30,000,000, and a settlement of the oil expropriation claims similar to the earlier unilateral agreement with the Sinclair interests. They also wanted the United States to increase its petroleum quota five or six times. Further Mexican wishes included an agreement for the sale of newly-mined silver to the United States in greater quantities and at higher prices than those in effect in November, 1940, and a treaty on the use of the waters of international rivers, particularly the Rio Grande. The Mexican Government considered the other parts of the memorandum of October 7 to be only of secondary importance and thus could be considered after the more important discussions.<sup>50</sup>

This exchange of documents led to a further series of conversations held between Under Secretary of State Welles and the Mexican Ambassador at Washington in

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<sup>49</sup> Mexican Embassy to Department of State, November 16, 1940, ibid., pp. 1057-58.

<sup>50</sup> Ibid., pp. 1058-61.

December, 1940 and January, 1941. While no final agreements were reached, the talks were carried on in a friendly and conciliatory spirit. On February 17, 1941 the Mexican Government put forth proposals designed to break the diplomatic impasse and to settle all claims. That the war in Europe as well as Mexico's wishes for increased inter-American solidarity affected this Mexican proposal was apparent because the text of the proposal spoke of the obligations of continental defense and the wish to follow the Declarations of Panama and Havana. The Mexican Government, like the United States Government, was particularly interested in settling all differences so that the "contingencies of these uncertain times" could be met.<sup>51</sup>

In the Memorandum the Mexican Government promised adequate indemnification for the expropriated properties although declaring that there was no international rule of law requiring it to compensate foreigners. Mexico also agreed to Sumner Welles' plan to put pressure on the oil companies once a solution was agreed upon between the Governments of Mexico and the United States. This agreement arranged for the State Department to wash its hands

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<sup>51</sup>Mexican Embassy to Department of State, February 17, 1941, ibid., 1941, VII, pp. 371-72.

of the whole oil expropriation affair leaving the oil companies to accept the consequences if they refused to acquiesce in any agreement made between Mexico and the United States.<sup>52</sup> That Sumner Welles proposed this plan and that Secretary Hull agreed with it shows the length to which the Roosevelt Administration was willing to go to reach an oil settlement with Mexico.

The general thread by which the Mexican Government's arguments were bound together was the necessity for United States aid to Mexico. The Memorandum noted that the Mexican Government had refused to sell excess petroleum to any possible enemies of the American continent despite serious sacrifices resulting from a prohibitive United States duty on oil imports. Since Mexico's financial reserves were rapidly deteriorating, United States aid was needed to offset economic stagnation and to promote hemispheric unity. Mexico claimed she needed financial backing to meet defense obligations such as the possible construction of naval and air bases in its territory and modern and expensive armament for its military forces.<sup>53</sup> These latter problems were something the United States military could well identify with as they wanted base concessions from Mexico in order to promote their

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<sup>52</sup>Ibid., pp. 373-74.

<sup>53</sup>Ibid., pp. 375-76.

conception of hemispheric military solidarity. It was extremely fortunate that the United States and Mexico, despite their differences, saw the Axis threat in the same way and were resolved to do something about it.

Although the final solution to Mexican-American problems would still be months in coming, Mexico agreed to some very substantial concessions in the memorandum of February 17. Mexico agreed to pay \$40,000,000 as the total amount of agrarian and general claims, to pay for the expropriated oil properties through oil exports at an agreed upon rate, to agree to negotiate the foreign debt owed to United States bondholders, to desire to reach a general solution of the problem of international waters, to cooperate in economic matters with the United States, and to agree to constitute a Mexican-American Defense Commission. In return, Mexico expected the United States to give Mexico the opportunity to increase its exports, to increase the Mexican oil quota, to guarantee an increased purchase of Mexican silver, to extend a stabilization credit of \$30,000,000 and another loan (probably from the Export-Import Bank) for highway construction, and, together, to conclude a treaty of commerce in order to promote economic interchange.<sup>54</sup>

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<sup>54</sup>Ibid., pp. 376-82.

The State Department's continued negotiations with Mexico in late 1940 and early 1941 are a specific example of the wide-ranging foreign economic policy that the Government was following. Regarding Latin America, it can be summed up as a policy which encompassed the promotion of bilateral trade agreements and the investment of United States money in Latin America. These were aimed at bringing about industrial diversification especially in strategic materials and purchasing increased amounts of strategic raw materials. They were also concerned with the strengthening of the monetary and foreign exchange position of the Latin American countries, and in the implementation of the economic agreements made at the Havana Conference.<sup>55</sup>

The Export-Import Bank was the major financier of lending schemes to help the Latin American countries, and by the end of 1940 some of its promise was beginning to show results. Over \$255,000,000 had been committed to the Latin American countries by that time and over \$45,000,000 had already been disbursed.<sup>56</sup> On the surface this seems like a huge amount since its capitalization was only

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<sup>55</sup> Leo Pasvolsky, "The United States in the World Economy, 1940: Some Aspects of Our Foreign Economic Policy," Commercial Policy Series, Number 70 (Washington: Government Printing Office, 1941), p. 20.

<sup>56</sup> Bidwell, pp. 74-75. Figures taken by Bidwell from the Annual Report of the Export-Import Bank, December, 1940.



\$200,000,000 before September, 1940. Nevertheless, the Export-Import Bank was still a very tight-fisted and conservative institution that in the past had often been at odds with the State Department over the applicability of loans.<sup>57</sup> More importantly, nearly all of the authorized loans had the purpose of helping the sales of United States goods to Latin America. There was nothing wrong with this. Indeed it is a proper function of government agencies to help promote United States businesses. However, in this case the Latin American countries were being encouraged to buy more and more products from the United States that now were not available from their sources in Europe. This increased their deficits of trade and encouraged more loans and more financial dependence on the United States. In one way, this was good in that it practically forced any wavering Latin American country to line up with the United States under the implied threat of being ruined economically. On the other hand, this would encourage Latin Americans to look at the United States as an exploiting country, and in the long run turn Latin Americans away from the over-all United States strategy of hemispheric solidarity. What was needed was a program that would take

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<sup>57</sup> Jesse Jones to Welles, December 2, 1940, Official File 159.

up the slack caused by the loss of Latin American markets in Europe by purchasing more of their products in the United States. This would help their balance of payments, and as they got back on their feet financially, it would encourage them to purchase more products from the United States.

The Administration realized that more Latin American products would have to be purchased by the United States. In fact, this was one of the major reasons behind the Coffee Purchase Agreement of November, 1940. Much more would have to be done in 1941 to alleviate this difficulty. Since the question was far from being immune from domestic politics, especially in the case of many competitive products such as beef, corn, and wheat in which South America abounded, an added difficulty entered the picture. The Administration had its work cut out for it in 1941 to encourage, persuade, and cajole United States vested interests to allow increased United States purchases of competing products from the Latin American countries.

The newest major agency in the government played an important part in furthering these aspirations. Nelson Rockefeller was appointed the head of the office of the Coordinator of Inter-American Affairs in August, 1940, and shortly thereafter he came into direct conflict with

the State Department. According to the enabling legislation, the C.I.A.A. was to "be charged with the formulation and the execution of a program in cooperation with the State Department." The State Department believed that this order put the C.I.A.A. under its direction, while the C.I.A.A. thought that in view of its coordination function this was not true. Since the State Department was long accustomed to exercising the ultimate voice in foreign affairs, they felt threatened by the new agency. During late 1940 and early 1941 relations between the two agencies were poor. This hostility continued until April, 1941 when President Roosevelt concurred with the State Department position. From then on Rockefeller had to obtain State Department approval for all projects originating in his office.<sup>58</sup>

This intra-government hostility was unfortunate as it certainly must have impaired the early work of the C.I.A.A. President Roosevelt was remiss in letting the situation get to the point it did before siding with the State Department. There was a rumor that President Roosevelt wanted the new agency to show up "Foggy Bottom" by its ability to exhibit greater imagination and drive. The

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<sup>58</sup>Office for the Coordination of Commercial and Cultural Relations, August 17, 1940, Official File 813-B; C.I.A.A., History, pp. 91, 181.

truth of this, however, cannot be substantiated.<sup>59</sup>

Nevertheless, no nation can long allow its highest foreign policy organ to be circumvented by a lesser agency without the danger that overall foreign policy actions might suffer.

Despite the trouble with the State Department, the C.I.A.A. did bring about some much-needed action in late 1940 and early 1941. The State Department's Division of Cultural Relations' long-term program was inadequate in the war emergency, and United States commercial policy definitely needed some agency to coordinate its plans in order to get the maximum amount of relevance between policy and action. Indeed, the over-riding objectives of the thought behind the creation of the C.I.A.A. was to form a flexible agency. It was hoped this flexible agency could and would do things that old-line agencies found impossible to do. While emergency measures of the C.I.A.A. rightly got the most attention, Rockefeller and his staff also were interested in long-range projects.

Rockefeller, as head of the C.I.A.A., was made the chairman of the Inter-American Development Commission. This Commission, which had been created by the Inter-American Economic and Financial Advisory Committee, was

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For the rumor see Thomson and Laves, p. 49.

involved in making technical studies, compiling information, and aiding the development of mining, agriculture, and industry in Latin America. It was financed through the C.I.A.A. Outside of purely administrative matters this was about the extent to which Rockefeller's office got involved in strictly commercial matters in the prewar period.

Cultural relations were another matter, however. It was here that Rockefeller's office really shone as it was able to take some new and significant actions that made it overshadow the Cultural Relations Division of the State Department. Some of these actions were cultural relations only in the broadest sense. It would be more accurate to say that propaganda, information, education, public health, and entertainment activities took above 90% of the total funds of the C.I.A.A. These funds were not insignificant especially after the United States entered the war. The agency was given an initial grant of \$3.5 million for 1940-1941. This grew to \$60 million for 1943. While most of its money was spent during the war years, many of the projects it was expended upon began during 1940 and 1941.<sup>60</sup>

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<sup>60</sup> Ibid. Since the C.I.A.A. was only about eight months old in March, 1941 when this chapter ends, I will confine myself to the types of projects they were interested in without much attempt at evaluation.

The work of the C.I.A.A. was divided into four major areas: A Cultural Relations Division concerned with art, music, publications, literature and education; a Communications Division concerned with radio, news, travel, movies and sports; a Commercial Development Division concerned with raw materials, commodities, transportation, and industrial and commercial development; and a Trade and Financial Division concerned with government finances, export-import banking, private finance and trade, and special projects.<sup>61</sup> Of course, those projects which contributed to hemispheric solidarity and national defense were emphasized the most.

Everything that the C.I.A.A. did or attempted to do has to be viewed and evaluated as part of the war effort. Instead of guns and equipment, its major weapons were information and money. Most of the money came with the increased appropriations to the agency after the United States entered the war, but the C.I.A.A. entered the information field right from the beginning.<sup>62</sup>

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<sup>61</sup>"Office of the Coordinator of Commercial and Cultural Relations between the American Republics," Hispanic American Historical Review (May, 1941), p. 355.

<sup>62</sup>Rockefeller was particularly zealous about public opinion surveys in Latin America supplied by the United Press. He forwarded these reports directly to President's Secretary, Mr. Early, although Early had told him not to. See Rockefeller to Early, November 16, 1940, Official File 813-B.

The purpose of the C.I.A.A. information programs was two-fold. They wished to further close cooperation and promote joint action by influencing public opinion and by counteracting Axis propaganda. When the C.I.A.A. was formed, the Axis had a near monopoly in the radio propaganda field. Twelve United States radio stations beamed programs to Latin America, but they operated with less power and with inferior equipment compared to their Axis competitors. The Coordinator's office sought to rectify this by having United States programs transmitted over local stations. Many difficulties such as lack of talent and problems with both language and local customs hindered this plan. However, the surprising thing is that according to public opinion polls the United States programs were more popular than the Axis programs. This was probably because United States propaganda was either minimal or more subtle.<sup>63</sup>

Another even more significant action of the C.I.A.A. was the information it acquired by sending a mission to Latin America to check on United States business representatives there. This mission was sent in August, 1940 and made its rather shocking report in early January, 1941. They found that United States businesses in Latin

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<sup>63</sup>C.I.A.A., History, pp. 41, 57-58.

America were frequently represented by pro-Axis individuals. Furthermore, these representatives used their power over advertising as a club to force newspapers and radio stations to adopt anti-United States editorial policies. Other non-United States owned firms were found to be able to stay in business only because of their trade with the United States. This trade continued despite their anti-United States attitudes of passing along to the Axis confidential trade information and of using their profits to finance pro-Axis propaganda.<sup>64</sup>

This information was published in the United States with the idea of putting pressure on United States businesses. It emphasized that the majority of United States businesses in Latin America were not represented by anti-American agents and that some that were did not know about it. However, the implication was clear--look at your employees in Latin America and purge those who are disloyal.

The C.I.A.A. was also involved in another important project that the State and Treasury Departments were undertaking in Latin America. In these pre-C.I.A. days, F.B.I. agents were sent to selected Latin American countries to

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<sup>64</sup> Jones and Myers, Documents . . . , 1940-1941, p. 111.



help the local police forces and to check on subversive activities.<sup>65</sup> In early February, 1941 President Roosevelt ordered the Attorney General to make the facilities of the F.B.I. available to the C.I.A.A. This assistance was desired to help carry out Rockefeller's program of contacting a small number of United States business executives in Latin America--the aim being to get their cooperation to eliminate totalitarian agents representing their firms.<sup>66</sup>

Another area which covered both strictly cultural relations and the larger questions of propaganda and hemispheric solidarity was the use of motion pictures in Latin America. There was a widespread and justifiable feeling that in the past United States motion pictures had tended to stereotype Latin Americans as slothful "mañana" people or in some other derogatory manner. Both Rockefeller and President Roosevelt were concerned about this problem and both sought to get the support of Hollywood to rectify these wrongs and to be more discreet in the future. The C.I.A.A. in fact became kind of a clearing house and censor for films sent to Latin America.

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<sup>65</sup> Unfortunately their reports, as found in the Morgenthau Diaries in the Franklin Roosevelt Library, were still classified as of June, 1966.

<sup>66</sup> Roosevelt to Attorney General, February 3, 1941, Official File 813-B.

A large film library was gathered and the Coordinator's office reviewed, cut, and edited films as well as sound-tracked them into Spanish and Portuguese. To show the films, sound motion picture projectors were distributed to all United States embassies and legations in Latin America where they could be loaned free to interested groups.<sup>67</sup> These were small things, but they were a start in re-molding the United States image in Latin America.

By late March, 1941 the cultural and economic relations program of the C.I.A.A. had come a long way from the desires for the rather long-term and innocuous programs that had prompted the setting up of the State Department's Cultural Relations Division in 1938. The staff leaders of the C.I.A.A. decided in March that their advocacy of Latin American interests could only be justified if it contributed to the major objective of "defense against the Axis, defeat of the Axis." In the event of a British disaster, Latin America was considered the "first line of defense." Consequently, while the United States was building up militarily, they would do what they could to assure the economic defense of the hemisphere. This meant operations aimed at disposing of Latin American surplus products, at preclusive buying of

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<sup>67</sup> Jones and Myers, Documents . . . , 1940-1941, pp. 153-54; C.I.A.A., History, p. 166.

strategic and critical materials, at ensuring Latin American interests in shipping and priorities, and at attempting to solve the problems of Latin American finance.<sup>68</sup> The C.I.A.A. had clearly gotten the word that Lend-Lease meant all-out aid to the Allies and defeat of the Axis.

The C.I.A.A. was also in the thick of a major military and defense project that had begun before the agency was founded. This was the United States effort to rid the Latin American airlines of their Axis ownership, control and crews. This program had already been successful in Colombia with the formation of AVIANCA in June, 1940. The United States next attempted to force the wholly German-controlled SEDTA airline in Ecuador out of business. The plan was to get the United States owned Pan American-Grace Airways (Panagra) set up, with Ecuadorean Governmental permission, as a line in direct competition with SEDTA.<sup>69</sup>

The purging of SEDTA became more urgent in May, 1940 after it became known that SEDTA had applied for a permit to establish service from Ecuador to the Ecuadorean-owned Galapagos Islands. These islands were a strategic

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<sup>68</sup> C.I.A.A., History, pp. 9, 167.

<sup>69</sup> Hull to Minister in Ecuador (Long), May 14, 1940, Foreign Relations, 1940, V, p. 832.

interest of the United States because their location commanded the Pacific entrance to the Panama Canal. The United States was determined that no potentially hostile airline should have landing rights there. Consequently, an elaborate plan was worked out to strangle SEDTA by superior service. In June, President Roosevelt authorized the loan of funds to Panagra to set up a competing line that would use more modern equipment and give better service.<sup>70</sup>

After long delays brought about by the necessity of finding a solution that was compatible with the political and economic aspirations of the Ecuadorean Government and to the economic hopes of Panagra as well as of insuring that the latent hostility between Ecuador and Peru would not be helped or hindered by a new airline, permission for the new airline was granted by Ecuador in October. Although SEDTA sought to arouse Ecuadorean public opinion against Panagra, they failed, and the competing airline began operations on November 15, 1940.<sup>71</sup>

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<sup>70</sup>Welles to Roosevelt, June 10, 1940, Official File 563; Roosevelt to Welles, June 17, 1940, ibid.; Conn and Fairchild, The Framework . . . , p. 242.

<sup>71</sup>Hull to Long, July 6, 1940, Foreign Relations, 1940, V, p. 839; Long to Hull, October 14, 1940, ibid., p. 845; Long to Hull, November 14, 1940, ibid., p. 849. It took some time for this policy to be completely successful as SEDTA held on despite mounting debts until September, 1941 when Ecuador requisitioned its two remaining planes. Probably SEDTA's problems in getting aviation gas, which the United States had restricted, did as much as anything to cause the downfall of the company.

The elimination of German aviation from Colombia and the competition and beginning of the elimination process in Ecuador<sup>72</sup> were great diplomatic achievements that helped bring more security to the Panama Canal area. However, these were only the barest beginnings of the much larger goal of eliminating all Axis-owned and operated airlines from South America. To do this would require a much more systematic aviation policy than the one being followed in late 1940. Problems had arisen both because there was divided authority among the various government agencies concerned and because funds which were needed to replace the Axis airlines, if they were successfully eliminated, were lacking. What was needed was a single adequately financed governmental agency which could be used to send technical assistance and financial aid to countries that were attempting to eliminate Axis airline operations.<sup>73</sup>

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<sup>72</sup>The United States signed an agreement for a Naval Mission with Ecuador in December, 1940. Because it was so desirable to have a mission "in that strategically located country," the United States agreed to pay the difference between what the mission members' United States salary was and what Ecuador paid. Perhaps this was a reward for Ecuador's help in the SEDTA case. See Welles to Roosevelt, January 18, 1941, Official File 563.

<sup>73</sup>Conn and Fairchild, The Framework . . . , p. 243; Burden, pp. 70-71.

The C.I.A.A. as a whole and especially Mr. Rockefeller were directly involved in the search for a new aviation policy. Rockefeller discussed the problem with General Marshall in November, and then had a survey of the airline problem made as a basis for future action.<sup>74</sup> The study was completed on December 30, and shortly thereafter Rockefeller sent a confidential memorandum to the President setting forth his views on the situation. He saw the Axis airlines as a serious threat to the security of the United States because of their control of strategic sites and communications, and he called for an immediate program to replace these airlines with new operations under United States supervision. To organize and direct the program he wanted a committee set up that would include the Chairman of the Civil Aeronautics Board, representatives of both the Secretary of State and the Secretary of War, and Rockefeller himself.<sup>75</sup>

This plan received the support of the War Department, but its mechanics apparently did not satisfy President Roosevelt. He directed that further discussions be held among all interested governmental agencies. After more discussions the Army Department drafted a general

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<sup>74</sup>William A. M. Burden of the Commerce Department made a longer study in the spring of 1941. It was later published as The Struggle for Airways in Latin America.

<sup>75</sup>Rockefeller to Roosevelt, January 22, 1941, Official File 813-B.

aviation policy that received the President's approval in early March, 1941. This new policy was followed until the Axis airlines were eliminated. In large measure, the new policy invited the monopolization of South American air traffic by Pan American Airways. The United States Government promised to oppose the establishment of service of any other United States airline south of Mexico City. In return, Pan American was to be used as a semi-official arm of the Government in the fight against the Axis Airlines.<sup>76</sup> The Colombian precedent was to be followed. That is, Pan American would use the help of the State Department and the acquiescence of the various South American countries to establish new companies jointly controlled by Pan American and local-national ownership. They would compete with the Axis controlled lines and force them out of business.

By April, 1941 everything had been approved by the President, and a new agency had been set up to carry out the plan. The new agency was located in the Defense Supplies Corporation, a subsidiary of the Reconstruction Finance Corporation. Its name was the American Republic Aviation Division, and it had an initial budget of \$8,000,000 from the President's Emergency Fund to carry

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<sup>76</sup>Conn and Fairchild, The Framework . . . , pp. 243-44.

out its anti-Axis financial activities. It was to make technical and financial assistance available to any new airlines to make sure that essential transportation services were kept up despite the hoped for elimination of the Axis airlines.<sup>77</sup>

This was the way the matter rested by April, 1941. In its wish to keep the friendship of these South American Countries at the same time it was trying to eliminate their Axis-controlled airlines, the United States Government had taken an unusual step. They gave Pan American Airways a monopoly of service in return for actions aimed at ridding the hemisphere of the potential danger of these enemy airlines. These plans would not easily be put into practice unless all parties concerned were willing to cooperate. Pan American would have to do as told by the State Department. This would be somewhat hard to take by the heretofore independent officials of Pan American. However, since the Government promised to pay their expenses and since their cooperation would increase their monopolistic position, little trouble was anticipated. The South American countries with Axis-controlled airlines posed an even more difficult problem. Often their citizens were quite satisfied with the

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<sup>77</sup>Burden, p. 71; C.I.A.A., History, p. 28; Conn and Fairchild, The Framework . . . , p. 244.



airline service they were receiving. To be forced to get rid of these lines, seemingly on order from the United States, would raise a great political outcry and could lead to pro-Axis and anti-Yankee demands. Discussions with the South American Governments in question would have to remain quietly discreet, and plans would necessarily have to receive the whole-hearted support of the governments.<sup>78</sup>

The United States found itself in many other extremely ticklish situations in late 1940 and early 1941. One of the most complicated, difficult, and significant of these was the negotiations between Panama and the United States over additional base sites to help protect the Panama Canal. The Canal was the number one defensive problem of the United States in Latin America, and it was expected to be the most likely target for attack in case of war. The Axis Tripartite Pact of September 27, 1940 re-emphasized the significance of the Canal and led to a new diplomatic surge for base site negotiations. According to the Agreements signed between the two countries in March, 1936, the defense of the Canal was a joint responsibility. Therefore, it was the intention of the United States Government to get Panama to carry out this joint

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<sup>78</sup>This problem will be concluded in Chapter V.

responsibility by leasing additional defensive base sites, as needed, to the United States.

The United States military authorities in the Canal Zone had been urging negotiations about this matter since November, 1939. But, it was not until July, 1940 that the War and State Departments agreed upon a draft lease to be presented to the Panamanian Government. The question of base sites was heavily involved in politics in Panama, and the lame duck administration of President Boyd was reluctant to become involved. Consequently, discussions held in August, 1940 came to nothing, and they were suspended until the new President, Arnulfo Arias, came into office on October 2.<sup>79</sup>

The new President of Panama was looked upon with some foreboding by the Roosevelt Administration. His official associates included a number of people who were reported to be pro-Nazi. He had formerly been Panamanian Minister to Rome, and liberals claimed that this had swung him over to an admiration of Axis ways. His debut as President was also unpromising to United States interests, since he complained in his inaugural address that the United States had illegally occupied the Rio Hato airfield

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<sup>79</sup> Welles to Ambassador in Panama (Dawson), July 3, 1940, Foreign Relations, 1940, V, p. 1072; See also footnote number three, ibid., pp. 1072-73.

and other defense sites without waiting for an agreement with Panama's Government.<sup>80</sup> There was also a rumor that a deleted part of the speech contained the threat that, if the United States did not follow Panamanian laws, Panama might make concessions to some unnamed countries. This was interpreted by Ambassador Dawson as a reference to the Axis.<sup>81</sup>

Ambassador Dawson did not let these rumors deter him from re-opening the base site negotiations. On October 11 he sent a United States draft of a lease, complete with the 71 additional defense sites needed, to the Panamanian Minister of Foreign Affairs. He emphasized the urgency of the matter and requested that he and General Van Voorhis, the commander of the Canal Zone, be allowed to meet with President Arias. The meeting was finally held on November 9. In it President Arias said that his Government would cooperate in the defense of the Canal and in hemispheric defense. Nevertheless, when the discussions turned from generalities to specifics, he began to balk. Both sides obviously tried to get the

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<sup>80</sup>The Rio Hato area had previously been leased by the United States Army from a private firm and with the knowledge of the Panamanian Government. By October, 1940 a large airbase was being constructed there.

<sup>81</sup>Langer and Gleason, The Undeclared War, p. 149; Wright, The Department of State Bulletin, August 11, 1952, p. 214.

greatest advantages at the least cost. President Arias also had to satisfy internal Panamanian politics. Consequently, he pointed out some of the possible negative results to Panama of the United States plans. He said that so many dispersed bases would create many more targets in war time and that military highways would facilitate smuggling. He also believed that the United States wish for a 999 year lease was ridiculous as he was loath to commit succeeding administrations to something he signed during his term of office. The implication of the whole meeting was that Panama would cooperate only when it got substantial concessions from the United States that would make the Arias Administration look good in the eyes of the Panamanians.<sup>82</sup>

During November and December a long list of proposals were sent to President Arias and a long list of counter proposals and complaints were returned. Arias believed that the United States wanted and needed the additional bases so badly that ultimately Panama would receive very substantial financial concessions. He even proposed the tying-in of a settlement of Panama's foreign debt owed United States citizens with payments for the

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<sup>82</sup>Wright, The Department of State Bulletin, August 11, 1952, p. 214; Memorandum of Conversation (Dawson), November 9, 1940, Foreign Relations, 1940, V, pp. 1076-79; Also see, footnote three, ibid., p. 1076.

proposed base sites. Despite inability to obtain an agreement, Ambassador Dawson remained optimistic at the end of the year. He believed that Panama was "prepared to yield to the inevitable," and that, rumors to the contrary, President Arias and his Administration were becoming more friendly toward the United States. Once the key was found to satisfy Panama's aspirations in a modest way, he believed excellent relations would result.<sup>83</sup> Nevertheless, until this was done the United States hemispheric defense policy faced a real emergency.

The year ended with President Roosevelt's "Arsenal of Democracy" speech, and shortly after the new year began Roosevelt gave his "Four Freedoms" speech. These speeches referred to the seriousness of the world situation and to the determination of the United States to aid the Allies and defend itself from aggression.

Ambassador Dawson referred to these speeches in a personal interview with President Arias on January 7, 1941. Despite Dawson's emphasis on the urgency of providing for the defense of the Canal, as well as on the unfavorable publicity that the United States press was publishing about Panama, Arias continued to balk until terms more

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<sup>83</sup>Dawson to Hull, December 30, 1940, Foreign Relations, 1940, V, pp. 1087-89; Dawson to Hull, December 9, 1940, ibid., p. 1099.

favorable to Panama were offered. Once this was done, he assured Dawson that matters could be arranged rapidly and that the Army could undertake preliminary preparation work on the defense sites without waiting for the formalities of a lease. He then mentioned a possible concession from the United States which involved the improvement of Panama's national highway. This was intimated to be the opening wedge that would allow the settlement of the base sites question. In further discussions held throughout January other more tangible and greater benefits were mentioned as a quid pro quo for settlement.<sup>84</sup>

Throughout the January discussions both Panamanian and United States officials referred to the 1936 Treaty, recognizing that it obligated Panama to provide additional sites required for the defense of the Canal. Nevertheless, despite professions by the Panamanian Ambassador that the United States Government could count on the loyalty and support of the people and Government of Panama, negotiations were not proceeding rapidly toward settlement. By the end of January, Roosevelt's patience had worn out, and he directed Under Secretary of State Welles to request that, because the world situation was grave, Panama should immediately make available the requested defense sites and

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<sup>84</sup>Dawson to Hull, January 7, 1941, ibid., 1941, VII, p. 415; Memorandum by Welles, January 24, 1941, ibid., pp. 419-20.

agree to the compensation for them. After Panama had complied with the Treaty obligations then the United States would consider Panama's other requests for assistance and compensation. The Panamanian Ambassador was astonished and argued against the plan at great length mentioning practically every reservation that had been brought up since negotiations began. Ultimately he played Panama's economic ace, and demanded that in return for the concessions the United States advance to Panama all the canal annuities for the next fifty years. These were to be used to pay the United States holders of Panama's defaulted bonds. Welles rejected this plan, and reiterated how Panama was the most prosperous of the Latin American Republics due to United States material help and how the Treaty of 1936 was a reciprocal one.<sup>85</sup>

There the matter rested except for ineffectual negotiations until February 18 when President Roosevelt requested that Panama transfer the needed tracts of land to the United States "at the earliest opportunity."<sup>86</sup> Tremendous diplomatic pressure was building up, and it could have caused ill-will in the other Latin American Republics had it become a widely discussed political issue.

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<sup>85</sup>Memorandum by Welles, January 31, 1941, ibid., pp. 421-23.

<sup>86</sup>Hull to Ambassador in Panama, February 17, 1941, ibid., pp. 428-29.

Despite the explicit provisions of the Treaty of 1936, nationalistic public opinion could have jumped on these negotiations as examples of old style Yankee imperialism. That this did not happen speaks well for both the secrecy of the details of the negotiations and the realization among Panamanian officials that a strengthened Canal was vital to their safety also.

President Arias' immediate reaction to this massive pressure was to resign, but he reconsidered. Diplomatic niceties were exchanged and the sparring for concessions continued until February 28 when Secretary Hull was informed that President Arias would make the defense sites available without further delay. This was done by Arias on March 5 in a manifesto to the Panamanian nation. However, Arias did this under conditions which were at odds with the wishes of the State Department. This was probably his way of retaliating against the United States knowing that because of the Treaty he had to acquiesce in the transfer. The disagreements were over the length of the lease and the question of who had jurisdiction over civilians in the occupied sites. Because of these unsolved grievances the Roosevelt Administration only expressed its pleasure that the sites could be occupied and then began preparations to move in thinking that the differences over details could be



worked out later. By April 3, 1941 the sites were occupied by United States personnel.<sup>87</sup>

With the occupation of the sites the tough negotiations had only begun. They would go on for much of the rest of 1941. However, tangible results had come from the high pressure policies of the Roosevelt Administration. The United States had gotten its way by insisting upon its treaty rights while Panama could only hope that the future would bring United States compensation and concessions.<sup>88</sup>

The problems with the Arias Administration had come about despite the Treaty of 1936. Panama was not the only place where the United States wanted bases, but the State Department recognized that sensibilities over national sovereignty would practically preclude the United States occupation of bases in South America. Nevertheless, the United States wanted to insure that bases would be available if needed. This brought about a series of discussions in 1940 between Army and Navy officers of the United States and their counterparts in Latin America

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<sup>87</sup>Conn, Engelman, and Fairchild, Guarding the Hemisphere . . ., pp. 344-46; Langer and Gleason, The Undeclared War, p. 612; Wright, The Department of State Bulletin, August 11, 1952, p. 214; Dawson to Hull, February 28, 1941, Foreign Relations, 1941, VII, p. 435; Dawson to Hull, March 5, 1941, ibid., pp. 435-36; Hull to Dawson, March 6, 1941, ibid., pp. 438-39.

<sup>88</sup>United States relations with Panama will be concluded in Chapter V.

over what the Latin American countries would do in return for pledges of United States assistance. The second round of these discussions lasted from August to the end of October, 1940. Since the Caribbean and Central American countries were by necessity more closely aligned with the United States, attention was focused on the South American countries.

Before the second round of the staff conversations began, two major decisions were made by the Roosevelt Administration that affected the goals of these conversations. On July 26 the Chief of Staff and the Secretary of War decided upon the Army's basic Latin American objective. It was to bring about better mutual understanding, and it did not include the expectation that Latin American armed forces would be used as allies in case of war. This decision was brought about by necessity and not by choice. It was recognized that the most critical period would be the next twelve months, and during that period, the United States could do very little to build up Latin America militarily because of shortages of modern equipment even in the United States. This was followed on August 1 by President Roosevelt's approval of a Latin American arms policy that corresponded with the basic plan. The major countries of Latin America were to be supplied with only enough arms to fight off an external attack until armed

forces from the United States could arrive. Thus, the staff conversations held from August through October, 1940 were to ascertain the military readiness of the Latin American countries as well as to exchange military information and coordinate defense plans, but their primary purpose was to insure that the land, air, and sea base facilities of the Latin American countries would be available to United States forces if these forces were asked to help put down Axis aggression.<sup>89</sup>

It was this wish for the availability of bases that was to cause the greatest uproar among the most nationalistic and/or pro-Axis groups in South America. Availability was misconstrued to mean the wish to occupy bases before an aggression occurred. This was anathema to most South Americans, and it was the direct cause of a major governmental crisis in Uruguay in the autumn of 1940. This crisis affected United States military relations with all of southern South America.

Repercussions began to be felt by early October when newspaper reports leaked news of the staff conversations then going on. These reports led to internal political controversies between the "outs" and the "ins" in the South American countries and threatened to sabotage

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<sup>89</sup> Hull--Circular Telegram, August 4, 1940, Foreign Relations, 1940, V, pp. 20-21; Conn and Fairchild, The Framework . . . , pp. 178-79. See also Chapter III.

the hoped-for good results of the staff conversations. The feeling that brought about the public controversy was that the United States was seeking agreements that would infringe upon national sovereignty. Knowledge of the Destroyer-Bases deal with Great Britain led people to jump to conclusions and to believe that agreements of this type were what the United States planned for Latin America.<sup>90</sup> This was despite the specific advantage to Latin America proclaimed by the United States that the bases leased from Britain could be used by all the Latin American countries. That agreement was fine with Latin Americans as long as the United States did not try to do the same for their internal bases, and that was what they feared.

On October 14 the New York Times carried a story originating from Buenos Aires that quoted "unimpeachable diplomatic sources" as saying that Brazil, Chile, and Uruguay had agreed to lease bases to the United States.<sup>91</sup> This lead to a rash of unfavorable criticism as well as denials by Brazil, Chile and Uruguay. The story should

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<sup>90</sup>The War Department did push this idea for a time but the State Department opposed it and overruled them.

<sup>91</sup>One can only wonder if this was leaked by Argentine officials who sought to sabotage United States aspirations in South America as well as Uruguayan aspirations for Rio de la Plata bases.

have ended there, but it was used by the "outs" in Uruguay to try to embarrass their Administration in general and Foreign Minister, Guani, in particular. The resulting controversy points out many of the difficulties likely to occur when domestic politics are intertwined with foreign policy, and where both are troubled by rumor. It also brings out the reality of how really difficult it was for the United States to carry out a viable foreign policy aimed at convincing twenty Latin American Republics to follow its lead and give it their support in measures providing for military defense.

President Roosevelt's immediate reaction to the New York Times story was slightly facetious--he said, "I learned a lot for the first time."<sup>92</sup> It soon became apparent that in the case of Uruguay, at least, the problem was much more serious as opponents of Dr. Guani claimed that the Government was sacrificing Uruguayan sovereignty to the North American imperialists. The false inference was that the United States would have exclusive jurisdiction of bases in Uruguay during an emergency. Despite the combined denials of Secretary Hull, Under Secretary Welles and the Uruguayan Foreign Office, the criticism continued and spread. In fact Mr. Welles'

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<sup>92</sup>Franklin D. Roosevelt, "Press Conferences," XVI, October 15, 1940, p. 274.

statement was even interpreted in such a way as to make Dr. Guani appear a liar. Dr. Guani retaliated against the slanderous pressure by re-stating his intention to cooperate with the United States no matter what happened.<sup>93</sup> This gallant move was appreciated by the Roosevelt Administration, but it served only to deepen the political crisis in Uruguay.

On November 22 the crisis came to a head. On that day the Uruguayan Senate passed two significant motions. The first promised rejection of any treaty or convention over bases that diminished Uruguayan sovereignty, and the second censured Dr. Guani. Both came as a complete surprise to United States diplomatic officials who had expected a face-saving compromise. Mr. Wilson, the United States Minister to Uruguay, feared that this would result in a prolonged political conflict that could have serious consequences for the Roosevelt Administration's hemispheric defense policy. Luckily, the President of Uruguay returned to Montevideo that night and let it be known that he regarded the first action of the Uruguayan Senate to be a vote of support for his government's policy. Secondly, he sided with Guani in that he did not ask him to resign. Thirdly, he repeated Uruguay's intention to cooperate with

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<sup>93</sup>Langer and Gleason, The Undeclared War, pp. 154-55; Jones and Myers, Documents . . . , 1940-1941, p. 137; New York Times, November 22, 1940.

the United States and the rest of the American Republics in hemispheric defense. This outcome vindicated the strong stand that Dr. Guani had taken, and the political crisis soon simmered down. Mr. Wilson believed that at worst the Axis received only temporary comfort from the crisis while in the long run Uruguay's professions of unity and friendship strengthened hemispheric defense.<sup>94</sup>

The outcome of the political crisis in Uruguay justified the policy followed by the United States. It also pointed out a major difficulty that the United States had with nearly every Latin American country in the fall of 1940. This difficulty was in convincing the Latin Americans that the United States was not trying to trade money and material for the rights to Latin American bases like in the Destroyer-Bases deal with Great Britain. Once this was understood and once the political opposition to the governments in power were convinced that the "ins" were not selling the country's sovereignty to the United States, the military staff agreements were consummated.<sup>95</sup>

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<sup>94</sup>Wilson to Hull, November 22, 1940, Foreign Relations, 1940, V, pp. 171-72; Wilson to Hull, November 22, 1940, ibid., p. 172; Wilson to Hull, November 23, 1940, ibid., p. 173; Wilson to Hull, November 25, 1940, ibid., pp. 173-74.

<sup>95</sup>Ibid., pp. 14-179, passim; Langer and Gleason, The Undeclared War, p. 157. See also the later section on military relations with Mexico.

The only exception to this general record of success was Argentina which continually rebuffed United States attempts to negotiate an agreement. Still a policy that was successful in nineteen out of twenty cases must be regarded as an overall success, as in each of the other cases, the United States received pledges that were very similar to the goals listed in the conferees' instructions. In some cases these pledges were hedged or qualified. But, except in the case of Brazil, the War, Navy, and State Departments gave their formal approval to them before the end of 1940. Latin American approval was slower in coming as only three governments formally approved the staff agreements before 1941, but the agreements were generally honored during 1941 whether approval had been granted or not.<sup>96</sup>

The State Department did not formally approve the revised staff agreement with Brazil until April, 1941, but this did not imply disfavor with the Brazilian Government. On the contrary, Brazil and the United States continually tried to bring about cordial and close relations during this period. In fact the importance that the United States

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<sup>96</sup>Conn and Fairchild, The Framework . . ., pp. 180-81; See Langer and Gleason, The Undeclared War, for a study that is more detailed in some ways.



held for Brazil's support and friendship deserves a separate discussion.

Since 1939, the protection of the bulge area of Northeast Brazil from anticipated Axis aggression had become the keystone of United States defense policy for the Atlantic coast of South America. Because Brazil concentrated her inadequate military strength in the populous southeastern section of her country, near the Argentine and Uruguayan borders and among the large German, Italian, and Japanese minorities, the 2,500 mile coastline north of Rio de Janeiro was practically defenseless. It was the prime objective of the Brazilian military to rectify this weakness by building up its ground forces. To do this, Brazil was almost entirely dependent on foreign arms and ammunition. The securing of these foreign arms and the question over the role of the United States Army in the defense of Northeast Brazil were the major issues in the fall of 1940.<sup>97</sup>

The United States had offered Brazil some surplus coast defense guns in November 1939, but these and subsequent sales between January and May, 1940 involved obsolete weapons in an unusable condition for which no ammunition

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<sup>97</sup>Conn and Fairchild, The Framework . . ., pp. 265-70. Before the attack on Pearl Harbor, Brazil was much more willing to accept United States air and naval support than ground support as the problem of United States soldiers on Brazilian soil was very much a political question.

was available.<sup>98</sup> Despite the many requests to do something for Brazil and despite General Marshall's urgings, the War Department was able to send only nine six inch coast defense guns to Brazil before February, 1941.<sup>99</sup> Since ammunition was not available from the United States and since Brazil had no facilities to manufacture her own, the guns did nothing to increase Brazil's defenses.<sup>100</sup>

Ironically, the United States was far more successful in helping with the delivery of German arms to Brazil than with sending its own arms. Brazil had ordered arms from the Krupp Armament Company in 1938 and began to receive deliveries after the war broke out in September, 1939. Great Britain permitted two shipments of German arms to reach Brazil through Italy, but once Italy entered the war in June, 1940, the British refused to relax her blockade. Nevertheless, Brazil, without British permission, tried to break the blockade in November, 1940 in order to procure more German arms. As a consequence the Brazilian ship, the Siquiera Campos, was seized by the British. The

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<sup>98</sup>In fact drawings for the ammunition could not even be located.

<sup>99</sup>Only 99 of the 6 inch guns were delivered before December 7, 1941. None of the other types of guns that Brazil purchased were even delivered.

<sup>100</sup>Conn and Fairchild, The Framework . . . , pp. 270-71.

Brazilians then requested that the United States intercede on their behalf in order to get the ship and her cargo released.<sup>101</sup>

The State Department was greatly concerned about this action and put immediate pressure on the British through the efforts of Under Secretary Welles, Ambassador to Brazil Caffrey, and Chief of Staff of the Army George C. Marshall. Oswaldo Aranha, the pro-United States Minister of Foreign Affairs of Brazil, regarded the matter as "highly dangerous" in that the Brazilian Generals would take it badly and that pro-Allied opinion would be diminished. When he heard that the United States was trying to persuade the British to release the ship, he expressed his gratitude and re-emphasized Brazil's determination to follow the continental policy of the United States.<sup>102</sup>

By November 27, General E. G. Dutra, the Chief of Staff of the Brazilian Army and General Goes Monteiro, the

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<sup>101</sup>The Chargé in Brazil (Burdett) to Hull, November 1, 1940, Foreign Relations, 1940, V, pp. 626-27; Burdett to Hull, November 16, 1940, ibid., p. 627; Burdett to Hull, November 22, 1940, ibid., p. 628; Burdett to Hull, November 25, 1940, ibid., p. 631. Great Britain seized the ship because she thought its successful breaking of the blockade would enhance German propaganda. Also, Brazil's payments for the cargo would help Germany.

<sup>102</sup>Welles to Burdett, November 25, 1940, ibid., pp. 629-31; Burdett to Hull, November 25, 1940, ibid., p. 631; Burdett to Hull, November 26, 1940, ibid., pp. 633-35.

Brazilian Minister of War, had praised the United States, and let it be known that if the United States went to war Brazil would be "compelled to follow." On the same day the word of the ship's seizure began to be released to the Brazilian people. Aranha planned to let the news out little by little so that public opinion would remain pro-British. When the story came out, it played down the British action and left a door open for the British to retreat gracefully by releasing the ship. In a Foreign Office inspired plan, on November 30, a leading Brazilian newspaper published a moderate but firm editorial that emphasized Brazil's neutral but friendly attitude toward Great Britain and insinuated that, in order to preserve this, Britain had better allow the ship to sail.<sup>103</sup> But pressure was building for a showdown that could seriously threaten Anglo-Brazilian relations. This obviously was not in the national interest of the United States so the State Department redoubled its efforts to find a solution.

Sumner Welles discussed the matter with Lord Lothian, the British Ambassador, on December 3. The basic position of the United States according to Welles was that the incident was embarrassing since the United States was at the moment doing everything it could to permit the

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<sup>103</sup>Burdett to Hull, November 27, 1940, ibid., pp. 638-39; Burdett to Hull, November 30, 1940, ibid., p. 640.

British to obtain armaments in the United States while at the same time the British were making it impossible for the Brazilians to obtain the armaments they needed for their own defense. This boded ill for the United States policy of continental solidarity. Lord Lothian then promised to do everything he could to persuade his Government to "counteract the effect already created." However, it was soon apparent that the British Government remained adamantly against breaking the principles of their blockade unless Brazil made balancing concessions. These were to be written, and they involved the clamping down by Brazil on Axis-owned shipping and airlines and the promise not to attempt to break the blockade again.<sup>104</sup>

The United States was now directly in the middle of a dispute between two important allies. The aim of its diplomacy was to prevent a breach in Anglo-Brazilian relations by finding a way in which one or both sides could gracefully back down and end the crisis. The State Department evidently believed either that it had more leverage with the British or that the Brazilians were in the right because more pressure was applied on the British than on the Brazilians. Further considerations for United

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<sup>104</sup>Memorandum by Welles, December 3, 1940, ibid., pp. 641-42; Chargé in Great Britain (Johnson) to Hull, December 5, 1940, ibid., pp. 644-45; Johnson to Hull, December 6, 1940, ibid., pp. 645-47.

States actions were the propaganda that the Germans were making over the seizure and the rapid rise of anti-British feeling prevalent among all classes in Brazil. In fact, General Goes Monteiro threatened that his country would take over the huge British owned railway, telegraph, banking, and packinghouse interests in Brazil and harass Britain in other ways unless a satisfactory solution was reached.<sup>105</sup>

Relations between Brazil and Great Britain continued to deteriorate. The State Department put even more pressure on Great Britain by mentioning that their request for concessions by Brazil had created resentment because of the manner in which it was presented. Brazil had refused to take independent action against German and Italian ships in her ports saying that this was much too serious for a unilateral and hurried decision, especially one under foreign pressure. Brazil wanted to consult with the other American Republics before taking action. Since the State Department knew this was not possible without a long delay in which Anglo-Brazilian relations were sure to deteriorate further, it backed the Brazilian position completely and asked Great Britain to "make possible the

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<sup>105</sup>Burdett to Hull, December 10, 1940, ibid., pp. 650-51; Burdett to Hull, December 11, 1940, ibid., pp. 651-52.

speedy release of the Siquiera Campos." This was done within a few days.<sup>106</sup>

It was clear that United States pressure was decisive in getting the British to back down and release the ship. This was understood by the highest officials in Brazil although the Brazilian press did not immediately carry the story that way.<sup>107</sup> Nevertheless, the State Department's action in this case was an intelligent move that enhanced hemispheric relations and possibly saved Anglo-Brazilian relations from being broken. The British lost a little face, but they could have lost much more. The Brazilians gained a great diplomatic victory and knew it was because of United States support. The big gain however, was for hemispheric solidarity as Brazil and the other American Republics applauded United States support against the British. It was fortunate for United States policy that Brazil received this support because their wish for United States armaments would not be satisfied for some time yet.

The other major topic of discussions with Brazil in the fall of 1940, the role of the United States Army in case of an Axis invasion of Northeast Brazil, also led

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<sup>106</sup>Burdett to Hull, December 14, 1940, ibid., pp. 653-54; Hull to Johnson, December 15, 1940, ibid., pp. 655-56; Johnson to Hull, December 18, 1940, ibid., p. 657.

<sup>107</sup>Burdett to Hull, December 21, 1940, ibid., pp. 657-58.

to a number of difficulties. General Goes Monteiro visited the United States in October, along with more than half of the other Latin American military chiefs, as a guest of General George C. Marshall. The purposes of the visit were to impress these Latin American military leaders with United States military preparations and to establish personal acquaintances that would be valuable in case of emergencies. According to subsequent reports from Latin America this sort of an approach was valuable in helping bring about mutual understanding and solidarity.<sup>108</sup>

After the other military leaders left Washington, General Goes Monteiro remained and conferred directly with General Marshall and his advisors about a staff agreement. This staff agreement was decided upon on October 29, and with some modifications it was finally accepted by both governments. In its final form this agreement contained mutual pledges of armed assistance against aggression by non-American powers. Underlying the agreement was the understanding that the United States would materially assist the expansion of Brazil's defense force and the strengthening of Brazilian defenses. Navy Staff Conversations paralleled the Army ones, and they also came to satisfactory agreements which allowed United

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<sup>108</sup>Conn and Fairchild, The Framework . . . , p. 185.



States Naval forces to operate discreetly in the Natal area of Brazil and around the outlying islands before any actual attack from abroad. However, no mention was made in either agreement for the United States occupation of bases in the northeastern part of Brazil. Although this touchy political and military question was not solved then, these staff agreements were used as the guide for later military cooperation with Brazil.<sup>109</sup>

The United States wishes for some sort of base rights were inherently tied up with the question of the supply of arms and internal Brazilian politics. Internal politics made it difficult if not impossible for the Brazilian Government, despite the Axis threat, to agree to let the United States lease bases in Brazil. When arms did not come as fast as the Brazilians hoped or expected, this only added to the difficulties.

In January, 1941, General Amaro Soares Bittencourt, First Sub-Chief of the Brazilian General Staff, was sent to Washington to work out an agreement for the supplying of armaments to Brazil. Sumner Welles assured him that the State Department would arrange for credits for as

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<sup>109</sup> Ibid., pp. 277-78. One should not over-estimate the importance of these agreements since many of the things the United States wanted would not be granted until after Pearl Harbor.

much war material as the Army thought it could release to Brazil. This promise was illusory because, when Amaro discussed the problem with General Marshall, he was told that although the Army would do everything it could to help Brazil get modern armaments, little could be done in the immediate future. The only concession that Brazil got was that it would receive preference over the other Latin American nations.<sup>110</sup>

The main significance of these negotiations lay not in their accomplishments but in their effects on Brazilian-United States relations. The United States now knew exactly what Brazil wanted, and Brazil in turn was under no illusion as to when the response to its requests would be forthcoming. It was good that the air had been cleared as Brazilian hopes, that had risen after previous misunderstandings, were brought back to reality. Cordial relations then continued but a corollary problem remained unsolved. How could the United States insure that Brazil would request armed aid in time to fight off an actual attack? The Roosevelt Administration realized that a token force of United States soldiers in Northeast Brazil would serve as a strong deterrent to attack, but that would necessitate United States bases in Brazil--something that was anathema to most Brazilians.

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<sup>110</sup>Ibid., pp. 279-80.

Negotiations over supplying arms to Brazil serve as a good introduction to the wider problems of arms supply to the other Latin American countries. The United States policy in this respect was refined in December, 1940 after the establishment of the Joint Advisory Board on the American Republics. This board consisted of three members from the Army and two members from the Navy, and its duties were to handle Latin American arms requests and to make up a program to be followed for future arms aid to Latin America. The difficulties in carrying out this plan to the satisfaction of the Latin Americans was readily apparent. As of November, 1940 the United States was splitting its arms production with Great Britain on a near fifty-fifty basis. Nothing was left over for Latin America. About the best that could be done under these circumstances was to plan for the future when production would rise and United States and/or British needs would not be so great. Also new legislation was needed from Congress that would authorize the sale of arms, not covered by the Pittman Resolution, to the Latin American nations. This latter problem was solved with the passage of the Lend-Lease Act of March 11, 1941. The formula chosen for the actual dispersal of arms, once they were available, was somewhat complicated, but, in essence, it

meant that there would be no deliveries until January, 1942 at best.<sup>111</sup>

Many elements had to be taken into consideration by the Joint Advisory Board in carrying out its Latin American arms program. The most important of these was the size of the contribution that each Latin American country requesting arms could make to hemisphere and particularly to Panama Canal defense. Rivalries between each state and its neighbors also had to be taken into consideration.<sup>112</sup> Good will could not be purchased particularly when a large allotment to one country and a small one to its neighbor would arouse hate toward the United States and envy toward the country with the large allotment. Therefore, any credits granted to finance arms, whether under the new Lend-Lease Law or through conventional loans, were expected to be repaid. Of course some if not all of this could be paid back through assurances of close collaboration hopefully including the right of the United States armed forces to use Latin American airfields and naval bases.

This Joint Advisory Board policy was based very much on the quid pro quo. It was an intelligent plan

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<sup>111</sup>Ibid., pp. 216-17.

<sup>112</sup>Peru and Ecuador were probably the biggest problems because of their longstanding grievances and hostility.

based on the existing realities of the time although some of its details brought about a great deal of red tape that served to slow down its actions. This, in fact, may have been intentional as the United States could not supply the arms soon anyway, and it would look better to the Latin American Governments to be able to say that their requests were being processed rather than to have to admit to their people that armaments would not be forthcoming for sometime. When some Latin American states were slow to comply with the new rules, this also gave the Joint Advisory Board more time to act on them and provided them with a ready-made excuse for delays.

Brazil remained the focal point of United States hemispheric defense plans because of the anticipation that an attack on the Western Hemisphere was most likely to occur there. However, the fall of France had the effect of directing the United States to take a good look at her northern and southern boundaries to insure that they would be secure. In the case of Canada this led to the Ogdensburg meeting in August, 1940 and the agreement to set up a Canadian-American Permanent Joint Board on Defense. The United States hoped to go even beyond this with Mexico, but recognized that due to past problems this would be a much more complicated and difficult job.

The main difficulties with Mexico were legacies of the past. A history of interventions in Mexico now came back to haunt the United States at a time when Mexican friendship and support were desperately needed. Even if Mexico's revolutionary government could forget the events of the past decades, the two countries were still deeply involved over the Mexican expropriations of United States citizen's property. This was a political question that was fraught with dangers especially for Mexico because uprisings were predicted if the Mexican Government backed down due to United States demands. Mexico also had a small but articulate colony of Germans and German sympathizers known as the Sinarquistas. They did what they could to discredit the Allies and the United States and praise the Axis. With the Mexican Presidential election to be held in the summer of 1940, much damage could be done to internal security by this fifth column and other disgruntled elements within Mexico. The United States Government believed that this was a greater danger to Mexico than foreign attack although the Cárdenas Administration discounted the internal threat.<sup>113</sup>

Despite these dangers to Mexican-United States friendship and security the State Department was gratified

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<sup>113</sup>Memorandum by Selden Chapin, June 11, 1940, Foreign Relations, 1940, V, pp. 137-38.

to learn of President Cárdenas' promise of cooperation. On June 4, Cárdenas had his Ambassador inform Sumner Welles that the United States could count on full military and naval cooperation from Mexico if extra-continental aggression brought the United States into the war. He also promised the use of Mexican territory and Mexican naval bases for United States forces. However, this latter promise was soon to become a matter of controversy and misunderstanding with Mexico because of the interpretation that was placed on it.<sup>114</sup>

Because of Cárdenas' wish to avoid publicity during the political campaign, staff conversations were held in Washington rather than in Mexico City during the summer of 1940. In these conversations both sides expressed their willingness to cooperate but neither went as far as the other wished. Mexico wanted arms and equipment from the United States and credits to pay for them. Arms and equipment might come sometime in the future, but credits were impossible due to the previous expropriations and debts of Mexico. The United States wanted some sort of base rights within Mexico as had been previously hinted by President Cárdenas, but the Mexican General in charge of negotiations refused to be pinned

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<sup>114</sup>Memorandum by Welles, June 4, 1940, ibid., pp. 135-36.

down and spoke only of "full and sincere cooperation." Finally, conditional staff agreements were signed that skirted the Navy Department's major objective--base rights at Acapulco and Magdalena Bay.<sup>115</sup>

Despite the Mexican Government's understanding that base rights had not been agreed to, the War Plans Division interpreted the Mexican General's agreement to inform his government of United States wishes as an agreement to comply with these wishes. Thus, United States military leaders thought that a formal acceptance of the conditional agreements by Mexico would permit the United States to use Mexican bases. This mistaken idea persisted until February, 1941 and may have been one reason for the Mexican Government's hesitancy to ratify the conditional agreements.<sup>116</sup>

During the autumn of 1940 the Navy Department as well as President Roosevelt persistently tried to bring about Mexican agreement to base rights. Apparently Roosevelt first believed that an agreement could be reached with Mexico over bases that would approximate the

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<sup>115</sup>Conn and Fairchild, The Framework . . ., pp. 334-35. Efforts to get the Mexican Government to ratify these agreements were unsuccessful until after the attack on Pearl Harbor.

<sup>116</sup>Ibid., pp. 335-37; Langer and Gleason, The Undeclared War, p. 158.



recently signed British base agreement.<sup>117</sup> His idea was quickly dropped however, due to State Department opposition and to the controversy over military negotiations with Uruguay and the rest of southern South America. Nevertheless, political pressure required Mexican officials periodically to deny that an agreement had been signed with the United States for the use of Mexican bases.<sup>118</sup>

Because the Navy Department could not reconcile itself to the Mexican offer of early November that sought to Pan Americanize the question of bases without giving up Mexican sovereignty over them, Secretary of the Navy Knox proposed a counter-plan. This was to set up a mixed Mexican-American Commission to study arrangements for naval bases as well as to review the heretofore unratified understandings reached in the earlier staff conversations. Out of this and other proposals came President Roosevelt's permission to set up a Mexican-United States Defense Commission similar to the Canadian-American Permanent Joint Board on Defense.<sup>119</sup>

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<sup>117</sup> See Memorandum of Roosevelt to Welles, September 28, 1940, as cited in Langer and Gleason, The Undeclared War, p. 159, footnote number 33.

<sup>118</sup> See for example, Daniels to Hull, October 17, 1940, Foreign Relations, 1940, V, pp. 142-43.

<sup>119</sup> Langer and Gleason, The Undeclared War, pp. 159-60.

Although the new Mexican President, Ávila Camacho, let it be known that he was in favor of this idea, domestic Mexican politics and the threat of a possible armed insurrection by opponents of the President necessitated caution. Therefore, 1940 ended with no official announcement of the new commission. With internal Mexican politics still dictating restraint, President Ávila Camacho believed that it would be better to begin preliminary discussions by using the Mexican military and naval attachés in Washington. These discussions, which revolved around the use of Mexican airfields by United States planes en route to Panama and the acquisition of naval bases, were begun on February 17, 1941 and they continued throughout 1941. Nothing concrete had been settled by the time of the Lend-Lease Act although an agreement on the transit of military aircraft was signed on March 25.<sup>120</sup>

It was obvious that the main roadblock to closer relations between Mexico and the United States was the claims controversy that was still unsettled in early 1941. Until this was decided, both sides would be treading water. Each professed friendship and support for the

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<sup>120</sup>Memorandum by Welles, December 14, 1940, Foreign Relations, 1940, V, p. 145; Official File 66, April 2, 1941; Official 20, April 2, 1941. These discussions finally led to the formal establishment of the Joint Defense Commission on January 12, 1942.

other, but neither could do much tangibly to help the other because of domestic politics. Despite these failures one should not underestimate Mexican support for the United States. One can only speculate what would have happened in a genuine emergency, but according to what Mexican leaders had said in the past, the Roosevelt Administration must have expected nearly total Mexican support.<sup>121</sup>

Despite temporary setbacks such as the failure to come to an agreement with Mexico, much had been accomplished between the summer of 1940 and the passage of the Lend-Lease Act in March, 1941. Since this law included the opening of its benefits to Latin America, other laws that had previously served as roadblocks to United States aid were circumvented. From then on it would be much easier to arrange for shipments of arms and ammunition to Latin America since the question of credits and previous debts could now be sidestepped. The only problem now was the availability of these materials.

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<sup>121</sup>Ávila Camacho to Roosevelt, November 1, 1940, President's Personal File 7075; Cárdenas to Roosevelt, November 27, 1940, President's Personal File 7214; Daniels to Hull, December 3, 1940, President's Secretary's File--Mexico.

Many historians have been impressed with President Roosevelt's watching of the public pulse and his reluctance to get ahead of public opinion. Other historians have claimed that public opinion was often far ahead of Roosevelt's plans. In the case of Latin America in the winter of 1940-1941, it seems clear that despite the many things done to bring about continental solidarity, hemispheric relations were one place where Roosevelt lagged behind public opinion in his programs. Public opinion polls in December, 1940 had shown that at least two-thirds of United States citizens were in favor of defending the hemisphere as far south as Cape Horn against any Axis encroachment. In contrast, The Roosevelt Administration was still talking in terms of sending troops only as far south as the bulge of Brazil. Since much of this reluctance to go any further was probably due to the limitations of United States power, it was good to know that once sufficient strength had been achieved United States public opinion would support any necessary move farther south.<sup>122</sup>

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<sup>122</sup>Hadley Cantril, Donald Rugg, and Frederick Williams, "America Faces the War: Shifts in Opinion," Public Opinion Quarterly, IV (December, 1940), p. 656.

## CHAPTER V

### THE APPROACH OF WAR

With the passing of the Lend-Lease Act in March, 1941, the final pretense of United States neutrality was shattered. From then on the United States did all it could, without hurting its own defense program, to give necessary aid to the Allies. The Administration had designed this bill in the hope that it would allow the United States to participate materially in the defeat of Hitler without becoming directly involved in the war. This would satisfy the majority of the people of the United States who wanted the Allies to be victorious but who were equally adamant against entering the war.

Since the Lend-Lease Act included Latin America in its provisions, two internally conflicting implications were immediately apparent. First, although most Latin Americans favored an allied victory they feared that they would be dragged into the war against their will simply because they were becoming so closely tied to the United States. Thus, while in the short run, they might favor this aid and tie themselves more to the United States because of it, their long run policy might become opposed to

the United States if they feared their national sovereignty would be compromised. Second, the United States would continue to support overtly economic and cultural programs with the Latin American countries. However, in reality, whatever was left of purely economic and cultural policies were now subordinated to their military and defense aspects. This trend had been going on since World War II began, but it was irreversible after Lend-Lease. Thus, Latin Americans could, if they wished, imply that the United States was only using them to further her own national security wishes. Both of these problems would have to overcome if hemispheric solidarity was to endure.

The general result of these difficulties was that throughout 1941 the United States was forced to rely more on bilateral agreements with individual Latin American countries than on multilateral ones. The most significant exception to this general rule was in inter-American economic affairs and dealt with the problem of foreign-flag vessels in American ports.

When the war broke out in September, 1939 over two hundred Axis and neutral ships took refuge in Western Hemisphere ports. During 1940 a small number of these ships were sold to American countries despite British objections that this would help the Germans financially. The rest of the ships remained immobilized in American

ports under the protection of the United States and the other American Republics until late March, 1941. On March 29 the United States Coast Guard received reliable information that the German and Italian crews of these vessels had received orders to sabotage their own ships in order to prevent them from being used by the Allies or by the American Republics. Despite immediate action some damage had already been done before the Coast Guard could put armed guards on the vessels. Consequently, this damage was used as a justification for the assumption of protective custody over all of these vessels in the United States.<sup>1</sup>

Once this was done the State Department quickly assented to a Uruguayan request that all the American countries get together to exchange views on what should be done with the ships in their ports. Secretary Hull suggested that the Inter-American Financial and Economic Advisory Committee, which had been established in Washington by the Panama Conference, be used since it had members from all the American countries and was in continuous

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<sup>1</sup>Welles to Chiefs of Mission in the American Republics except Costa Rica, March 30, 1941, Foreign Relations, 1941, VI, p. 185. The Axis countries probably decided to sabotage these ships because they knew that the United States needed to increase the number of her ships in order to carry out Lend-Lease and that the Latin American countries needed more shipping to carry out their trade.

session. According to the plan this committee would then formulate recommendations to be presented to the respective American Republics.<sup>2</sup>

On April 14, Dr. Guani, the Uruguyan Minister for Foreign Affairs, briefed the various American Chiefs of Mission to Uruguay on his Government's action and appealed for their country's support. This move, which coincided with Administration wishes, was followed by a briefing by Under Secretary of State Welles to the Ambassadors in Washington of the five most important Latin American countries; Argentina, Brazil, Chile, Colombia, and Mexico. They were presented copies of the draft resolution which the United States planned to offer at the next meeting of the Inter-American Financial and Economic Advisory Committee. Welles emphasized the necessity of unanimity lest the Axis propagandists use evidences of disunity to the detriment of all the American nations. He then told the Ambassadors point blank that the United States intended to use the ships immobilized in its own ports to assist Great Britain as well as to help out inter-American trade. The Ambassadors were surprisingly acquiescent and all expressed their approval of the United States plan, but Argentina and Brazil believed that Great Britain would

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<sup>2</sup>Hull to Chargé in Uruguay (Chapin), April 9, 1941, ibid., pp. 185-86.



oppose their using these ships. This had been the previous position of Great Britain since they did not want any of these ships to be of use for the Axis either for their carrying capacity or more likely by their sale price. This fear for British support appeared to be the only possible stumbling block in carrying out the program, and Welles was quick to assure the Ambassadors that the United States would do all it could to get the British to acquiesce.<sup>3</sup>

The same day this meeting was held each of the American Republics was informed by telegram of the United States draft resolution to be offered the Inter-American Financial and Economic Advisory Committee. This draft can be summed up as justifying the acquisition of the vessels because of war shortages and because the ships were needed to promote the peace, security and economic defense of the American nations. Just and adequate compensation was promised but there was no mention of how or when compensation would be paid.<sup>4</sup>

A problem, apparently unforeseen by the United States, quickly came up. Dr. Solf, the Peruvian Minister

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<sup>3</sup>Chapin to Hull, April 14, 1941, ibid., pp. 187-88; Memorandum of Conversation by Welles, April 17, 1941, ibid., pp. 188-89.

<sup>4</sup>Hull to Diplomatic Missions in the American Republics except Uruguay, April 17, 1941, ibid., pp. 191-92.

of Foreign Affairs, pointed out that while Peru would gladly support that part of the United States plan which proposed to use the ships in inter-American trade, Peruvian neutrality laws forbade the aiding of a belligerent, in this case Great Britain, as the United States planned to do. Apparently the United States Government was speaking only for itself when it spoke of aiding Great Britain, as Secretary Hull then emphasized that Peru and any other American Government would have "full liberty of action" in using the ships. This did not immediately clear up the situation because, when the Inter-American Financial and Economic Advisory Committee met on April 22, Argentina, Colombia, and Chile cast dissenting votes. However, by April 26 assurances that Britain would not interfere with the ships and that the ships could be used as each American country wished brought about unanimous approval of the United States resolution.<sup>5</sup>

The matter rested there until President Roosevelt could get Congressional authorization to acquire legally those vessels in United States ports. After this approval

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<sup>5</sup> Norweb to Hull, April 18, 1941, *ibid.*, p. 193; Hull to Norweb, April 20, 1941, *ibid.*, p. 194; Norweb to Hull, April 21, 1941, *ibid.*, p. 195. Hull to Caffrey, April 24, 1941, *ibid.*, pp. 196-97; Hull to Diplomatic Missions in the American Republics except Uruguay, April 26, 1941, *ibid.*, p. 197; Jones and Myers (eds.), Documents . . . , 1940-1941, p. 116.

was granted on June 6, the State Department drew up a tentative plan that aimed at a combined use of the vessels by all the American Republics in a way that would promote the defense of the American economies and the peace and security of the Western Hemisphere. This entailed close inter-American cooperation in trade routes, scheduling, and service, and included a United States offer to run the vessels seized by any nation not accustomed to operating its own merchant marine. This plan was then presented to a special subcommittee of the Inter-American Financial and Economic Advisory Committee made up of those nations who held foreign vessels in their ports.<sup>6</sup>

A possible stumbling block was surmounted in early July when Argentina legally began to acquire German, Italian, Danish and French ships in her ports and agreed to the major British condition that payments would not be made until the war ended. Still, many of the Latin American Governments were procrastinating, and in the meantime the inter-American shipping situation was becoming more critical. The Administration became disturbed at the lack of progress in negotiating for the purchase of these ships. From their own experience they were well aware

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<sup>6</sup>Welles to Chiefs of Mission in the American Republics, June 24, 1941, Foreign Relations, 1941, VI, pp. 198-99; Jones and Myers (eds.), Documents . . . , p. 629.

that the Germans and Italians were doing all they could to delay the conclusion of purchase agreements. Thus, by mid-July, they began to put pressure on the Latin American Governments to put the immobilized ships into service before final agreements with the owners were made. In fact, in Brazil's case, the State Department, while hinting it was doing everything it could, implied that it was becoming increasingly difficult to find shipping space for some essentials of the Brazilian economy, such as oil and coal. Brazil was told even more bluntly that any requests for additional services or even the maintenance of the present services would not be looked on favorably unless these immobilized foreign vessels were put in service.<sup>7</sup>

The United States continued to pressure each Latin American country involved to put these immobilized ships into service immediately. Reactions varied among the Latin American nations but progress was made in late July and early August. Finally, on August 28, the Inter-American Financial and Economic Advisory Committee unanimously passed the United States plan for the effective use in Inter-American commerce of the foreign-flag merchant ships. This agreement called for the immediate

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<sup>7</sup>Chargé in Argentina to Welles, July 3, 1941, Foreign Relations, 1941, VI, pp. 199-200; Welles to Chargé in Argentina, July 10, 1941, ibid., pp. 200-01; Welles to Caffrey, July 23, 1941, ibid., pp. 201-02.

transfer of these vessels to active service. Although more time was needed to get the ships in service and although later operating problems necessitated the establishment of another special commission to alleviate these difficulties, many of the ships were in service by the time of Pearl Harbor.<sup>8</sup>

This was a major triumph for United States foreign economic policy.<sup>9</sup> With the increased amount of ships available for the inter-American trade (originally 230 foreign flag vessels of about 1,275,000 tons had been immobilized but some had been sabotaged) other United States vessels could be diverted to help out Great Britain. It was equally advantageous to the Latin American countries because it alleviated a serious shipping deficiency and allowed a much greater interchange of products among the nations of the Western Hemisphere. The United States had used both the carrot and the threat of the stick in these negotiations and found both useful. The carrot, of course, increased United States imports of Latin American strategic

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<sup>8</sup> Welles to Caffrey, July 29, 1941, ibid., pp. 202-03; Hull to Diplomatic Missions in the American Republics, August 28, 1941, ibid., p. 204; Hull to Armour, November 22, 1941, ibid., p. 205; The Inter-American Financial and Economic Advisory Committee: Handbook, p. 115.

<sup>9</sup> Sumner Welles in The Time For Decision, pp. 212-13, said "Had it not been for the [I.A.F.E.A.C.] inter-American communication and trade would have been seriously handicapped and in many cases altogether interrupted."

materials. Latin America's ability to transport these to the United States was greatly increased by the agreement to use the foreign vessels while needed United States goods could be sent on the return trip.

This problem of the purchase of strategic materials as well as necessary controls over these purchases led to a series of bilateral negotiations with the Latin American countries during 1941. A major United States aim was to get the Latin American countries which produced strategic materials to prohibit their export to all countries except the United States.<sup>10</sup> Combined with this would be a corollary agreement that the United States would agree to buy, through the various agencies of the Reconstruction Finance Corporation, the whole exportable surplus of these materials from each country. What the United States really wanted was for the Latin American countries to pass export control laws such as the United States had done on July 2, 1940 and then to favor the United States with their exports as the United States had done to Latin America.<sup>11</sup>

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<sup>10</sup>In practice, strategic materials could be sent to other American Republics and Great Britain but not Germany, Italy, and Japan.

<sup>11</sup>The United States act of July 2, 1940 was continually expanded to include more kinds of strategic materials until within a year nearly all United States exports required special licenses.

In December, 1940 all of the United States Chiefs of Mission in the American Republics were sent a list of articles and materials currently being restricted from exportation. Despite these restrictions the Chiefs of Mission were informed that every effort was being made to issue licenses to Latin American nations to buy these products. The State Department even allowed the scarcest items to be exported to the Latin American countries at the level of their total prewar purchases from all countries. This meant that the United States was making up deficiencies due to the fact that the European war had cut off some of the normal Latin American sources of supply. Without making specific promises the State Department even agreed to consider sympathetically Latin American requests for quantities of these restricted commodities in excess of their normal purchases. The United States intended to follow this policy throughout 1941 as long as stocks held out and defense demands were given first priority.<sup>12</sup>

By April 1, 1941, the rapid development of the defense program combined with the great increases in demand for many raw materials had led to scarcities. Thus the United States Government specifically requested cooperation from the Latin American nations in order to

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<sup>12</sup>Hull to Chiefs of Mission in the American Republics, December 12, 1940, Foreign Relations, 1941, VI, pp. 149-51.

continue its policy of liberally licensing exports to the other American Republics. Specifically, the United States wanted each country to impose export controls over materials imported from the United States. This would prevent them from being re-exported to unfriendly countries. Their re-export would be forbidden except to other American countries that had similar re-export laws. The quid pro quo was that the United States promised to consider, without specifically committing itself, the purchase of most if not all of the critical and strategic materials produced in the other American Republics. In fact, the State Department wished to carry out a policy of preclusive buying. The United States would have the first opportunity to buy a product, and if negotiations were successful, it would buy the whole supply.<sup>13</sup>

What the United States really wanted was an Inter-American system of export control that would maximize free commerce within the hemisphere while restricting and controlling the exportation of products outside the hemisphere.<sup>14</sup> This would help carry out the dual policy of sending essential United States products to Latin

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<sup>13</sup>Hull to Chiefs of Mission in the American Republics, April 1, 1941, ibid., pp. 151-53.

<sup>14</sup>Exports to Great Britain were not to be restricted. See Hull to Diplomatic Representatives in the American Republics, May 27, 1941, ibid., p. 155.



America in order to fill their needs while preclusively buying Latin American critical and strategic materials essential to the United States defense program. These materials then were to be utilized for the defense of the hemisphere.<sup>15</sup>

Sumner Welles proposed that the Inter-American Financial and Economic Advisory Committee formulate an overall plan for inter-American export control. A subcommittee was appointed to study the matter and to draw up detailed recommendations. This subcommittee quickly went to work and in less than two weeks it made recommendations that were exactly what the United States wanted. Unfortunately, the implementation of these recommendations by all the Latin American countries proved to be impossible. Yet in the long run, many of them did pass export control laws that were similar to what the United States wanted. In the meantime the United States carried on a series of bilateral negotiations aimed at the purchase of the critical and strategic materials of many of the Latin American countries.<sup>16</sup>

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<sup>15</sup>Statement of Welles to I.A.F.E.A.C., June 19, 1941, ibid., p. 156.

<sup>16</sup>Report of Subcommittee II to the I.A.F.E.A.C., undated (late June, 1941), ibid., pp. 159-63.

Since the United States and Bolivia had successfully negotiated a five year tin purchasing agreement in November, 1940, it was natural that these two countries would be the first to carry on a new series of negotiations in 1941 aimed at further United States purchases of strategic and critical materials. The Bolivian Government had been pleased with the tin agreement; consequently, on January 8, 1941 they offered the United States a similar agreement for the entire Bolivian production of tungsten. The Metals Reserve Company and the State Department were very interested in getting this tungsten but problems over the details of the contract soon arose.<sup>17</sup>

The main problem was the purchase price offered by the United States. The average pre-war price had been about nine dollars per short ton, but the war's effect on the strategic value of tungsten pushed the price up to seventeen dollars a short ton on the New York market while the Metals Reserve Company's original offer was sixteen dollars and fifty cents per short ton. Since the Bolivian Government did not own the mining companies, it was in no position to make these interests accept the United States terms. They were holding out for a higher price and were

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<sup>17</sup>Hull to Jenkins, January 28, 1941, ibid., pp. 452-53.

hinting that they had a large prospective market in the Far East. Their pressure was returned by the United States in reminders of what the United States had done for them in the past and what it could do for them in the future. This put the Bolivian Government in the middle, and negotiations became more complicated.<sup>18</sup>

By late March new information received from the United States Minister to Bolivia pointed out the main difficulty in more detail. Price was still the problem, but the main Bolivian opposition was coming from the small tungsten mining companies rather than the large producers as the State Department had thought. The small miners produced about 30% of Bolivia's total tungsten, and they were then selling their portion entirely to Japan at prices as high as twenty-four dollars per short ton--seven dollars per ton above the Metals Reserve Company's highest offer.<sup>19</sup> Since the United States wanted to buy preclusively all of Bolivia's tungsten output, the small miners' opposition would have to be overcome before this could be done.

In early April, after a repetition of a previous United States offer to purchase Bolivia's entire

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<sup>18</sup>Memorandum of Conversation by Feis, March 11, 1941, ibid., p. 453.

<sup>19</sup>Jenkins to Hull, March 22, 1941, ibid., pp. 456-57.

production up to three thousand five-hundred short tons per year at seventeen dollars per short ton, the State Department hoped that the problem was solved. However, within a week confidential information was received in Washington that the Japanese were putting direct pressure on some supposedly influential Bolivians not to sign the contract with the United States. On May 1, the State Department reiterated to the Bolivian Minister in Washington its wish that the contract be signed in light of the "many-sided present effort to contribute to Bolivian welfare" including discussions over lend-lease.<sup>20</sup>

In these same discussions the breakthrough that the Bolivians evidently were looking for came about. The Bolivian Minister was informed that due to the State Department's request the Federal Loan Administrator would increase the purchase price of tungsten to as much as nineteen or twenty dollars per ton. This was a substantial increase considering that early in the negotiations the United States doggedly held on to the original offer of sixteen dollars and fifty cents for a long time before reluctantly raising its offer a measly fifty cents. On May 20, a preclusive tungsten contract was signed and the Bolivian Government guaranteed compliance.<sup>21</sup>

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<sup>20</sup>Hull to Jenkins, May 1, 1941, ibid., pp. 458-49.

<sup>21</sup>Hull to Jenkins, May 1, 1941, ibid., p. 459; Bolivian Minister to Hull, May 21, 1941, ibid., pp. 459-69; Jesse Jones to Roosevelt, June 26, 1941, Official File 87.

This action signaled a large victory for the United States both in increasing friendship with Bolivia and in keeping strategic materials away from a potential enemy--Japan. It also led to further negotiations for Bolivia's antimony, zinc, and lead production and to United States pressure on Bolivia to pass a law that would control its exports. On July 31, 1941 Bolivia did pass an export control law that met United States specifications to sell only to the United States and to other American nations that had similar control laws. This was followed in late September and early October by further agreements that covered purchases by the Metals Reserve Company of Bolivian lead and zinc ores. These contracts also were guaranteed by the Bolivian Government.<sup>22</sup>

Thus, by the time of Pearl Harbor the United States was in almost complete control of Bolivia's tin, tungsten, zinc, and lead production. This was followed on March 18, 1942 by the United States purchase of Bolivia's antimony production. These successes had come about despite the difficulties that were continually apparent due to Bolivia's expropriation of the Standard Oil Company in the late 1930's. Happily the State Department and the Bolivian Government did not let past

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<sup>22</sup> Bolivian Minister to Hull, October 4, 1941, Foreign Relations, 1941, VI, pp. 463-64.

disappointments and present loan difficulties deter them from acting in the interest of continental and United States security.

Negotiations with Brazil for her strategic and critical materials followed the same line as the Bolivian negotiations but did not have the added complications prevalent in Bolivia. However the Brazilian negotiations did include a neat quid pro quo. At exactly the same time that negotiations were being carried out for the purchase of a long list of Brazilian materials, the Export-Import Bank was making arrangements for a twelve million dollar credit to Brazil for arms purchases. The Brazilian Government let it be known that it expected the Export-Import credit in return for the strategic materials sales. On May 13, 1941 the preliminary negotiations for United States preclusive purchases in Brazil were completed, and on the next day the Export-Import credit agreement was signed.<sup>23</sup>

This tentative agreement, which was in essence the final agreement, obligated the Brazilian Government to restrict strategic material exports to the United States. On the other hand the United States was obligated to facilitate the Brazilian purchases of essential

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<sup>23</sup>Caffrey to Hull, May 15, 1941, ibid., p. 532; Caffrey to Hull, May 13, 1941, ibid., pp. 538-40.

materials from the United States and to guarantee that the Metals Reserve or Rubber Reserve Companies would purchase all surpluses not purchased by private United States industries. The strategic materials covered in this agreement included bauxite, beryl, chromite, ferronickel, industrial diamonds, manganese ore, mica, quartz crystals, rubber, titanium, and zirconium. The Federal Loan Agency further sweetened the agreement for the Brazilians by committing itself unilaterally to a floor for prices in order to prevent internal criticism of the Brazilian Government. In effect this meant that the Brazilians did not have to sell at these floor prices and could negotiate for higher prices. But, they were assured, no matter what, that the United States would buy at those prices at least.<sup>24</sup>

Shortly after the agreements were completed, direct action was taken by the Federal Loan Agency to begin purchases from Brazil. The major reason for this relative hurry in changing agreements into action was that Brazil had promised to put its regulation preventing shipments of strategic materials to countries other than the United States into effect as soon as the United States began to purchase Brazilian materials. The result was

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<sup>24</sup>Caffrey to Hull, May 15, 1941, ibid., p. 541; Hull to Caffrey, May 20, 1941, ibid., p. 542-43.

that a special official was sent to Brazil by the State Department and the Federal Loan Agency to become the official United States buyer. He arrived in less than a week, and Brazil's export restrictions went into effect. This eliminated any possibility that Germany or Italy could still make purchases through neutral countries.<sup>25</sup>

The success of these negotiations in May, 1941 led to later United States purchases of other strategic Brazilian materials such as cobalt, tungsten, and nickel ore. Contracts were not signed until after Pearl Harbor, but the Bank of Brazil had committed itself on December 3, 1941 not to sell these products to anyone else. Final approval on the purchase of these three materials was reached on March 7, 1942.<sup>26</sup>

These agreements with Brazil, as those with Bolivia, were mutually beneficial. Brazil now had a guaranteed market for many of her strategic materials thus helping her economy through increased exports. The United States had new sources of strategic materials and had bound Brazil closer to itself economically. Better mutual and hemispheric relations were the result.

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<sup>25</sup>Caffrey to Hull, May 23, 1941, ibid., p. 544-45; Hull to Caffrey, May 24, 1941, ibid., pp. 545-46; Jones to Roosevelt, June 26, 1941, Official File 87.

<sup>26</sup>Hull to Caffrey, November 14, 1941, Foreign Relations, 1941, VI, pp. 548-49; Caffrey to Hull, December 3, 1941, ibid., p. 549; See also footnote 12, ibid., p. 551.



The momentum that was building up due to the Bolivian and Brazilian agreements with the United States was kept up by Mexico. Discussions between Ambassador Daniels and Mexico's Under Secretary of Foreign Affairs were carried on in March, 1941. From the first it was apparent that Mexico saw that it was in her national interest to follow the United States lead on export controls and on the sale of critical and strategic materials. In an informal memorandum in late March, the Mexican Government let Ambassador Daniels know that it would be willing to exercise an export control as soon as it could get assurances from the United States of fair markets for its products. One product that Mexico was particularly worried about was oil since it had discontinued all shipments to Japan in December, 1940 and needed to increase its exports to the United States.<sup>27</sup> Although this question was not definitely settled until the later agreements in November, 1941 on the question of oil expropriation, agreements on the other strategic materials of Mexico were rather quick in coming.

On May 10 the Federal Loan Agency informed the State Department that it was willing to enter into an agreement with the Mexican Government if Mexico would

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<sup>27</sup>Daniels to Hull, March 26, 1941, ibid., VII, pp. 404-05. See a later section of this chapter for a discussion of the oil expropriation settlement.

agree to the United States wishes on export control. This was no problem to the Mexicans. Direct negotiations were begun between two special United States emissaries and officials of the Mexican Government. By June 17, President Roosevelt was confident of a final agreement that would be beneficial to both countries. His hopes were rewarded on July 11 when word was received that on July 15 the Mexican Government would establish its export control system and publish a long list of strategic and critical materials which could only be sold to the United States and other American countries that had similar export control systems.<sup>28</sup> Mexico, thus, became the third major Latin American country to reach an agreement with the United States.

In May the State Department and the Metals Reserve Company also approached Peru about possible purchases of strategic materials if Peru would pass an export control law. The Metals Reserve Company wished to acquire all of the Peruvian production of antimony, tungsten, molybdenum, vanadium, lead, copper, zinc, and bismuth except that needed for domestic consumption, or that sent to other American Republics which had agreed to set up

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<sup>28</sup>Roosevelt to Daniels, June 17, 1941 (Marked personal and confidential), President's Secretary's File--Mexico; Hull to Daniels, May 10, 1941, Foreign Relations, 1941, VII, p. 406; Daniels to Hull, July 11, 1941, ibid., pp. 407-08.

similar export control systems. The Peruvian Government was interested in the United States offer but did not wish to be the first Latin American nation to impose these rather drastic controls. Also, Peru feared to impose an export prohibition of domestic products, such as cotton, especially since contracts had been made for future delivery. Japan was then buying one million dollars worth of Peruvian cotton each month, and the Prado Government feared that stopping this would provoke both Japanese retaliation and internal political difficulties. A further problem that brought about this caution was the fear of internal political reaction due to Peru's acceptance of the "good offices" of Argentina, Brazil, and the United States in its longstanding boundary dispute with Ecuador.<sup>29</sup> Thus long term negotiations appeared likely before there could be any success with Peru.

In late May, the State Department informed the Peruvian Government that it understood Peru's reluctance to be the first Latin American nation to put export controls into effect. However, it also informed them that agreements were then being made with both Brazil and

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<sup>29</sup>Hull to Norweb, May 15, 1941, Foreign Relations, 1941, VII, p. 524; Norweb to Hull, May 16, 1941, ibid., p. 525; Norweb to Hull, May 16, 1941, ibid., pp. 525-26; Peruvian Minister of Foreign Affairs to Hull, May 13, 1941, ibid., VI, pp. 223-25. See also the military relations part of this chapter.

Bolivia and that negotiations had also begun with Argentina and Mexico. The Department further stated that pre-existing contracts with Japan might be filled if they did not involve a large amount of money or cover a very long period of time.<sup>30</sup> Peru now looked on the United States proposals with more favor.

On June 18 the State Department got half of what it wanted. As of that date Peru prohibited the re-export of a long list of strategic raw materials and industrial products. Peru's aim was to wait until the United States agreed to purchase Peru's strategic and critical materials before promising to restrict their export. The Federal Loan Agency took the bait and sent a representative of their subsidiary, the Metals Reserve Company, to Peru to negotiate an overall purchase agreement. By early August negotiations were successfully completed, and Peru issued a decree forbidding further exports of a long list of materials to non-American countries and to American countries not having similar export controls. The State Department then offered to issue general licenses to Peru for purchases in the United States.<sup>31</sup>

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<sup>30</sup>Hull to Norweb, May 24, 1941, ibid., VII, pp. 526-27.

<sup>31</sup>Chargé in Peru (McGurk) to Hull, June 21, 1941, ibid., pp. 529-30; Welles to McGurk, June 26, 1941, ibid., p. 531; Hull to Norweb, July 26, 1941, ibid., pp. 531-32; Norweb to Hull, August 14, 1941, ibid., pp. 533-34.

The successful United States negotiations with Bolivia, Brazil, Mexico, and Peru were a positive achievement in the troubled summer of 1941. The remarkable thing was that, with the possible exception of Brazil, each of the countries had had long, outstanding disputes with the United States Government, yet they fully cooperated in the economic warfare policies of the United States. This was not done for idealistic reasons but for hard economic ones as well as for the wish to help the United States and prevent aid from reaching the Axis. Unfortunately, negotiations with other leading producers of critical and strategic materials were more protracted and difficult, and successes were delayed.

Argentina was the number one problem of the United States in its program to purchase strategic materials and to require export controls. In early March, 1941, the Metals Reserve Company offered to buy at least eighteen hundred tons of Argentine tungsten. The Company was realistic enough to realize that, given Argentina's history of limited cooperation, it would be best to try to purchase this amount without putting a requirement on Argentina to agree to set up export control laws. The Japanese were then buying Argentine tungsten at twenty-two dollars and fifty cents per short ton--a price considerably above what the United States

had been offering to other tungsten producing countries.<sup>32</sup> The Argentine Government had the United States in just the position it wished. In order for the United States to purchase Argentine tungsten, it would have to outbid the Japanese thereby enriching the Argentines.

Argentine-United States relations had been going downhill since the highpoint was reached at the Havana Conference in 1940. Despite United States attempts to aid Argentina economically such as the sixty million dollar Export-Import Bank loan and the fifty million dollar currency stabilization agreement of December, 1940, domestic Argentine politics and instability postponed the legislative action necessary to use these grants. Domestic unrest and Nazi subversion as well as the great Axis victories in the Balkans and North Africa in April and May, 1941 confirmed Acting-President Castillo's determination to steer a course of strict neutrality. This necessitated the tapering off of cooperation with the other American Republics because Argentina did not want to become identified with either side for fear of reprisals from whoever won the war.<sup>33</sup>

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<sup>32</sup>Hull to Armour, March 10, 1941, ibid., VI, pp. 357-58; Armour to Hull, March 13, 1941, ibid., pp. 358-59; Armour to Hull, March 21, 1941, ibid., pp. 359-60. For a comparison see this chapter on Bolivia.

<sup>33</sup>Harold F. Peterson, Argentina and the United States, 1810-1960 (New York: State University of New York, 1964), pp. 405-08.

Argentina's economic troubles had become chronic since the German blitzkrieg. Her export trade had been shattered by Germany's control of Western Europe and the British control of the seas. Normally, Europe had absorbed 75% of Argentina's exports, but after the summer of 1940 only markets in Britain, Spain, and Portugal remained available. As the Nazi's became more successful in sinking Allied ships, available shipping space dropped. For example, the shipping space available for Argentina in the second half of 1940 was only 39% of the first half's total. As a result her total export volume was cut by more than half. Since imports continued near their usual rate, the result was a dangerous trade deficit for Argentina.<sup>34</sup>

The Argentine Government sought other markets and quickly became much more dependent on the United States so that by the end of 1940 the United States was Argentina's biggest supplier although Argentine sales to the United States also rose. This Argentine dependence on the United States had brought about the generous Yankee offers on Export-Import Bank loans and the currency stabilization agreement, but it also accented other actions that exasperated Argentina. Among these were the

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<sup>34</sup>Ibid., p. 411.

combination of trade deficits and debt service that forced Argentina to send fifty-nine million dollars in gold to the United States during 1940. Equally, if not more, important was the domestic political opposition in the United States that aimed at preventing the Roosevelt Administration from purchasing Argentine exports that complemented United States domestic production. Some of the major products that lobbyists in the United States were most adamantly opposed to were hides, wool, and especially meat. Argentine chilled beef had long been restricted by a sanitary embargo because of hoof and mouth disease in Argentina.<sup>35</sup> In reality, this embargo combined with high tariffs practically precluded Argentine frozen and canned beef also. Despite occasional requests by the Roosevelt Administration that domestic interests overcome their myopia in order to see the broader interests of the United States, efforts were singularly unsuccessful in late 1940 and early 1941 to soothe Argentine feelings by buying more of her canned and frozen beef.

By the spring of 1941, Argentina's export crisis had passed, and the shoe was on the other foot. In

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<sup>35</sup>Ibid., p. 411; Bidwell, pp. 67-68.



February, 1941 Argentina revised its exchange control regulations and kept its level of imports at the 1940 level, but its exports shot up rapidly. Increased United States demands for wool, hides, skins, and quebracho for defense reasons enabled Argentina to sell twice as much to the United States in 1941 as in 1940. In fact, with 36% of Argentina's total exports, the United States had become her best customer.<sup>36</sup> Because the United States now needed products formerly not imported from Argentina in any quantity, the Castillo Administration could and would drive a hard bargain for both United States purchases of strategic materials and for consideration of the long-postponed trade agreement between the two nations. The Yankee chickens had come home to roost.

The United States had long been interested in negotiating a trade agreement with Argentina but had previously been unsuccessful. However, Argentina was promised in early 1941 that as soon as Congress had acted on aid to Britain (the Lend-Lease Act), trade agreement negotiations would begin. On March 14, just after the successful passage of Lend-Lease, Secretary Hull formally requested permission of President Roosevelt to begin negotiations on a trade agreement with Argentina. He

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<sup>36</sup>Peterson, p. 412.

noted the probable domestic controversy that would follow the publication of the intention to negotiate, but he emphasized that an agreement would help Argentina, benefit the United States, and be essential to effective hemispheric cooperation. Roosevelt agreed.<sup>37</sup>

Negotiations formally began on May 13 and continued throughout the summer and early fall of 1941 before the trade agreement was signed on October 14. On the surface the agreement appeared to favor Argentina heavily. Using 1940 figures, the United States reduced tariffs on nearly 75% of Argentina's exports to the United States while Argentina reduced rates on only 18% of United States exports to Argentina.<sup>38</sup> However, the agreement was advantageous to both countries because future diversification of commercial exchange was now possible although the war would have to end before this would become apparent. Still, resentments were reduced as discriminatory duties were lowered. The State Department certainly hoped that

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<sup>37</sup>Hull to Armour, January 8, 1941, Foreign Relations, 1941, VI, pp. 387-88; Hull to Roosevelt, March 14, 1941, Official File 366.

<sup>38</sup>Department of State Bulletin, V, Supplement, October 18, 1941, pp. 1-44; Minutes of Final Meeting, October 14, 1941, Foreign Relations, 1941, VI, pp. 400-01; Peterson, pp. 412-13. It should be noted that the opposition of vested interest groups like the cattlemen and farmers of the United States prevented United States trade concessions on grain or fresh beef although the duty on canned meat was dropped from 6 cents to 3 cents per pound.

this agreement would be a prelude to better economic and political relations between the two countries as well as a spur to hemispheric unity and solidarity.

The immediate reaction to the signing of this agreement was favorable in both countries. Both President Roosevelt and Secretary Hull expressed the belief that it would contribute to the prosperity of both countries, but Hull particularly expressed the State Department's hopes when he stated that the agreement would "inevitably promote cooperation between [Argentina and the United States] in other respects." Dr. Ramon Castillo, the Vice President of Argentina, reciprocated these hopes by calling the agreement "an effective demonstration of the best pan-Americanism [sic]."<sup>39</sup> Now the United States looked for evidences that Argentina was coming around more to a position of hemispheric solidarity.

There were some military evidences of this, and one important economic agreement of another nature.<sup>40</sup> The Metals Reserve Company had been trying since early 1941 to secure the preclusive purchase of Argentina's tungsten production and other strategic and critical materials. The quid pro quo was that the United States

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<sup>39</sup> Department of State Bulletin, V, October 18, 1941, pp. 300-01.

<sup>40</sup> See this chapter's later military section.

would continue to supply Argentina with goods and products that were in short supply there. This was what the United States had promised to do for all the Latin American countries.

The main problem was whether the United States should wait until the Argentine Government set up a special organization to supply the Metals Reserve Company or to attempt to buy Argentine tungsten on the open market. Argentina wanted to sell the United States its total exportable production of tungsten but balked at upsetting the freedom of its internal commerce. In this light, Ambassador Armour recommended that the Metals Reserve Company not wait for the Argentine Government to take action but to buy tungsten on the open market so that the Japanese could not contract for it.<sup>41</sup> This was contrary to State Department wishes that a preclusive agreement had to be signed before the strategic material could be purchased.

Secretary Hull proposed an informal reciprocal agreement on April 12 when he informed Ambassador Armour that the State Department was soon going to grant general licenses for the export of certain materials that Argentina needed. He hoped that Argentina in return

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<sup>41</sup>Armour to Hull, April 4, 1941, Foreign Relations, 1941, Vi, pp. 360-61.

would place tungsten on its list of exports for which a special license was required and also insure that the United States could buy at least 75% of Argentina's tungsten production at a reasonable price. He then repeated that a United States liberalization of its export control was not contingent upon Argentina's accession to United States wishes, but this was what he really wanted.<sup>42</sup>

In early May, Dr. Prebisch, the manager of the Central Bank in Argentina, expressed interest in the United States plan that acquired Bolivia's tungsten production, but he clearly wanted a higher price as well as a promise that specific United States exports needed in Argentina would be sent. Negotiations continued throughout May and early June until June 18 when the Metals Reserve Company upped its offered price and made a specific offer to buy the total Argentine tungsten production at a price of twenty-one dollars per short ton. Five days later the United States offered to buy Argentina's total exportable surplus of a large number of other Argentine products such as hides and skins, wool, and strategic minerals other than tungsten. The United States required that all these products had to be sold

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<sup>42</sup>Hull to Armour, April 12, 1941, ibid., p. 362.

only to the United States or to other American Republics that had similar export control laws if the deal was to go through.<sup>43</sup>

Compared to the early successes that the United States had accomplished with Bolivia, Brazil, Peru, and Mexico, it was apparent that the Argentines were in no hurry to sign purchase agreements and were balking at United States terms. The Argentine Government knew Britain and Japan were interested in buying her products and was therefore holding out for the best possible deal. Argentina was hostile toward the United States for many reasons not the least of which was the failure of the United States, because of domestic opposition, to include meat and wheat in the United States offer of purchases. Perhaps as a strategy to overcome this Argentine opposition, the United States and Britain concurrently attempted to present their buying programs.<sup>44</sup> This meant that, if Argentine officials were clever or if the United States

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<sup>43</sup> Armour to Hull, May 9, 1941, ibid., p. 363; Draft Proposal for the Purchase of Tungsten by the United States, June 18, 1941, ibid., pp. 365-69; Department of State to the British Embassy, July 2, 1941, pp. 369-71. By special agreement hides and skins could be sold to Great Britain. By September Britain was treated as one of the American Republics in any purchase agreements on exports.

<sup>44</sup> Tuck to Hull, July 25, 1941, ibid., pp. 371-72.

and Britain did not see eye to eye, it would be possible to jack up the price.

A possible breakthrough that proved to be premature occurred on August 21 when the Argentine Government restricted the export of certain materials. This was exactly what the United States wanted, but unfortunately the Embassy in Buenos Aires soon found out that the Argentine Government, despite its own restrictions, had issued licenses for tungsten exports to Japan.<sup>45</sup> It had the legal right to do this, of course, but this action greatly disappointed the State Department. By this time it must have been apparent that Argentina was waiting for a definitive settlement on its trade agreement negotiations with the United States before any agreements on strategic materials would be made.

After the Reciprocal Trade Agreement was signed on October 14, negotiations over tungsten progressed more rapidly. Ultimately, the Argentine Government agreed to the United States purchase offer of twenty-one dollars per short ton made the previous summer, and on November 27, 1941 the tungsten agreement was signed. Thus, after all its real and imagined troubles with Argentina, the United States on the eve of Pearl Harbor

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<sup>45</sup> Armour to Hull, September 19, 1941, ibid., pp. 372-73.

had just concluded two successful negotiations--a trade agreement and a preclusive buying agreement. The State Department at that time also was pleased that Argentina had agreed to an export control law that should have forbade exports to Axis countries. Unfortunately, in practice, this law had many loopholes. Still, considering the many difficulties between the United States and Argentina much had been accomplished before the United States entered World War II, and in early December the State Department had high hopes that a preclusive purchase by the Metals Reserve Company and Defense Supplies Company of other Argentine products and materials could shortly be agreed upon.<sup>46</sup>

These problems with Argentina were found on a smaller scale in the cases of United States efforts to buy preclusively materials from Chile and Colombia. Regarding Chile, the United States agreed to purchase one-hundred thousand tons of copper through the Metals Reserve Company on December 19, 1940. This agreement, which was divided up so that Chile would be favored with at least 75% of the total, was the direct result of a Chilean plea in August, 1940 that the United States help

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<sup>46</sup> Armour to Hull, October 9, 1941, *ibid.*, pp. 376-78; Armour to Hull, December 2, 1941, *ibid.*, p. 382; Memorandum by Acting Chief of the Division of Defense Materials (Thomas Finletter), December 5, 1941, *ibid.*, pp. 384-87; Peterson, p. 413.



Chile's desperate export situation by a substantial purchase of copper.<sup>47</sup> As negotiations had progressed in late 1940, the United States had become more and more eager to help Chile out. This was mainly because the copper stocks of the United States were dwindling due to national defense and normal civilian uses.<sup>48</sup> This need increased in 1941.

By the middle of 1941 the United States was particularly interested in getting Chile to pass export control laws in return for a preclusive agreement to sell copper and other strategic materials to the United States. In fact, by late June the Metals Reserve Company offered to acquire all the exportable surplus of Chilean copper ores and six other minerals.<sup>49</sup> At this time Chile was still in the midst of a financial crisis and was looking for ways to get higher prices for its exportable mineral surpluses. Consequently, it was not eager to jump at the first United States offer. The matter was further

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<sup>47</sup>The other 25% would be purchased from Peru, Mexico, and possibly other American Republics.

<sup>48</sup>Department of State to British Embassy, January 3, 1941, Foreign Relations, 1940, II, pp. 304-06.

<sup>49</sup>This was the same procedure that was followed with Bolivia, Brazil, Mexico, Peru, and Argentina.

complicated by the anticipated opposition from United States domestic copper firms and their Congressional representatives.<sup>50</sup>

By late July, 1941 when no purchase agreement had been reached, the future looked dim. Lack of available shipping from Chile to the United States caused certain United States companies to threaten to disband their purchasing organizations in Chile. This meant that more of Chile's exports would be available for sale to undesirable countries. As a result Sumner Welles pressed Ambassador Bowers in Chile to try to get the Chilean Government to agree to the Metals Reserve Company's offer of June 28. In the meantime he told Bowers he would urgently work for an improvement in the copper price.<sup>51</sup>

On August 3, Chile tentatively agreed in principle to the United States offer of June 28, but added provisions of its own. They were that in return for the preclusive agreement and the export control law, the United States ought to permit the necessary machinery for a minerals smelter to be sent to Chile and also to

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<sup>50</sup>Welles to Bowers, June 28, 1941, Foreign Relations, 1941, VI, pp. 578-79; Bowers to Hull, June 30, 1941, ibid., pp. 579-80; Welles to Roosevelt, July 18, 1941, Official File 429. Domestic copper firms and their congressional supporters had killed trade agreement negotiations in December, 1939 by their opposition to proposed copper tax concessions.

<sup>51</sup>Welles to Bowers, July 25, 1941, Foreign Relations, 1941, VI, p. 582.

arrange for an Export-Import Bank loan. Domestic politicians in Chile were demanding more benefits from the United States just as domestic copper companies in the United States opposed lowering the copper tax even though United States copper demands were well above the total domestic production. This tentative agreement was undoubtedly helped along by the public notice of the United States on July 18 that it intended to renew trade agreement negotiations with Chile with the possibility that the import tax on copper would be reduced. Nevertheless, negotiations continued through August.<sup>52</sup>

By late August the negotiations appeared more muddled than before. Chile was adamant that copper prices would have to rise before any final agreement, and the Chilean Government sought to pressure the United States by presenting an export tax proposal to the Chilean Congress. A further complication was over a United States-owned electric company which Chile hinted it might expropriate. Sumner Welles was incensed that no agreement had been reached and hinted that these Chilean actions dampened the desires of both United States Governmental and private capital to continue cooperating with Chile.<sup>53</sup>

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<sup>52</sup>Bowers to Hull, August 3, 1941, ibid., pp. 583-84; Welles to Roosevelt, July 18, 1941, Official File 429.

<sup>53</sup>Hull to Bowers, August 29, 1941, Foreign Relations, 1941, VI, p. 588.

Detailed negotiations continued from September to December, but the State Department was not able to satisfy both the copper producers and the Chilean Government. Chile was vehement because the United States had given a general export license to Argentina while Chile had only a limited one. Ambassador Bowers aided with the Chileans because he feared that United States discrimination in favor of Argentina would alienate some staunch United States friends in Chile. More importantly the whole question of a copper tax and how much it should return to the Chilean Government was undecided. By December 8, Laurence Duggan, the Advisor on Political Relations of the State Department, was thoroughly disgusted with the whole matter. He believed the Defense Supplies Corporation was jeopardizing United States relations with Chile because of its "shortsighted attitude" on prices and recommended that the State Department intervene and bring about a final solution.<sup>54</sup>

The Japanese attack on Pearl Harbor caused the United States officials to accede to State Department requests to stop arguing about a difference of only 1/4 cent per pound. As a consequence, the State Department

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<sup>54</sup>Bowers to Roosevelt, October 9, 1941, Official File 303; Bowers to Welles, October 9, 1941, ibid., Memorandum by Duggan, December 8, 1941, Foreign Relations, 1941, VI, p. 594.

persuaded the Metals Reserve Company to acquiesce in a Chilean plan of late November that guaranteed increased revenues to Chile if copper prices rose. The State Department broke with the Metals Reserve Company, the Defense Supplies Corporation, and the United States-owned copper companies in agreeing to Chile's demands. After this Chile was anxious to sign the agreement and did so in early 1942.<sup>55</sup>

The State Department was greatly handicapped in these negotiations with Chile by domestic opposition as well as opposition within the Government. It was fortunate that the agreement was signed at all as the proposed trade agreement with Chile died in late 1941 without ever getting off the ground. Still the purchase agreement was another successful, if delayed, application of the overall policy of tying the Latin American countries to the United States. Nevertheless, it also pointed out that the State Department was very timid in asserting its wishes until after the attack on Pearl Harbor.

In many ways United States negotiations with Colombia for her platinum production paralleled those with Chile. The Metals Reserve Company offered to buy

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<sup>55</sup>Hull to Bowers, December 12, 1941, Foreign Relations, 1941, VI, p. 595; ibid., footnote 88, p. 596.

Colombia's entire production on the same terms offered the other Latin American countries in May, 1941 and quickly received enthusiastic backing from President Santos of Colombia. However, the purchase plan then became mired in technicalities surrounding Colombia's wish for a complicated reciprocal arrangement involving the guaranteed import of strategic materials needed in Colombia. Colombia finally agreed to an export control law in June, but the State Department was not satisfied since loopholes allowed exports to nations other than the United States. The State Department also noted that smuggling was sure to increase since the Japanese and others were prepared to pay six dollars an ounce more for platinum than the Metals Reserve Company.<sup>56</sup>

The United States order freezing Japanese assets in July also had the effect of suspending letters of credit issued by New York banks on behalf of Japanese clients of the Banco de Bogota. The State Department continued to press the Colombians to sell platinum only to the United States, but Colombia was clearly in a difficult predicament with the Japanese. The Japanese would accept nothing but platinum for their silk exports,

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<sup>56</sup>Hull to Braden, May 23, 1941, Foreign Relations, 1941, VII, p. 40; Braden to Hull, May 27, 1941, ibid., pp. 40-41; Braden to Hull, May 31, 1941, ibid., p. 41; Welles to Braden, July 30, 1941, ibid., pp. 46-47.

and these were an economic necessity to some Colombian textile manufacturers. This led the State Department to consider supplying Colombia with silk or more likely some silk substitute like rayon in order to get Colombia's platinum. The crisis over silk blew over quickly as the Japanese quit buying platinum causing a drop in the platinum price below that of gold. Yet no final agreement could be reached with the Colombian Government.<sup>57</sup>

The Metals Reserve Company sent a formal platinum purchase offer in late September but no action was taken by the Colombians for over two months. In the meantime it was apparent that contraband shipments continued possibly through South American countries. The ultimate destination of the platinum was unknown. After Pearl Harbor the State Department was especially anxious to conclude the purchase agreement; further delays occurred because of internal Colombian problems relating to non-governmental owned and mined platinum in Colombia. The impasse was finally broken in early February, 1942 when the Colombian Government issued instructions that all Colombian produced platinum had to be sold to the United

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<sup>57</sup> Braden to Hull, August 24, 1941, ibid., p. 49; Hull to Braden, August 27, 1941, ibid., pp. 49-50; Braden to Hull, September 9, 1941, ibid., pp. 50-51.

States whether it was independently or governmentally owned.<sup>58</sup>

This was a significant, if delayed, victory for the State Department. These negotiations showed how internal problems could delay a contract that both countries wanted even after war interceded. Despite disagreements and disappointments, there was no tension or recriminations involved in the negotiations. Both before and after these negotiations Colombia remained a staunch friend of the United States.

One significant result of the United States program to buy critical and strategic materials in 1941 as well as to increase purchases of other products was the reversal of the exchange crisis that had plagued most Latin American countries during the second half of 1940 and the first months of 1941. This large increase in trade helped tie these countries to the United States and also cut down the number of Export-Import Bank loans. Relative prosperity returned to the Latin American countries during this time, and all could see it was largely the result of the increased United States buying combined with the offer, if necessary, to grant Export-Import or Stabilization Fund loans. By the middle of 1941 United

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<sup>58</sup>Hull to Braden, September 26, 1941, ibid., p. 51; For later events see ibid., p. 55.



States imports from Latin America were running at the rate of a billion dollars a year compared to four-hundred fifty million dollars in 1938 and six-hundred twenty million dollars in 1940. This large increase in trade also helped prevent any Latin American defaults on Export-Import Bank loans. In fact, Latin American finances had improved so much that of the three-hundred twenty million dollars authorized to Latin America as of the summer of 1941 only ninety-two million dollars had been disbursed.<sup>59</sup>

At the same time that these bilateral negotiations for exports of strategic materials were going on, the United States was also seeking to alleviate an oil tanker shortage by controlling the distribution of petroleum products among the American Republics. This plan was to be carried out by the establishment of national oil pool committees in all the American Republics. Its aim was to distribute the reduction in available tanker tonnage in an equal way. The overall United States idea was to set up an efficient oil pool so that, in spite of the reduced tonnage available, basic Latin American requirements could be met.<sup>60</sup> This meant that the competitive commercial oil

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<sup>59</sup> America's United, p. 21.

<sup>60</sup> Hull to Diplomatic Missions in the American Republics, August 30, 1941, Foreign Relations, 1941, VI, pp. 171-73.



interests were to subordinate their rivalry to the interests of national and hemispheric defense.

While the United States waited for replies from the Latin American countries, the overall plan was submitted to a subcommittee of the Inter-American Financial and Economic Advisory Committee. In the meantime the United States put the plan in operation among its own oil companies, and a substantial reduction of duplication, wasted time, and partial loads was quickly accomplished. As favorable replies from the Latin American nations came in, their petroleum distribution facilities were coordinated with those of the United States. Although only six Latin American nations had adhered in whole or in part to the United States plan by October 30, it was a smashing success. The depletion of reserve inventories had been checked, and the tank ships then available were being used with such efficiency that Sumner Welles promised that the current requirements for every American country could be met 100%. In fact, even reserve inventories began to be built up.<sup>61</sup>


This took the pressure off the other Latin American countries to adhere completely to the plan.

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<sup>61</sup>Ibid., pp. 173-84, passim.; See especially Welles to I.A.F.E.A.C., October 30, 1941, ibid., pp. 181-82; See also Hull to Roosevelt, November 6-18, 1941, Official File 56 for a slightly contrary opinion on internal difficulties concerning the oil plan.

Nevertheless, by the end of 1941, twelve of the Latin American Republics were following the plan, and no country complained about either its aims or the method of carrying it out. The overall result was a startling success that emphasized again that the United States was continually carrying out its plan to tie the American countries together and to itself in the aim of hemispheric economic and military defense.

During the time this plan was being set up the United States and Mexico reached a general settlement on all of their outstanding questions. This was the single, most important series of bilateral economic negotiations that the State Department carried on with any Latin American country in the inter-war period. This dispute which centered on the conflict between a number of United States oil companies and the Mexican Government following the expropriation of their Mexican properties in 1938, also included questions on agrarian claims, foreign debts, international waters and other matters. Yet everyone knew that the most difficult negotiations would involve the oil question since this was the biggest hemispheric foreign policy issue in the United States. The United States companies were not anxious for any settlement that did not give them back their pre-expropriation status and provide for damages, and they had some of the more vocal



elements of public opinion on their side. The State Department however, despite some differences in opinion, saw the need for settlement as a capstone for a rapprochement with Mexico needed to carry out Washington's plans for the political, economic, and military defense of the hemisphere.

Negotiations over these claims had been carried on periodically since the expropriation. By mid-1940, after Mexico turned down Secretary Hull's arbitration proposal, while simultaneously announcing a settlement with the defecting Sinclair oil interests, the United States decided to wait until after the Mexican election and change of administrations before pressing negotiations. Sinclair's agreement with Mexico had broken the united front of the companies, but the other companies, particularly New Jersey Standard which had the largest investments, were in no mood for similar settlements which meant giving up their cherished sub-soil rights.<sup>62</sup>

After the election of General Avila Camacho and his inauguration on December 1, 1940 preparations for a settlement were stepped up. A State Department plan for a "global settlement" of claims had been sent to the

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<sup>62</sup>E. David Cronon, Josephus Daniels in Mexico (Madison: University of Wisconsin Press, 1960), pp. 251-52.

Mexican Government early October, and on November 16 the Mexican Embassy replied with a memorandum that covered its minimum bases for a general agreement.<sup>63</sup>

By mid-February, 1941, discussions between the two governments resulted in a memorandum sent by the Ambassador of Mexico to the Department of State that tied in the settlement of all outstanding questions with financial cooperation and continental defense. This fit in with the State Department plan which was to try to get naval and air base rights in Mexico as well as rights to purchase Mexico's critical and strategic materials. It was apparent that the oil controversy was holding up, if not preventing, agreements on these and other matters relating to a "global settlement" with Mexico. Shortly thereafter, Josephus Daniels, the United States Ambassador to Mexico, informed President Roosevelt that Mexico was anxious for a settlement but warned him that "the greed of the oil companies" was "the lion in the path."<sup>64</sup>

Negotiations made substantial progress in nearly all areas of controversy except oil in the spring of 1941.

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<sup>63</sup> Department of State to Mexican Embassy, October 7, 1940 Foreign Relations, 1940, V, pp. 1048-50; Mexican Embassy to the Department of State, November 16, 1940, ibid., pp. 1056-61.

<sup>64</sup> Mexican Ambassador to Hull, February 17, 1941, Foreign Relations, 1941, VII, pp. 371-83; Cronon, pp. 258-59; Josephus Daniels to Roosevelt, March 11, 1941, quoted in Cronon, p. 259.

While these negotiations went on the United States and Mexico made some important corollary agreements such as the reciprocal agreement that the airforces of the two countries could fly over each others territories and use each others airfields. This agreement, signed on April 1, was especially significant to the United States as it now had an air route over land all the way to Panama. An agreement that the United States had exclusive rights to purchase eleven strategic materials from Mexico was negotiated in May, 1941 and finally signed on July 15. The result was that by the summer of 1941 the oil dispute was the chief remaining problem to be overcome in Mexican-United States relations, and the State Department believed with justification that once this problem was solved even closer collaboration with Mexico on defense matters would result.<sup>65</sup>

The basic dilemma for the State Department was whether it should yield to public opinion aroused by the oil companies' demands, or go ahead and negotiate a settlement despite the oil companies' unwillingness to help find a formula that would lead to a solution. At this point a break-through occurred that helped change State Department thinking. The Interior Department's

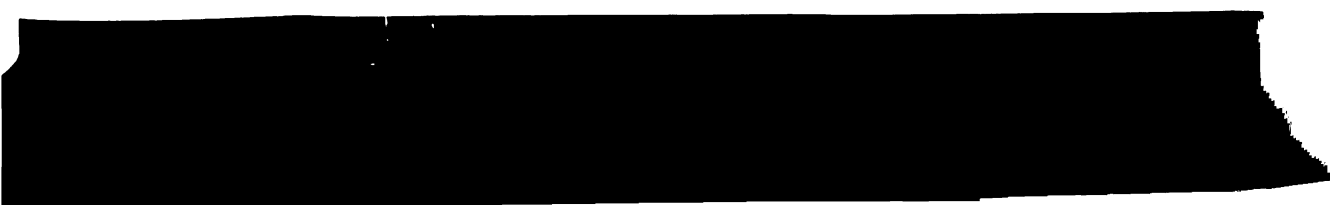
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<sup>65</sup>Cronon, p. 260.

value of the expropriated oil holdings in Mexico at the request of the State Department. In June their estimate was finished, and it showed that the companies' claimed valuations were astronomically high compared to their real value. The companies had originally claimed that their properties were worth four-hundred million dollars, but this survey valued them at a little less than twenty-four million dollars. The already agreed upon Sinclair property was valued at \$10,320,322 and the remaining United States properties were worth only \$13,538,052.<sup>66</sup> Other experts informed the State Department that Standard Oil of New Jersey, the largest remaining United States claimant, had properties worth only fifteen-million to twenty-million dollars at the most. An independent oil man claimed that the same company was entitled to little if anything since not only had investments been returned many times over, but it had written off these properties long before. Therefore any compensation would be a face-saving device. This information embarrassed the State Department because these valuations were very close to what the Mexican Government said the properties were worth. Consequently, the reports were kept secret.

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<sup>66</sup>According to Cronon, pp. 252, 261, Sinclair had settled for about \$13,500,000 (\$8,500,000 in cash plus sales of oil below the market price).





Nevertheless, serious discussions were begun with the Mexican Ambassador to reach an oil agreement.<sup>67</sup>

Mexico was eager for an agreement on oil since the two governments had tentatively agreed on all the other aspects of the "global settlement." Therefore a plan was put forth where one expert from each country would be appointed to examine all data and come up with a total amount that Mexico would pay the oil companies. In early August President Roosevelt approved this tentative oil agreement if Mexico would agree to make a nine million dollar initial payment even before the final agreement on amounts was reached.<sup>68</sup>

When word leaked out about the proposed oil settlement, the expropriated oil companies led by New Jersey Standard raised a howl of protest. Secretary Hull was warned against accepting a "confiscatory" settlement and getting less for United States companies than what British companies might later get. Reporters were briefed by New Jersey Standard on the reasons for the company's recalcitrance, and hints were dropped about a dossier on United States Senators that could be used if necessary to

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<sup>67</sup>Ibid., pp. 260-61.

<sup>68</sup>Mexican Embassy to Department of State, July 22, 1941, Foreign Relations, 1941, VII, pp. 384-87; Cronon, p. 262; Hull, II, p. 1141.

prevent a settlement.<sup>69</sup> This was clearly a final attempt by the company to confuse the issue and to stir up domestic support in order to put pressure on the State Department.

This pressure tugged the State Department one way while Mexican pressure tugged it the other. Secretary Hull personally met with leading Standard Oil executives on September 27 and pleaded for cooperation citing the need for closer economic and defense ties with Mexico due to the threat of Axis subversion in Latin America. However, W. S. Farish, the President of New Jersey Standard, adamantly refused to back down and told Hull his company would rather have the dispute remain unsettled than to compromise on what they considered the vital issue of subsoil rights.<sup>70</sup>

Hull should have realized that he had received the final word from the oil companies, but he continued to meet with them throughout October and early November. In the meantime, the Treasury Department had audited New Jersey Standard's tax records. These showed that the company's own book value of its Mexican properties was very close to the earlier valuations of the Geological

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<sup>69</sup>Cronon, p. 263.

<sup>70</sup>Ibid., pp. 264-65; Hull, II, p. 1141.

Survey.<sup>71</sup> This should have been enough to make Hull immediately sign the tentative financial agreements with Mexico, but it did not. The whole issue was becoming embarrassing to the United States Government because the Mexican Finance Minister was impatiently waiting in Washington in anticipation of signing the agreements.

Ambassador Daniels returned to Washington carrying a message from President Avila Camacho who asked that the agreements be signed soon because the delay, after all the published optimism, was also embarrassing the Mexican Government. When Daniels returned to Mexico in early November he found Mexican resentment, over Hull's inability to sign the agreement, building. And in Washington, Finance Minister Suarez threatened to go home unless the agreement was signed soon.<sup>72</sup>

Hull made another attempt to get New Jersey Standard to accept the oil agreement on November 13, but he was turned down flatly despite the threatening international situation. The oil companies clearly were putting their own selfishness before the national interest. When Hull still procrastinated, Ambassador Daniels, who had just returned to Washington appealed directly to

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<sup>71</sup>Cronon, p. 263.

<sup>72</sup>Ibid., pp. 265-67.

his old friend President Roosevelt to break the impasse. This was in response to a plea from Avila Camacho, but it fit in with Daniels' beliefs also. Roosevelt agreed to act if Hull could be convinced so Daniels went to see him on November 18. According to Laurence Duggan this tipped the scales, and Hull changed his mind. The result was that on November 19, 1941 the United States and Mexico signed the long awaited "global settlement" of claims.<sup>73</sup>

These agreements involved concessions on the part of both governments. Mexico promised to pay the United States forty-million dollars over a period of fourteen years to settle all general and agrarian claims. On the oil claims both governments agreed to appoint an expert to determine the "just compensation" within five months. In the meantime Mexico agreed to pay nine million dollars as a down payment. In return for these concessions the United States agreed to spend up to forty million dollars to stabilize the Mexican peso, to purchase six million ounces of newly mined Mexican silver a month, and to begin negotiations for a trade agreement. In addition the Export-Import Bank agreed to accept Mexican highway bonds as security for a thirty million dollar loan to

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<sup>73</sup>Hull to Chargé in Mexico (McGurk), November 18, 1941 Foreign Relations, 1941, VII, p. 396; Cronon, pp. 267-68; Hull, II, p. 1141.

Mexico for highway construction and also to consider other Mexican requests in the future.<sup>74</sup>

The agreement was a great victory for Pan-Americanism and hemispheric defense as well as for Mexican-United States relations. Both the Mexican Government and the Mexican press reacted enthusiastically to this confirmation of the Good Neighbor Policy. Avila Camacho informed President Roosevelt that the agreements marked a "point of departure . . . for a fuller understanding between Mexico and the United States."<sup>75</sup>

Rapprochement with Mexico had necessitated a practical United States underwriting of the payments, but, in the interests of solidarity in the trying days of November, 1941, this was both necessary and proper. In fact, Secretary Hull and the State Department, in their effort to make the agreement palatable to the oil companies, had

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<sup>74</sup> Department of State Bulletin, V, November 22, 1941, pp. 399-401; Hull, II, p. 1141; Cronon, pp. 268-69.

<sup>75</sup> McGurk to Hull, November 21, 1941, Foreign Relations, 1941, VII, pp. 397-98; Avila Camacho to Roosevelt, November 22, 1941, ibid., p. 398; Gardner, pp. 121-22; Cronon, p. 269. The oil companies remained sullen but did supply data for the appointed experts. The experts made their decision in early 1942 and granted the oil companies \$23,995,991 plus interest, for their properties. This vindicated the State Department's appraisals. The Bolivian Oil expropriation problem was also settled in early 1942. See Herbert S. Klein, "American Oil Companies in Latin America: The Bolivian Experience," Inter-American Economic Affairs, XVIII, August, 1964, pp. 47-74.

nearly delayed too long in making it. The United States was lucky that Mexican impatience did not cause the negotiations to be broken off in the weeks before Pearl Harbor. If that had happened the United States would have entered World War II with renewed fear that its nearest southern neighbor might be as uncooperative as it had been in World War I.

These relations with Mexico showed that the State Department had major fears that its actions or lack of actions could alienate one or more of the Latin American nations from its "large policy" of hemispheric solidarity. One unilateral policy of the United States especially fit into this difficulty. This was the issuance on July 17, 1941 of the Proclaimed (Black) List by the State Department. It was to have important repercussions in Latin America.

Issuance of this list had come about as the result of a confidential survey made by officials of the Office of the Coordinator of Inter-American Affairs, the Department of State, and the Federal Bureau of Investigation after visits in Latin America between September and the end of December, 1940. Reports by each visiting group were turned over to the Coordinator's Office for study in early 1941. This led to a cooperative program among the Coordinator's Office, the State Department, and the Commerce Department in the first six months of 1941 to get

the support of United States businesses with outlets in Latin America to root out agencies or individuals who appeared to be undesirable. By the end of June, 1941 over one thousand accounts with objectionable firms had been terminated.<sup>76</sup>

Rockefeller's office had taken a leading part in this campaign to eliminate pro-Axis representatives of United States business and to prevent United States advertising money from being used in anti-United States or pro-Axis propaganda. Information about undesirable firms and individuals was used by the Export Control authorities in deciding upon license applications for controlled products. After Roosevelt's proclamation of an unlimited national emergency on May 27 and the order "freezing" foreign funds on June 17, it became necessary to regulate information and lists relating to objectionable trading connections more closely. The result was the July 17 publication of "The Proclaimed List of Certain Blocked Nationals" through which all United States trade and finance was forbidden.<sup>77</sup>

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<sup>76</sup>Hull to Diplomatic and Consular Officers in the American Republics, August 28, 1941, Foreign Relations, 1941, VI, pp. 271-72.

<sup>77</sup>Ibid., pp. 272-76; Rockefeller to Roosevelt, April 3, 1941, Official File 813-B; Conn and Fairchild, The Framework . . . , p. 196.

This was a difficult but necessary decision that led to internal domestic pressure being put on the governments of the American Republics. In turn some of them put pressure on the State Department through protests that certain of their firms and individuals did not belong on this "Black List." The State Department periodically sought to update the list by additions and deletions in order to blunt some of this criticism. Other Latin American Republics appeared to be well satisfied with the list and sought to do what they could to cooperate with the United States in attaining its objectives.<sup>78</sup>

Argentina was the only country to have a serious objection to the United States "Black List" in the summer of 1941. However, by the autumn some of the other major Latin American countries protested that the periodic inclusion of additional names on the "Black List" was an unjustifiable interference by the United States in their domestic affairs and a threat to their sovereignty. Of course, the State Department reply was that the United States policy was necessary to eliminate helping those firms and individuals who were undermining hemispheric solidarity and working against the "best interests of all

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<sup>78</sup>Hull to Diplomatic and Consular Officers in the American Republics, September 20, 1941, Foreign Relations, 1941, VI, p. 286.



the American Republics."<sup>79</sup> The problem with this reply was that it assumed that all the Latin American countries were as much anti-Axis and pro-Allied as the United States. This was often not true of countries that had large Axis-born minorities or of countries who saw the benefits to them of a more neutral policy. Consequently, they were prone to criticize the "Black List."

In late September the State Department received a very disconcerting report that the Chilean Government was trying to build up support for a joint Latin American protest about the "Black List." The Chilean Ambassador denied that Chile had or would ever take the initiative in a collective protest on this matter.<sup>80</sup> This must have been unconvincing to the State Department because Chile had declined to promise that she would refuse to adhere to a protest started by some other country.

What the Chilean Government really wanted was something they called the "guarantee" plan. This would require the United States Government to accept the "guarantee" of the Chilean Government and remove Chilean names from the "Black List" if after an investigation the

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<sup>79</sup> Hull to Bowers, October 1, 1941, ibid., pp. 294-95; Duggan, The Americas, p. 85.

<sup>80</sup> Hull to Bowers, October 1, 1941, Foreign Relations, 1941, VI, p. 295; Memorandum by Bonsal to Welles, October 8, 1941, ibid., pp. 295-96.

Chilean Government found their inclusion was unwarranted. What Chile was very cleverly doing was trying to make the United States live up to its platitudes on hemisphere cooperation and give up its unilateral "Black List" policy in favor of a cooperative plan in which all the American Republics could participate. The complications involved here bothered Mr. Bonsal, the Chief of the Division of the American Republics, and he recommended that the State Department not accept the "guarantee" plan in principle but give considerable weight to Latin American Governmental protests about specific individuals and firms on the "Black List."<sup>81</sup> Thus, logic was on the side of the Chilean Government, but the reality of making the list effective precluded consultations with each American Republic whenever a firm or individual was proposed to be added to the List. The upshot was that, although the "Black List" was a valuable measure of economic warfare, it was likely to affect adversely long term United States relations with Latin America unless greater attention was paid to Latin American complaints.

These complaints continued to flow in during October as internal political pressures against the proclaimed list began to build up. Foreign Minister

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<sup>81</sup>Bonsal to Welles, October 8, 1941, ibid., p. 296.

Aranha of Brazil was greatly concerned about the list because of the political support it was giving to enemies of the Vargas Administration and the United States. He particularly objected to the publication of the List and threatened that the Brazilian Government might soon have to express its disapproval of it unless the United States ceased making changes in it. These continual changes often placed leading citizens of Brazil and the other American Republics on the List, and it was an embarrassing situation to the governments concerned. Since the State Department could not satisfy Brazil on the publication of the "Black List," Brazil finally retaliated and forbade its publication within Brazil.<sup>82</sup>

In the meantime an even more serious problem had become apparent. In early November word was received from Colombia that the Colombian Senate had just published and approved a report that was extremely critical of both the objectives and preparation of the "Black List." This was especially disconcerting to Hull because he had believed Colombian friendship and support had been locked up, and he feared that, if the report of the Colombian

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<sup>82</sup>Caffrey to Hull, October 21, 1941, ibid., p. 301; Caffrey to Hull, November 26, 1941, ibid., p. 313; Duggan, The Americas, p. 86.

Senate was submitted to the other American Republics, it would have a disruptive effect on hemispheric solidarity. Consequently, he requested that Ambassador Braden consult with President Santos at his earliest opportunity to persuade him to withhold the circulation of this report to the other American Republics. This was done on November 21, and President Santos agreed with the United States position. He instructed his Foreign Ministry to announce that only the Colombian President had the constitutional right to communicate with other nations, therefore under no circumstances would he permit the Senate report to be circulated to the other American Republics.<sup>83</sup>

In a sense the damage was already done because publicity about this problem was cropping up in the other American Republics.<sup>84</sup> Thus, there were fears that this might lead to a coalescing of opinion on a joint protest about the "Black List." Certainly more of the American Republics were voicing their objections that, while the inter-American program then in effect was built on consultation, the United States "Black List" was unilateral.

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<sup>83</sup>Hull to Braden, November 12, 1941, Foreign Relations, 1941, VI, pp. 303-05; Braden to Hull, November 14, 1941, ibid., pp. 305-06; See also footnote number 34, p. 303 and footnote number 36, p. 305.

<sup>84</sup>Ibid., footnote number 37, p. 306.

Something would have to be done to get the Latin American countries involved with making additions to and omissions from the "Black List." They would either have to be satisfied or the list would have to be made confidential because hemispheric solidarity was threatened.

Initially the State Department decided to emphasize the confidential list. This was an unpublished "Black List" that had been set up to prevent cloaking activities by non-"Black Listed" individuals in association with "Black Listed" firms. This so-called "Grey List" had to be kept confidential to be effective in that cloaks would change and Latin American Governments would protest if they knew of the existence of this list. However, the State Department soon received word that under existing controls it was impossible to prevent cloaking as firms were switching from one cloak to another faster than the system could react. Consequently, when the United States entered the war in December, 1941, no changes had been made in "Black List" or cloaking procedures.<sup>85</sup>

Pressures to change the "Black List" procedures increased after the United States entered the war, and

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<sup>85</sup>Hull to Diplomatic Representatives in the American Republics, November 25, 1941, *ibid.*, pp. 307-10; Caffrey to Hull, November 26, 1941, *ibid.*, pp. 312-13.

the State Department began to reconsider its policy in January, 1942. Finally, on January 28, 1942 a new policy was decided upon. From then on any American Government that had broken all Axis ties would be consulted about additions or deletions from the "Black List."<sup>86</sup> This should have been the policy set up immediately after the attack on Pearl Harbor, but it had taken many Latin American complaints and long delays to persuade the State Department to change its policy. The new policy was not as dangerously close, as the original policy was, to intervention in the internal affairs of the Latin American Republics.

The Coordinator of Inter-American Affairs had taken an important part in the formation of the "Black List" and was also directly involved with myriad other activities in the economic, commercial and cultural fields by early 1941. For example, Mr. Rockefeller and his staff had important parts in projects that sought to dispose of Latin American surpluses, to improve Latin American finances, to set up priorities for Latin American shipping, and to aid in the United States program of pre-clusive buying. The Coordinator really justified his

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<sup>86</sup>Caffrey to Hull, December 19, 1941, ibid., p. 312; Hull to Diplomatic Representatives in the American Republics, January 28, 1942, Foreign Relations, 1942, V, pp. 285-86; Duggan, The Americas, p. 86.

title in these projects as it was usually necessary for him to bring together two or more government agencies as well as private concerns to make these programs work. Once the Coordinator's problems with the State Department were solved by Roosevelt's April 22, 1941 directive, ordering Rockefeller to subordinate his agency to the State Department instead of carrying on his own projects without the State Department's permission, relations between these institutions improved greatly. In fact the State Department often used the Coordinator's office as a vehicle to accomplish activities which it could not handle.<sup>87</sup>

As the United States moved closer to war, more and more of the Coordinator's activities, even those originally in cultural relations, were directly aimed at lining up Latin America in a coalition with the United States. As a part of this, the new relationship with the State Department was personified in the establishment on June 6 of a Joint Committee made up of members of the

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<sup>87</sup> Roosevelt to Rockefeller, April 22, 1941, Official File 813-B; Coordinator of Inter-American Affairs, History, pp. 9, 174, 181-83. The problems between the State Department and the Coordinator's office had come to a head when the C.I.A.A., on March 31, 1941, started a project ostensibly aimed at promoting Latin American travel in the United States but really aimed at combatting Axis propaganda. It was a fiasco and led to many complaints from United States diplomats in Latin America. Consequently, the State Department requested that Roosevelt take away the C.I.A.A.'s autonomy. See C.I.A.A., History, pp. 85-86.

Coordinator of Inter-American Affairs Office and the Cultural Relations Division of the State Department to consider new projects.<sup>88</sup> This committee was primarily responsible for the relative harmony between the State Department and the Coordinator of Inter-American Affairs office through the remainder of 1941. The decision that the Coordinator of Inter-American Affairs office was to concentrate on "emergency" projects and the Cultural Relations Division of the State Department on long range projects probably promoted that harmony.

Many of the "emergency" cultural relations projects of the Coordinator of Inter-American Affairs office involved informational and propaganda activities aimed at combatting Axis inroads into Latin America, and at promoting favorable opinion from Latin America. By April, 1941, President Roosevelt's addresses were being translated; articles on common aspirations were being furnished to feature syndicates supplying Latin American papers; news shows were emphasizing those aspects of Latin American life and culture most admired by United States citizens; an illustrated magazine was being printed for free distribution in Latin America; and an improved

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<sup>88</sup> Thomson and Laves, p. 49; C.I.A.A., History, p. 9.



communications program was being set up that emphasized the four weakest areas of communications--shortwave broadcasting, press photo services, newsreels, and non-theatrical films. Shortwave stations were increased in power, and motion pictures were "corrected" to eliminate characters and incidents offensive to Latin Americans. A plan for the use of cultural, educational, and documentary films was worked out with the Cultural Relations Division of the State Department under which United States Embassies and consulates were supplied with modern sound equipment and films and were allowed to lend them to businesses, schools, and cultural centers. Difficulties in the press photo field continued since Germany supplied pictures free while United States private news agencies charged for their pictures, but United States distributions of materials in other areas became more sophisticated. For example, in early May, the Coordinator's office began distributing a propaganda publication titled "Porque Nos Armamos" (Why We Arm) to Latin America in the hope that this would help bring closer ties.<sup>89</sup>

This remained the theme to be followed throughout the remainder of 1941. It became even more explicit on

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<sup>89</sup> Rockefeller to Roosevelt, April 3, 1941, Official File 813-B; Rockefeller to Roosevelt, May 8, 1941, ibid.

July 3, 1941 when the Coordinator's office got an appropriation for the purpose of furthering national defense and tying the American Republics to the United States. This program included grants, free distribution of publications, and other assistance in the fields of the arts and sciences, education, and travel to be given to the Latin American Republics. By August, Rockefeller was attempting to intensify a cultural and educational exchange program, and, at President Roosevelt's suggestion, he was in the process of setting up an Inter-American Institute in Panama. Its major purpose was to develop the agriculture and improve the health of the hemisphere by training personnel in those fields.<sup>90</sup>

A much larger and more significant project also got underway in August. The basic plan was to use United States citizens who resided in Latin American countries to help carry out tasks that the United States Government officially could not do. These tasks included combatting Axis propaganda, carrying out United States commercial policies, and strengthening cultural ties. This group was to serve as a counterpoise to similar groups of

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<sup>90</sup> Some administration officials hoped to name a proposed scholarship program after President Roosevelt. See also Memorandum by Harold D. Smith, Director of the Budget, August 6, 1941, Official File 4512; Rockefeller to Roosevelt, August 12, 1941, Official File 87.

organized Germans and Italians. Coordination committees were set up by late 1941 in seven of the most significant Latin American countries, and more followed in 1942.<sup>91</sup> Although many of these groups' successes did not occur until after the United States entered the war, some headway was made in 1941, and the program was a good one.

The Coordinator of Inter-American Affairs press division took two significant direct propaganda actions in 1941. Under Rockefeller's guidance a pictorial magazine entitled En Guardia began to be distributed in in the summer of 1941. Its purpose was to dramatize and to explain pictorially the defense measures being taken by the United States and, of course, to emphasize their inter-American implications. From an initial issue of eighty thousand copies it eventually reached over five-hundred fifty thousand per issue and apparently was extremely popular in Latin America. The other action by the press division was to publish a bi-weekly "American Newsletter." This began on October 1 and had as a main objective the supplying of a precise resume of United States actions of direct interest to the other American Republics. Since it was only distributed to about

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<sup>91</sup>Rockefeller to Roosevelt, August 9, 1941, Official File 4512; C.I.A.A., History, pp. 196-97.

thirteen thousand "carefully selected persons," it was obviously aimed at a Latin American elite who had powers to take necessary actions. In contrast, En Guardia was aimed more at the common people in the hope that public opinion could be influenced favorably toward the United States.<sup>92</sup>

It was apparent that President Roosevelt viewed inter-American psychological warfare as a specialized area requiring specialized treatment. On October 15, 1941 he directed Colonel William J. Donovan, the Coordinator of Information, to let Rockefeller's office handle all information going into Latin America because "requirements" were different in Latin America than they were in the rest of the world.<sup>93</sup> This must have come as a surprise to Donovan who undoubtedly considered himself capable of running a world-wide show, but it shows that Latin America was being handled with kid-gloves by "experts," who professed to understand the Latin American mind, in order that misunderstandings might be prevented.

By November 15 satisfactory cooperative arrangements had been worked out between Rockefeller and Donovan.

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<sup>92</sup>Rockefeller to Roosevelt, August 15, 1941 and August 23, 1941, Official File 4512; C.I.A.A., History, pp. 46-49.

<sup>93</sup>Roosevelt Memorandum to Coordinator of Information, October 15, 1941, Official File 4512; C.I.A.A., History, pp. 196-97.

A suggestion was then made that Rockefeller, Donovan, and Archibald Macleish serve as an informal strategy committee to correlate and prevent contradictions between foreign and domestic broadcasts. This had become necessary when Roosevelt characteristically allowed separate informational services.<sup>94</sup> Despite these added difficulties, Rockefeller's office continued to improve its service, so that by the time of Pearl Harbor, the Coordinator of Inter-American Affairs Office activities in Latin America were beginning to bear fruit.

Although Rockefeller claimed after the United States entered the war that his office consisted entirely of coordinators who aimed at preventing overlapping functions, in reality it was much more.<sup>95</sup> It originated ideas and helped carry them out sometimes with the help of other governmental agencies and sometimes by itself. It used its Emergency Fund money in its first year very carefully. It was abnormal for a government agency because it spent only \$2,500,000 of its nearly \$3,500,000 budget. However, its budget increased greatly from year to year until 1943 when the highpoint of sixty million dollars was reached. Certainly not all of this was used

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<sup>94</sup>Harold D. Smith, Director-Bureau of Budget, to Roosevelt, November 15, 1941, Official File 4512; C.I.A.A., History, p. 60.

<sup>95</sup>C.I.A.A., History, p. 173.

for coordinating functions. Much of it was probably used for secret and semi-secret functions which existing agencies could not handle. All in all it was an agency that often took significant actions at difficult times. It must be considered an overall success.

The more long-range projects of the Cultural Relations Division of the State Department pale by comparison. However, it should be noted that their policy was not to involve themselves in propaganda activities but to try to intensify cultural contacts. This in the long run would have the same effects. As a consequence their actions in 1941 were mainly just an intensification of their previous efforts to bring about closer inter-American relations.<sup>96</sup> They were interested in and responsible for activities relating to exchanging professors, teachers, and students, to sending and receiving individuals and groups promoting various cultural activities, and to backing just about every form of cultural interchange imaginable. All these activities increased in 1941.<sup>97</sup>

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<sup>96</sup>Thomson and Laves, pp. 47-48.

<sup>97</sup>For example, movie stars, such as Douglas Fairbanks, Jr., were sent to Latin America. A United States ballet caravan was sent by the C.I.A.A. in the summer of 1941. See Bowers to Roosevelt, June 9, 1941, Official File 303, for favorable comment on Douglas Fairbanks, Jr.'s visit to Chile.

Outside of this general intensification of activities only two relatively significant actions were taken by the Cultural Relations Division of the State Department in 1941. One was to establish a new type of diplomat--the Cultural Attaché. This was done in August, 1941, and most of the early appointments were to United States diplomatic posts in Latin America. This new position filled a gap since, previous to this, cultural relations had only been carried on sporadically depending on the whims of individual foreign service officers. The second action involved a significant change in emphasis, at least on paper, for subsequent cultural programs. Previous to the autumn of 1941, the Cultural Relations Division had been most interested in promoting cultural relations with the upper classes in Latin America. In September Vice President Henry Wallace, who was a member of the General Advisory Committee of the Division of Cultural Relations, sought to change this emphasis. He stressed that cultural relations, to be effective, had to reach the 90% of the people who were in the middle and lower classes. His plan was seconded by various members of the Appropriations Committee of the House of Representatives and agreed to by the General Advisory Committee. The result was that from then on the aristocratic tinge of the cultural relations program was, at least

theoretically, to be eliminated in favor of programs to reach "the masses" instead of just "the classes."<sup>98</sup>

Strictly cultural relations were only a tiny part of the overall policy of the United States to line up Latin America especially as the war appeared to be more of a threat to the hemisphere. With the United States ending any pretense of neutrality after the Lend-Lease Act and after the Axis victories in April and May, 1941, its major objective became better military relations. Cultural and economic relations could help bring this about, but only as they helped set the stage for closer military cooperation.

The State Department's neglect of non-defense negotiations was shown best in the continued work of the Inter-American Neutrality Committee. This Committee, which had been set up by the Panama Conference in 1939, was thoroughly out of date by early 1941 as far as the United States was concerned. By that time the United States no longer professed to be neutral yet the Committee continued to function. In fact, some of the things it proposed to do were in direct conflict with the un-neutral plans of the United States. This put the State Department in a dilemma since it did not want to take the chance of

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<sup>98</sup>Thomson and Laves, pp. 38-40, 45.



losing Latin American support by withdrawing backing of the Committee. Instead, Mr. Charles Fenwick, the United States Representative on the Committee, thought it would be more advisable "to bury the whole convention by delaying its submission for signature." He further proposed, and Under Secretary of State Welles agreed, to keep the Committee going because it served as a "symbol" of inter-American unity.<sup>99</sup> United States purposes had changed but any thread that promoted inter-American unity was hung on to even if discussions now became largely academic.

In spite of the United States change to an openly un-neutral policy in late 1940 and early 1941, the State Department received assurances from nine Latin American countries that they would join the United States in war if necessary.<sup>100</sup> These assurances must have been gratifying, but they were mainly from countries that had long been dependent on the United States. None was a leading power in Latin America. Still, with these assurances the

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<sup>99</sup>Hull to Chargé in Brazil (Burdett), January 16, 1941, Foreign Relations, 1941, VI, pp. 1-2; Fenwick to Welles, January 22, 1941, ibid., pp. 3-4; Welles to Fenwick, February 10, 1941, ibid., pp. 4-5; Fenwick to Welles, September 22, 1941, ibid., pp. 12-13.

<sup>100</sup>Dozer, p. 91. The countries were Colombia, Ecuador, and Panama on January 18; Costa Rica and the Dominican Republic on January 20; Guatemala on January 23; Honduras on February 3; Nicaragua on May 19; and Haiti on June 13, 1941.

United States could concentrate on lining up Mexico and such important South American countries as Argentina, Brazil, Chile, Bolivia, and Peru.

One extremely important area where it was necessary to get a series of bilateral agreements with Latin American nations was over the problem of replacing Axis-owned or controlled airlines in South America. This had been part of the overall United States policy since the time war broke out, and it had begun to bear fruit by 1941. SCADTA, the airline run by Germans in Colombia had been eliminated in June, 1940 with the help of the State Department's collaboration with Pan American Airways. A similar policy had been followed in Ecuador with the result, by December, 1940, being a new airline, Panagra, in direct competition with the German-owned SEDTA line. In spite of these relative successes President Roosevelt was not satisfied with the speed in which these lines were being eliminated. SEDTA was still in service in early 1941, and there were other Axis lines in Peru, Bolivia, Chile, Argentina, and Brazil. Consequently, in April, 1941 he directed that a new single entity, titled the American Republics Aviation Division of the Defense Supplies Corporation, be set up to bring about cooperation to eliminate the remaining airlines. This cooperation included the understanding that the special monopolistic

position of Pan American Airways would be promoted in return for Pan American's help in setting up alternative air services to take the place of the Axis lines when they were eliminated.<sup>101</sup>

This overall plan was extremely difficult to carry out because, unless the State Department was careful, it would look like the United States was directly involving itself in the sovereign affairs of the Latin American countries. This was the reason Pan American Airways was picked. It could do things which the United States Government could not do directly.

Before details on the various bilateral negotiations are taken up, some mention must be made of the overall plan. The first step was to insure that if an Axis airline's service were terminated, a replacement airline would immediately be ready to take its place. This was where Pan American Airways and its subsidiaries often came in and where money from the President's Emergency Fund was most often spent. There were many methods to put effective pressure on the Axis lines, but the most successful indirect method was using the United States control of aviation fuel supplies. The Axis lines had to buy their fuel supplies from hemisphere sources,

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<sup>101</sup>See Chapter IV for earlier details.

and except for a small amount of Argentine-refined aviation gasoline, it all came from refineries controlled either by the United States or Great Britain. After aviation gasoline was made a munition under the act of July, 1940, shipments of it were controlled by export licenses. One year later, with the establishment of the "Black List," consignees as well as commodities were controlled. Still the general policy of the United States was not immediately or completely to cut off the fuel supplies of the Axis airlines. However, fuel to them was rationed, so auxiliary supplies could not be built up until it was possible to replace them with either government-controlled or Pan American-controlled airlines.<sup>102</sup>

Pan American Grace (Panagra) opened service in Ecuador in December, 1940 in direct competition with German-owned SEDTA. Both its equipment and service were superior to SEDTA, but SEDTA hung on in early 1941. In fact, it was reported that contrary to United States-Ecuadoran agreements to eliminate SEDTA new agreements were being made between it and the Ecuadoran Government. This brought about a State Department protest, but Ecuador apparently intended to cooperate fully only when Panagra began complete service. This finally was accomplished by

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<sup>102</sup>Burden, pp. 70-72.

March 13, and it led to an immediate State Department request that Ecuador take steps to eliminate SEDTA.<sup>103</sup>

The Ecuadoran Government wanted to get rid of SEDTA but was extremely reluctant, because of political and legal opinion, to cancel its contract. It preferred the more devious method of acquiescing in the United States plan to cut off SEDTA's fuel supplies. Then the Government could legally suspend the company for not fulfilling its contract. By early May, a United States request that the International Petroleum Company of Toronto, Canada stop selling aviation gasoline to SEDTA was agreed to by the Canadian Government. Despite having its known sources of supply dried up, SEDTA publicly announced that since it had other sources its service would not be interrupted. This led to speculation that either Japan or Argentina might be in the position to sell SEDTA the aviation gasoline it needed. However, apparently SEDTA's claim was a bluff because by the summer of 1941, it was forced to operate on ordinary automobile gasoline. This was unsuitable for airplane engines and caused increased maintenance problems, but service continued on a reduced level.<sup>104</sup>

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<sup>103</sup>Long to Hull, January 7, 1941, Foreign Relations, 1941, VII, p. 270; Hull to Long, January 9, 1941, ibid., pp. 270-71; Hull to Long, March 14, 1941, ibid., pp. 272-73.

<sup>104</sup>Chargé in Ecuador (Drew) to Hull, April 1, 1941, ibid., pp. 273-74; Drew to Hull, May 9, 1941, ibid., pp. 274-76; Long to Hull, July 22, 1941, ibid., pp. 277-79.

SEDTA received a temporary reprieve in July, 1941 because the border conflict between Peru and Ecuador enabled the company to offer its services to Ecuador's military forces. This was something that neither Panagra nor the State Department could afford to do. The result was that SEDTA's popularity received a great boost. This did not change the determination of the Ecuadoran and United States Governments to eliminate SEDTA; it only delayed matters that were already in motion.

By August it was apparent that the end of SEDTA was in sight once four conditions were met. Panagra had to increase its domestic service and take SEDTA's mail service over at the same low cost, and the State Department had to loan Ecuador the purchase price for SEDTA's airplanes and had to guarantee aviation training for Ecuadoran pilots. The Ecuadoran Government procrastinated fearing public opinion, but with the attrition of fuel supplies working, SEDTA ceased operations in early September. This provided the impetus for a final agreement between the United States and Ecuador, signed on October 2, 1941, that expropriated SEDTA's properties and eliminated the company from all services.<sup>105</sup>

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<sup>105</sup> Long to Hull, July 22, 1941, *ibid.*, pp. 277-79; Long to Hull, August 5, 1941, *ibid.*, pp. 280-81; Long to Hull, August 27, 1941, *ibid.*, p. 282; Long to Hull, September 4, 1941, *ibid.*, pp. 282-83; Hull to Long, September 6, 1941, *ibid.*, pp. 283-84; Long to Hull, September 9, 1941, *ibid.*, p. 284; Long to Hull, October 2, 1941, *ibid.*, pp. 285-90.

This triumph of United States diplomacy was a long time in coming and only resulted after a long period of increased United States pressure on Ecuador. Happily, programs similar to the Ecuadoran one received more rapid attention in Peru and Bolivia.

Peru's case was relatively simple since the German-owned Lufthansa Peru had antagonized the Government. This company, which had been operating since 1938 between Lima and La Paz, Bolivia, had made probable surveillance flights over forbidden territory thus incurring the wrath of the Government. In February, 1941, this was used as an excuse by the Peruvians to withdraw Lufthansa's operating permit, and on March 24, the company's contract was cancelled. Ostensibly, this had been done to prevent sabotage of the airplanes.<sup>106</sup>

Since this had been done without pressure or prompting by the United States, the State Department was especially gratified. Sumner Welles directed Ambassador Norweb to inform President Prado of Peru that the United States heartily concurred in this action and believed that it made a great contribution to both continental solidarity and hemispheric defense. President Prado then

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<sup>106</sup>Burden, p. 74; Welles to Norweb, March 28, 1941, Foreign Relations, 1941, VII, p. 503.

informed the State Department that they would expect similar cooperation on other matters since the Peruvian Government would give full support to United States measures to protect the hemisphere.<sup>107</sup> These actions showed how much a different administration in Peru could mean to the furtherance of good bilateral relations.

This increase in solidarity and friendship led the State Department to consider ways in which Peru's other aviation needs could be met. Panagra duplicated the service of Lufthansa, but Peru wanted priorities to receive hydroplanes that could be used to connect the Amazon port of Iquitos with the rest of the country. By April the State Department, without definitely committing itself, informed Ambassador Norweb that it was "probable" that the United States would furnish and finance the airplanes and improve landing fields if that also was necessary. Unfortunately, the outbreak of border hostilities between Peru and Ecuador forced the United States to go slow on these programs although an aviation expert of the Federal Loan Agency was sent in late July, 1941 to study Peru's commercial aviation.<sup>108</sup>

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<sup>107</sup> Welles to Norweb, March 28, 1941, Foreign Relations, 1941, VII, p. 503; Norweb to Hull, March 31, 1941, ibid., p. 504.

<sup>108</sup> Hull to Norweb, April 7, 1941, ibid., p. 505; Welles to Norweb, July 29, 1941, ibid., p. 508.



The 1941 conflict between Peru and Ecuador had the potential to be the major internal-hemispheric threat to the kind of hemispheric solidarity that the United States was attempting to build up. This dispute, which dated back to colonial days, had periodically flared up since an attempted settlement by the King of Spain in 1877. Many other settlements were tried between 1877 and 1940 but all failed. The result was periodic hostility as exemplified by border clashes. These occurred in 1936, 1938, 1939, and in October, 1940.<sup>109</sup> By 1941 the situation was extremely tense, and United States policy, which sought to alleviate the dispute in almost any way possible, was complicated by the necessity of good relations with both countries. This was at a time when each of them wanted benefits from the United States in return for their acquiescence in United States programs in hemispheric economic and military defense. This was an extremely touchy situation in that claims by one of the countries that the United States was helping its adversary could irreparably damage bilateral relations and injure hemispheric solidarity. This meant that although the United States was interested in receiving base rights in Ecuador and Peru and in the Ecuadoran-owned

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<sup>109</sup> James C. Carey, Peru and the United States, 1900-1962 (Notre Dame, Ind.: University of Notre Dame, 1964), pp. 99-100.

Galapagos Islands these wishes would have to be held in abeyance until the Peru-Ecuador hostilities were settled.

When incidents began to multiply in January, 1941, Secretary Hull became suspicious that "agents of non-American powers" might be involved. He was also worried about the dispute's effects on hemispheric solidarity, consequently he hoped that schemes for mediation or arbitration could be decided upon by the disputants and other American countries. Technical and complicated negotiations were then carried out between the State Department and the disputants. At the same time Peru and Ecuador sought but failed to find a basis to end the dispute. By April, Ecuador was willing to carry on direct negotiations with Peru or to have other powers mediate or arbitrate in order that hemispheric solidarity not be impaired, but Peru was still balking at attempts by the other American Governments to settle the dispute. After word was received in late April that Peruvian-Ecuadoran relations were becoming more strained, Argentina, Brazil and the United States consulted and offered their friendly offices to help settle the dispute. This note was sent on May 8. It received the assent of both Ecuador and

Peru on May 9 and 13 respectively. Consequently, it appeared that the worst was over by mid-May, 1941.<sup>110</sup>

Despite professions by both Ecuador and Peru that neither would do anything to hinder the tripartite actions for peace, a renewed border conflict broke out in early July. Naturally both sides claimed the other was responsible. To cool things down, Argentina, Brazil, and the United States requested that each Government withdraw its military forces fifteen miles from the status quo line tacitly recognized previously by both governments. Notice of this request was sent to all the other American Republics in hopes of lining up support and putting pressure on the two disputants. The State Department was clearly worried about the consequences of this dispute and sought to do everything it could to retain hemispheric solidarity. Both Peru and Ecuador agreed to a pull back of troops, in principle, but before any firm action was taken serious fighting broke out on July 23. This led to a direct Argentine appeal for settlement on the grounds that the spirit of solidarity was more important than boundary disputes. After this request and renewed pressures by

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<sup>110</sup>Hull to Chargé in Brazil (Burdett), January 2, 1941, Foreign Relations, 1941, VI, pp. 212-13; Ecuadoran Minister of Foreign Affairs to Hull, April 6, 1941, ibid., p. 219; Hull to Ecuadoran Minister of Foreign Affairs and Peruvian Minister of Foreign Affairs, May 8, 1941, ibid., pp. 221-22; New York Times, May 10 and 14, 1941. Argentina took the lead in requesting these tripartite negotiations.

the United States and other American Republics, the two countries agreed on a cease fire on July 31.<sup>111</sup>

This end to direct hostilities was applauded by President Roosevelt. He had "very definite hopes" that the dispute would then be settled peacefully. To help reduce tensions observers from Argentina, Brazil and the United States were sent into the disputed area. Despite these precautions skirmishes in the disputed territory occurred periodically in August and September.<sup>112</sup>

All these events required that the United States adopt a policy of strict neutrality. This was explicitly followed by the War Department in its refusal to furnish any weapons to either side until a final settlement could be agreed upon.<sup>113</sup> In fact, the State Department went further than this and prevented a shipment of

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<sup>111</sup>New York Times, July 7, 1941; Welles to Norweb, July 8, 1941, Foreign Relations, 1941, VI, pp. 231-32; Welles to Diplomatic Representatives in the American Republics, July 8, 1941, ibid., pp. 232-33; Leland M. Goodrich (ed.), Documents on American Foreign Relations, 1941-1942 (Boston: World Peace Foundation, 1942), pp. 431-32.

<sup>112</sup>Franklin D. Roosevelt, "Press Conferences," Vol. XVIII, August 1, 1941, p. 75.

<sup>113</sup>This decision confused the discussions then going on about military equipment and supplies. United States officials discussed the future needs of Peru and Ecuador but refused to send anything until the dispute was settled. See Conn and Fairchild, The Framework . . ., p. 229.

airplanes from being sent from Canada to Peru. This caused a rift in Peruvian-United States relations.

What had happened was that Peru had purchased eighteen Douglas Model 8A-5 airplanes from the Norwegian Government in exile on August 15. The planes were to be sent from their location in Toronto, Canada to New York where a Peruvian steamer was to pick them up. Apparently the Peruvian Government was given no indication that the United States would take custody of the planes once they reached United States soil, but this was what occurred. Peru was highly indignant about it and made a formal protest. The original pretext for the hold up of this cargo was that it belonged to a foreign government and thus had to be examined by customs officials. It was soon apparent, however, that the real reason was that the State Department feared that the planes would be used against Ecuador.<sup>114</sup>

This dispute between the United States and Peru heated up in late September and early October. Finally, renewed pressures from other American Republics, especially a plea by Mexico that all the American Republics join together to prevent further outbreaks between Peru

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<sup>114</sup>Peruvian Ambassador (Freyre) to Hull, October 6, 1941, Foreign Relations, 1941, VII, pp. 508-09; Langer and Gleason, The Undeclared War, p. 616.

and Ecuador, had the effect of simmering down the conflict. The result was that on October 2 Peru and Ecuador agreed to set up a neutral zone to be supervised by neutral observers. Once this was done they would attempt a definitive agreement. However, as long as a final settlement was not made, the United States continued to refuse to send materials of war to either side.<sup>115</sup>

By mid-October United States-Peruvian relations were deteriorating because of the airplane dispute. United States Ambassador Norweb sought to reverse the Peruvian Government's opinion that this was an "unfriendly" act by emphasizing that the planes were "urgently needed elsewhere" to bolster national defense. Consequently, Peru should view the entire matter as their contribution to the defense of democracy. These high-sounding phrases apparently did not make much of an impression on the Peruvian Government which was as much disturbed about the manner in which the United States action was carried out as in the action itself. Finally on October 17 Hull admitted that the United States had requisitioned the planes. He then sought to calm the Peruvians down by emphasizing the absolute necessity of the United States

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<sup>115</sup> Norweb to Hull, October 3, 1941, Foreign Relations, 1941, VI, p. 234.

action and by promising "full and immediate" compensation.<sup>116</sup>

By this time both official governmental opinion and public opinion in Peru were exceedingly hostile toward the United States. Reports received by the State Department indicated that Peru might cancel the Metals Reserve Company contract, that popular feeling was so incensed that motion picture audiences demonstrated when mention of the United States was made, and that the work of the United States naval and aviation missions was completely disrupted.<sup>117</sup> This was clearly a dangerous situation, and the State Department was in a quandary. It had made the right choice in that eliminating the potential for renewed war between Ecuador and Peru was more important than a temporary decline of bilateral relations with Peru. Nevertheless, once war threats were calmed down something had to be done to better relations with Peru because hostile elements among the Peruvian population were having a field day at the expense of the United States.

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<sup>116</sup> Norweb to Hull, October 15, 1941, ibid., VII, pp. 510-11; Hull to Freyre, October 20, 1941, ibid., pp. 512-13.

<sup>117</sup> Norweb to Hull, October 20, 1941, ibid., pp. 513-14; Norweb to Hull, October 22, 1941, ibid., p. 517.

United States policy in this case took time but became increasingly effective. Tensions between Ecuador and Peru were reduced by the efforts of the mediating powers at the same time that United States-Peruvian relations began to improve. Peru originally had claimed that the United States action had been illegal, but after repeated State Department assurances and legal opinions, they appeared to acquiesce in the inevitable. Just as the United States was in no position directly to stop or condemn Peruvian aggression against Ecuador, Peru was in no position to tell the State Department that United States laws did not apply to Peru. By late November, after preliminary plans to substitute eighteen trainers and compensation for the bombers, had gone awry, the Peruvian Government decided that it would prefer full monetary compensation in order "to liquidate the matter as quickly as possible." By early December an amount was decided upon, and on January 13, 1942 the United States paid the bill.<sup>118</sup>

By this time the boundary dispute was well on its way to solution. Argentina, Brazil, and the United States were all working together to help Ecuador and Peru

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<sup>118</sup>Memorandum of Conversation (Welles), November 24, 1941, ibid., p. 519; Memorandum of Conversation (Welles), November 26, 1941, ibid., p. 520; Hull to Freyre, January 19, 1942, ibid., pp. 522-24.



reach a final settlement to their dispute. As the negotiations continued, prisoners were reciprocally released as a good faith gesture. This also helped set up public opinion in Ecuador and Peru for further compromises. Once the United States entered the war and the Rio de Janeiro Conference was called, it was apparent that both sides wished to shore up hemispheric solidarity and reach a settlement. Details were still a problem, but pressures from the mediators and from public opinion in the other American countries led the two countries on January 29, 1942 to sign a protocol of peace and friendship which provided a basis for settling the boundary dispute. With this action the threat to hemispheric solidarity ceased.<sup>119</sup>

United States actions in this dispute and in its requisition of the Peruvian owned airplanes are characteristic of the restraint shown by the State Department in its relations with Latin America. Axis aggression outside the hemisphere had always been condemned, but the United States reaction to Peruvian aggression was quite different. While Hull could

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<sup>119</sup> Norweb to Hull, November 23, 1941, ibid., VI, p. 243; Langer and Gleason, The Undeclared War, p. 617; Carey, p. 100. Final settlement was delayed until February, 1945 when Peru received the largest portion of the disputed territory. Incidents since have shown that both countries are not entirely satisfied with the 1945 decision.

criticize Peruvian policy in private, he and other members of the State Department knew this could not be done in public. Consequently the State Department in dealing with two allies was unable to use another traditional approach for support--that of appealing to United States public opinion to take sides. Nevertheless, a combination of direct conciliation, appeals to hemispheric solidarity, and a fortuitous blunder by the Peruvians in sending their newly purchased planes through United States territory had led to a calming of the dispute. In the light of the greater Axis threat to the hemisphere, this was fortunate indeed.<sup>120</sup>

Peru's cancellation of the contract of Lufthansa the previous April had been a much applauded action that was shortly followed by a similar move taken by Bolivia. In January of that year the State Department had begun to sound out the Bolivian Government on whether they would accept United States technical and financial assistance in return for eliminating German influence in Lloyd Aereo Boliviano. This company had a German manager as well as predominately German personnel. Luckily for the United States its service had been very unsatisfactory,

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<sup>120</sup>For a longer discussion of United States actions in relation to bilateral Latin American disputes see Bryce Wood, The United States and Latin American Wars, 1932-1942 (New York: Columbia University Press, 1966), especially pp. 333-35.

and the company had had a series of spectacular accidents in recent years. These failings had soured both the Bolivian Government and Bolivian public opinion against it. In fact the Bolivian Government was looking for an excuse to reorganize the company. After some discussion this resulted in the expressed wish of the Bolivian Cabinet that some arrangement be attempted with Panagra Airways to solve the problem.<sup>121</sup>

Bolivia had theoretical control of Lloyd Aereo Boliviano because the Government owned 48% of its stock, and the Government-owned Banco Central owned 4%. This meant that it would not be necessary to expropriate the airline only to reorganize it. This idea was resisted by the German-owned parent company, Lufthansa. They offered the Bolivian Government three new planes under the proviso that new stock in Lloyd Aereo Boliviano would be issued for their value. This would have resulted in complete German control over the company. Since this was just the opposite of what the Bolivian Government wanted, the plan was rejected in favor of cooperation with Panagra.<sup>122</sup>

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<sup>121</sup>Burden, pp. 74-75; Hull to Jenkins, January 9, 1941, Foreign Relations, 1941, VI, p. 403; Jenkins to Hull, March 6, 1941, ibid., pp. 405-06.

<sup>122</sup>Jenkins to Hull, March 6, 1941, Foreign Relations, 1941, VI, p. 407.

Despite the wish for this cooperation, action was delayed until negotiations on the details of a new contract could be worked out between Panagra and the Bolivian Government. When it became apparent that a major problem impeding a final solution was the availability of planes from the United States, the United States Department of the Army agreed to release five planes to the new Panagra subsidiary in Bolivia. Since this was during the time of an acute shortage of planes, it shows the extent to which the State Department used pressure to smooth the way for an agreement between Bolivia and Panagra. By early May an agreement was made and the nationalization of Lloyd Aereo Boliviano quickly followed.<sup>123</sup>

Under the agreement all German employees were discharged and the new, purely Bolivian, company entered into a management contract with Panagra to provide technical assistance. Panagra received a new service from La Paz to Corumba which was subsidized by the United States Post Office Department. Thus it operated at no cost to the Bolivian Government.<sup>124</sup> The result was another successful application of the over-all United States Governmental plan to use Pan American Airways and

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<sup>123</sup>Conn and Fairchild, The Framework . . ., p. 244; Jenkins to Hull, May 6, 1941, Foreign Relations, 1941, VI, p. 409.

<sup>124</sup>Burden, p. 75.

its subsidiaries to get rid of Axis-owned or controlled airlines in Latin America. In Bolivia's case the more drastic plan of cutting off fuel supplies, that had been used in Ecuador and would be used in Argentina and Brazil, did not have to be put into effect.

Thus far, the United States was either successful or in the process of being successful in eliminating Axis-owned or controlled airlines in both the northern and west central parts of South America. Now all attention was directed to the critical southern part of South America where the last two Axis-controlled airlines, Condor and LATI, had extensive international operations in Argentina, Brazil, and Chile. Fortunately, for the United States, these two companies were almost totally dependent on United States concerns for aviation gasoline. This dependency was an integral part of the policy that the United States followed.

There were other airlines in which the Axis had interests but these never proved to be a major problem to United States policy in South America. In fact, one of these small lines in Brazil, Vasp, worked hand in hand with the State Department to eliminate objectionable employees in return for the acquisition of United States

planes.<sup>125</sup> Unfortunately, this simple solution was impossible in dealing with the German controlled Condor system and the Italian controlled LATI airline.

Condor was a large Brazilian based airline whose operations covered over eight thousand, four-hundred route miles in Argentina, Brazil, and Chile. It had been in operation for fifteen years, and it was considered by Brazilian Foreign Minister Aranha to have given the best in service. Consequently, in spite of its Axis control and pro-Axis reconnaissance activities, public opinion in Brazil and the Brazilian Government resisted its termination unless something equal or superior was substituted. Nevertheless, the Brazilian Government kept a close watch over Condor in order to prevent it from violating Brazilian law. Brazil censured it once for its unannounced reconnaissance flights over parts of the Atlantic Ocean and also required it to substitute Brazilian pilots for its German ones.<sup>126</sup>

LATI, on the other hand, carried on a transatlantic service between Rio de Janeiro and Europe as well as service from Brazil to Argentina and Chile. Its control of

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<sup>125</sup> Caffrey to Hull, March 26, 1941, Foreign Relations, 1941, VI, pp. 515-16; Caffrey to Hull, August 15, 1941, ibid., p. 523.

<sup>126</sup> Caffrey to Hull, October 24, 1941, ibid., pp. 525-26; Burden, p. 76.

airfields in Brazil was a direct menace to United States hemispheric defense projects in Brazil and to the British naval patrols against Axis shipping in the South Atlantic. In the spring of 1941 both Condor and LATI were thought to be carrying out regular reconnaissance off the Brazilian coast in order to guide Axis ships through the British blockade. Later in the summer they were accused of aiding Axis submarines in their attacks on Allied shipping. Equally important was the transmission line that LATI afforded for the infiltration of Axis agents into South America. Despite these threats to the Allies and to hemisphere defense, LATI was allowed to continue operations by the Brazilian Government. One important consideration in this decision was that in early 1941 LATI was the Brazilian Government's only means of communication, aside from cables, with its representatives in Europe and North and West Africa. Consequently, Brazilian leaders were "extremely reluctant" to end the LATI service.<sup>127</sup>

With Brazil opposed to direct action to remove these Axis controlled airlines it was apparent that Argentina, whose relations with the United States were much more strained, would follow suit if not go further

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<sup>127</sup> Caffrey to Hull, April 9, 1941, Foreign Relations, 1941, VI, p. 517; Conn and Fairchild, The Framework . . ., p. 247.

to block State Department wishes that the airlines be terminated. Chile, which was just the western terminus of Condor, was forced to agree with whatever happened. Thus, United States policy centered on Argentina and Brazil, and it sought to combine its own economic power over aviation fuel with pleas to the respective governments to take action against the airlines. The United States would have liked these governments just to eliminate the Axis-controlled airways without any reciprocal agreement, but, since this was unrealistic, Pan American Airways and its subsidiaries were prepared with State Department backing to jump into the breach and duplicate if not improve on the service of the Axis airlines. In the meantime the United States policy was to permit limited sales of aviation gasoline to these companies on a month to month basis until the day came when Pan American could take over. Then the gasoline supplies would be cut off.<sup>128</sup>

This question further complicated United States-Argentine relations since in December, 1940 Yacimientos Petroliferos Fiscales, the semi-official Argentine petroleum organization, and the Phillips Petroleum Company of the United States had concluded a technical assistance

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<sup>128</sup>Burden, pp. 72, 76.



agreement. One part of this agreement provided for Phillips' assistance in making aviation gasoline. Up to this time this had been a virtual United States monopoly because of United States technological control over the manufacture of the ethyl compound needed for aviation gasoline. Since this agreement had been signed, the State Department had become concerned that the Argentine Government had allowed LATI, and was in the process of allowing Condor, to increase their services between Argentina and Chile. Since the State Department had reason to believe that Yacimientos Petroliferos Fiscales might sell increased amounts of aviation gasoline to these companies once they knew how to refine it, they refused to allow the Phillips Company to go through with the agreement.<sup>129</sup> This, of course, antagonized the Argentine Government, yet it was a logical extension of the United States plan to get rid of the Axis airlines.

When the "Black List" was drawn up in mid-July, 1941, both Condor and LATI were placed on it. But despite this, limited amounts of aviation gasoline were still sold to these companies in order to keep them going until Pan

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<sup>129</sup>Hull to Armour, January 14, 1941, Foreign Relations, 1941, VI, pp. 334-35; Espil to Hull, May 21, 1941, ibid., p. 335; Memorandum by Welles, June 23, 1941, ibid., p. 336; Tuck to Hull, July 21, 1941, ibid., p. 336.

American could begin to duplicate service. Intava, the Standard Oil subsidiary in Argentina, also cooperated in this State Department plan and kept its sales, to both Condor and LATI, low in order to allow them to have no more than one month's supply in storage. When the "time was ripe" these sources were to be dried up. However, there was no guarantee that Yacimientos Petroliferos Fiscales would not purchase aviation gasoline from a United States company and then re-sell it to either LATI or Condor in order to let them build up a surplus. If this was attempted, Intava agreed to refuse to sell on the grounds that its stocks were depleted.<sup>130</sup>

In early August more reports were received by the State Department that Condor was carrying out aerial reconnaissance. In spite of this, Condor's gasoline supplies were kept at the one month level although all sales by United States firms to LATI had been cancelled. Ambassador Armour feared that Yacimientos Petroliferos Fiscales would sell its lower octane gasoline to Condor if United States supplies were completely cut off, and he gave some credence to a rumor that the Germans had developed "chemical tablets" to improve octane rating of lower grade gasoline. Almost immediately afterwards

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<sup>130</sup> Welles to Armour, July 29, 1941, ibid., p. 337; Armour to Hull, July 30, 1941, ibid., p. 338; Conn and Fairchild, The Framework . . . , p. 248.

Ambassador Armour reported to the State Department that his previous fears had been substantiated. Yacimientos Petroliferos Fiscales was furnishing gasoline to LATI. This resulted in direct pressure by the State Department to force Yacimientos Petroliferos Fiscales to cease and desist. The Argentine Government was told that unless she cooperated she would not receive the same equal consideration to be given to other Latin American Republics for the sea transportation of their products. Apparently this threat had no effect because by mid-September further word was received that Yacimientos Petroliferos Fiscales intended to negotiate a contract with LATI and possibly Condor.<sup>131</sup>

This lack of Argentine cooperation doubled the State Department's efforts to enable Panagra to increase its service in Argentina in order to counteract Condor and LATI. It also served notice on the Argentine Government that unless Yacimientos Petroliferos Fiscales stopped its sales to the Axis airlines, there was danger that it might be put on the United States "Black List." This apparently made some impression on Argentine authorities as reports that a contract was to be signed between Yacimientos Petroliferos Fiscales and LATI were denied

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<sup>131</sup> Armour to Hull, August 2, 1941, Foreign Relations, 1941, VI, pp. 338-39; Hull to Armour, August 6, 1941, ibid., p. 340; Armour to Hull, September 16, 1941, ibid., p. 342.

although subsistence sales to LATI continued. However, by mid-October after the successful United States-Argentine trade agreement was in the process of being signed, the Argentine Government reversed its policy and gave official assurances that Yacimientos Petroliferos Fiscales would sell no more gasoline to LATI.<sup>132</sup>

The trade agreement probably was an important factor in this policy change as it cleared the air between the two governments. Nevertheless, Yacimientos Petroliferos Fiscales's wish that its contract with Phillips Petroleum, signed the previous December, be honored was probably a more important consideration. Ambassador Armour recommended that this be allowed. However, Secretary Hull declared that this was no longer feasible irrespective of Argentine actions because the "machinery" was needed for United States defense needs. This decision upset Yacimientos Petroliferos Fiscales and led Ambassador Armour to request that the State Department reconsider its decision on the grounds that Yacimientos Petroliferos Fiscales did not need machinery--only patents and research rights. Hull would not budge an inch and continued to claim that "urgent defense needs" precluded the carrying

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<sup>132</sup>Hull to Walker, September 20, 1941, ibid., p. 343; Hull to Armour, September 24, 1941, ibid., p. 344; Armour to Hull, October 2, 1941, ibid., pp. 347-48; Welles to Bonsal, October 11, 1941, ibid., p. 348.

out of this agreement.<sup>133</sup> Although Hull claimed that this decision was in "no way linked" to Yacimientos Petroliferos Fiscales's dealings with Axis airlines, Argentine officials must have doubted the credibility of that claim. They had finally agreed to do as the United States wished but when they did they were, in effect, slapped in the face. However, they had little choice but to acquiesce since their maneuverability was limited by their increased need for United States aviation gasoline. As long as they could not manufacture it themselves in large quantities, this dependence would continue.

By early November, the United States was well on its way to a final success in both Argentina and Brazil. Brazil had been cooperating with practically everything the United States suggested, but while agreements in principle had been made to eliminate the Axis-controlled airlines, substitute service by Panair do Brazil, another subsidiary of Pan American Airways, had not yet duplicated or improved the service of the existing airlines. In Argentina, relations were not as good, but negotiations for increased service by Panagra were close to success.

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<sup>133</sup> Armour to Hull, October 13, 1941, ibid., pp. 348-49; Armour to Hull, October 21, 1941, ibid., pp. 349-51; Hull to Armour, October 25, 1941, ibid., p. 352; Armour to Hull, October 28, 1941, ibid., pp. 353-54; Hull to Armour, November 21, 1941, ibid., pp. 354-55; Hull to Espil, November 21, 1941, ibid., p. 355.

Once they were completed Panagra's new service between Santiago and Buenos Aires was to be the equal of its old service plus all of Condor's old service. This was aimed at the elimination of the Condor run.<sup>134</sup>

In late November Panagra began daily service between Santiago and Buenos Aires. With this service, the United States oil companies in Argentina refused to sell any more gasoline to Condor for its Santiago to Buenos Aires run although they continued selling limited amounts to Condor for its Buenos Aires to Rio de Janeiro run. This was to be cut off once Pan American could duplicate this service. It was understood that in the meantime Yacimientos Petroliferos Fiscales would not furnish Condor with any gasoline.<sup>135</sup> The United States did not expect Argentina to make the politically unpopular move of cancelling Condor's franchise until Condor could be forced out of business, thus violating its contract with the Argentine Government.

This was the situation when the attack on Pearl Harbor occurred. Although neither Condor or LATI had been eliminated, the machinery that had been set up for that purpose quickly went into action. All gasoline

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<sup>134</sup>Caffrey to Hull, October 24, 1941, ibid., pp. 525-26; Hull to Caffrey, November 5, 1941, ibid., p. 526.

<sup>135</sup>Hull to Armour, November 25, 1941, ibid., p. 356.

supplied by United States-owned companies was quickly and entirely cut off to the two Axis airlines. Both the Brazilian and the Argentine Governments acquiesced in this action, and apparently Yacimientos Petroliferos Fiscales did not attempt to sell any of its gasoline to either company. Panair do Brazil was furnished with seven Lockheed Lodestars by the Defense Supplies Corporation. This allowed her to duplicate Condor's service in Brazil. Although Condor had about a month's supply of gasoline left, it ceased operations in both Argentina and Brazil. Shortly thereafter LATI followed suit.<sup>136</sup>

These events were the final vindication of one of the most successful political-military policies that the State Department followed in its pre-war Latin American policy. With the elimination of LATI and Condor over eighteen thousand route miles of Axis-controlled or influenced airlines had been replaced with either government controlled or United States-owned airlines that would operate in the interests of United States foreign policy. This program had taken some time in getting started, but once Pan American Airways and the State Department had reached agreement on their respective

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<sup>136</sup>Conn and Fairchild, The Framework . . . , p. 248; Burden, pp. 72, 76; Hull to Caffrey, December 11, 1941, ibid., p. 527; Hull to Caffrey, December 12, 1941, ibid., p. 527.

roles much had been accomplished. With the elimination of the Axis airlines, pro-Axis propaganda distribution and communications were impaired, and any threat that the airfields run by these companies could be used to facilitate an Axis air invasion was eliminated. This action also barred the Axis from using these airlines as a transmission belt for their agents and diplomats. The results of this policy certainly justified the State Department's use of a private United States company to help carry out its will.

In another related project, the State Department's use of Pan American Airways was more limited in success. The State Department had learned since the outbreak of war in 1939 that, despite many of the American Republic's close relations with the United States, any hopes for military bases on their territory were foredoomed to failure. This was a political issue in all the American Republics, and no leader could allow the United States concessions that made it appear that the nation's sovereignty was compromised. The only Latin American exception to this was Panama where previous treaties already limited Panama's sovereignty to some extent. The United States special position there in relation to the canal allowed it to procure additional bases before Pearl Harbor, but in all other areas the State Department soon



realized it had to come up with some contingent policy. It was finally decided in 1940 to let Pan American Airways become the stalking horse for the military's wishes for base site facilities in Latin America. Because it was a private company under contract with the host government, it could build and improve airfields and other communications facilities, in order to expand its service, without the political problems that would have been involved in a similar plan carried out directly by some agency of the United States Government. Consequently, the State Department and Pan American entered into a contract on November 2, 1940.

This contract, which was financed by money from the President's Emergency Fund, called for Pan American to carry out a program of airport construction under the guidance of the General Staff of the War Department. The overall plan envisaged the establishment or improvement of twenty-five base sites in the West Indies, Mexico, Central America, northern South America and Brazil. The completion date for the whole project was June 30, 1942.<sup>137</sup>

In order to do its part Pan American Airways set up a subsidiary company, Pan American Airports Corporation,

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<sup>137</sup>Conn and Fairchild, The Framework . . . , pp. 253-54.

to carry out the actual construction. Construction began in early 1941 and continued throughout the year, but by the time of Pearl Harbor the entire program was only about 38% complete. Still most of the fields were in usable condition, and the whole program had been updated two months so that it could be completed by April 30, 1942. Despite this relative success the War Department was generally not happy with the performance of Pan American. In fact in September, 1941, it made a formal complaint to Pan American about what it considered the unsatisfactory progress of the whole plan.<sup>138</sup>

In spite of this contemporary dissatisfaction with the plan, its long-run implications were more important. Pan American had done something that the United States Government had wished, but was unable, to do. Individual failures had occurred, but the overall program was a partial success by December, 1941 and a near total success during the rest of the war. The newly constructed airfields were a military asset during the war, but they were also an important contribution to friendship and closer relations with the Latin American countries once peace was secured. Ultimately the United States Government paid more than one hundred million dollars in construction and maintenance costs to the

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<sup>138</sup>Ibid., pp. 254-55.

Pan American Airports Corporation, and it was considered a good investment.<sup>139</sup>

Over half of the money expended on airports was in Brazil. This huge amount shows how important the United States Government thought Brazil was to the defense of the hemisphere. In fact, with the possible exception of protecting the Panama Canal, the United States State and War Departments considered Brazilian relations to be the key to hemispheric defense. They had been cultivating the Brazilians since the outbreak of war in hopes that agreements could be reached that would strengthen the bulge of Brazil because United States Army planners expected any Axis attack on the hemisphere to be directed there. However, despite some agreements and continued good relations the United States and Brazil had not satisfied each other on either the questions of arms or bases by April, 1941.

May was clearly the crisis month for the makers of United States foreign policy. On May 15 public announcement was made that Admiral Darlan of France's Vichy Government had reached an agreement with Hitler. This, combined with striking Nazi victories, renewed alarm and speculation in Washington that this opened the

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<sup>139</sup>Ibid., pp. 255, 258-59.

way for the Nazi occupation of Dakar. This would be a direct threat to the bulge area of Brazil. The seriousness of the threat was borne out by the rapid action Washington took to deal with it. With the approval of both the War and State Departments Colonel Matthew Ridgeway was sent to Brazil on May 16 with a twofold mission. He was to secure Brazilian agreements to begin joint staff planning and to allow the immediate sending of United States Army troops to Northeastern Brazil. Shortly after President Roosevelt declared an unlimited national emergency on May 27, President Vargas agreed to begin joint staff planning, but nothing was said about using United States troops on Brazilian soil.<sup>140</sup>

This was the limit on Brazilian-United States relations as dictated by internal Brazilian politics. No Brazilian, or other Latin American politician, could agree to allow United States forces on the soil of his country without risking his own political future. In spite of this limitation, the United States had received many helpful concessions from the Brazilians in return for little more than promises of future supplies of war material. In fact, this gap between promise and reality

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<sup>140</sup>Ibid., p. 284; Langer and Gleason, The Undeclared War, p. 518; Hull to Caffrey, May 22, 1941, Foreign Relations, 1941, VI, pp. 494-96.

served as a cloud over otherwise good Brazilian-United States relations. Brazil had literally done nearly everything the United States wanted up to June, 1941 to help the United States strengthen the defense of the hemisphere. In April Brazil had agreed to allow United States Naval patrol forces in the South Atlantic to use the parts of Recife and Bahia for refueling and overhauling purposes. Theoretically, this would not involve the question of Brazilian sovereignty since United States personnel were not stationed in Brazil--only allowed in Brazilian waters. By early June, it appeared to Ambassador Caffrey that the State Department had had second thoughts on its plans to make twenty Douglas bombers available to the Brazilians. These were to have been sent in return for Brazilian permission to allow the United States to take aerial photographs of Northeastern Brazil and to allow United States participation in Brazilian naval maneuvers scheduled for August, as well as Brazilian acceptance of the aid of United States staff officers in preparing the defenses of Northeast Brazil. These were all granted as was much more including Brazilian cooperation with Panair do Brasil for air bases, Brazilian prohibition of strategic mineral sales to the Axis, Brazilian acceptance of the United States suggestions that more Brazilian troops be sent to the Northeast and

that a naval base be built at Natal. Because of these and other examples of Brazilian friendship with the United States that were not being reciprocated, Caffrey sent a slightly sarcastic telegram to the State Department requesting that, at least, the bombers be sent and warning that Brazilian acquiescence in United States policies would not continue indefinitely unless the United States began to reciprocate.<sup>141</sup>

Despite Caffrey's warnings the bombers were not sent. Nevertheless, President Roosevelt and the State and War Departments continued to try to tie Brazil and the United States closer together by offering joint participation in the occupation of Dutch Guiana and the Azores should either become necessary. In return, they hoped that Brazil would agree to the sending of some nine thousand, three hundred United States troops and forty-three planes to the bulge area of Brazil. The thinking behind this move was sound--it would be much easier to fortify and hold this area than it would be to dislodge Axis troops once they landed. However, the political susceptibilities that had prohibited this move previously were still roadblocks in mid-June, 1941.

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<sup>141</sup>Hull to Caffrey, April 17, 1941, Foreign Relations, 1941, VI, pp. 493-94; Caffrey to Hull, April 18, 1941, ibid., p. 494; Caffrey to Hull, June 4, 1941, ibid., p. 497; Langer and Gleason, The Undeclared War, p. 518.

General Marshall predicted that "short of war, this problem may prove insolvable,"<sup>142</sup> The next six months would prove him right. Luckily the troops were not needed because the Nazis never attacked, but as this was not known in the panicky months between May and December, the United States continually tried to bring about Brazilian acquiescence.

This panic was shown most strikingly even immediately after the fortuitous Nazi invasion of Russia on June 22. Sumner Welles believed that the "possibility of German aggression against the Western Hemisphere" was "becoming more imminent." Since the danger points in the hemisphere were Iceland and Natal (Northeast Brazil), these were where preventive actions should take place. Ambassador Caffrey was then requested to approach President Vargas in hopes that he would permit United States troops to be sent to Brazil. However, Mr. Aranha squelched this plan before it was sent to Vargas by persuading Ambassador Caffrey that it would be a mistake to ask Vargas' permission in view of the United States failure to send the arms that the Brazilian Army had requested.<sup>143</sup> It

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<sup>142</sup>Conn and Fairchild, The Framework . . ., p. 286; Marshall to Welles, June 17, 1941, Foreign Relations, 1941, VI, pp. 498-501.

<sup>143</sup>Welles to Caffrey, June 26, 1941, Foreign Relations, 1941, VI, pp. 501-02.

was clear that Brazil could not give in on this question especially in light of United States failures.

Discussions on bases continued, but they were unsuccessful until after Pearl Harbor. In spite of this, United States-Brazilian relations continued to be good throughout the remainder of the year. In fact, the base question was the exception to an otherwise increasingly harmonious relationship. This was borne out by other examples of cooperation in the summer and fall of 1941.

After the United States agreements to take over the defenses of Iceland and Greenland on July 1, President Roosevelt sent a personal message to President Vargas requesting Brazilian joint action with the United States in Dutch Guiana, the Azores, and the Cape Verde Islands if they were threatened with a German takeover. United States intelligence reckoned that Germany would only be tied up in her Russian venture a few months and then would be free to attack toward the west again. Consequently, Roosevelt wanted to make sure that the Brazilian Government would be prepared for the seemingly dark future. President Vargas replied in late July that Roosevelt's viewpoints coincided with his own on the need for joint action and on the state of the world situation. He then promised Brazil's "entire collaboration" with the United States for the defense of the continent. By August 22 he



specifically agreed that Brazil would cooperate with the United States in Dutch Guiana once permission was received from the Dutch Government in exile. He was also willing to negotiate with Portugal to bring about Brazilian-United States control of the Azores and Cape Verde Islands if it became necessary.<sup>144</sup> Although the combined takeover of the Azores and Cape Verde Islands never became necessary and although the Dutch did not give the United States permission to land troops in Dutch Guiana until November 24, Brazil was with the United States 100% in both cases.

In the meantime two other agreements were made between the two countries. The first, which was signed on July 24, was based on an earlier agreement in October, 1940. It set up a joint staff planning project. Its purpose was to set up contingency plans for the combined Brazilian-United States ground and air defense of the Western Hemisphere with particular emphasis on Northeastern Brazil. The obvious hope of the United States planners was that Brazil would make an early request for assistance that would enable United States forces to be sent to Northeastern Brazil. While this did not come

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<sup>144</sup> Welles to Caffrey, July 10, 1941, ibid., pp. 504-06; Caffrey to Hull, July 28, 1941, ibid., pp. 509-10; Caffrey to Hull, August 22, 1941, ibid., p. 511; Langer and Gleason, The Undeclared War, pp. 603-04.

about, much progress was made on defense measures. A Northeast defense plan was prepared that proposed that large airbase and supply facilities be set up in a number of locations in Northeast Brazil. Also, United States officers in civilian clothes were freely allowed to explore Brazilian territory; a medical survey was made; and Brazil promised to share all its defense information with the United States.<sup>145</sup>

The successful work of this Joint Planning Group led to the request of General Goes Monteiro, the Brazilian Chief of Staff, for a permanent Joint Board for Northeast Brazil. This new group had the primary purpose of working out supply and construction problems for the Northeast. Although it was proposed on November 10, rumors that it was a part of a United States plan to occupy Northeast Brazil delayed its implementation until after Pearl Harbor.<sup>146</sup>

Finally, in late November, an entering wedge was made for the possible sending of United States troops to Brazil. President Vargas agreed to a United States request that naval patrol planes could use Brazilian ports. This

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<sup>145</sup>Caffrey to Hull, July 25, 1941, Foreign Relations, 1941, VI, pp. 506-09; Conn and Fairchild, The Framework . . ., pp. 291-92; Langer and Gleason, The Undeclared War, pp. 601-02.

<sup>146</sup>Hull to Caffrey, November 10, 1941, Foreign Relations, 1941, VI, pp. 512-13; Langer and Gleason, The Undeclared War, pp. 602-03.

was used as an excuse to send in a few Army planes guarded by Marines in the guise of "technical assistants." Although this was not accomplished until December 11, four days after Pearl Harbor, three companies of Marines were sent to Northeast Brazil.<sup>147</sup>

Taken as a whole, Brazilian-United States relations during this period in 1941 were remarkably good. This was especially gratifying since the United States had failed to carry out its intentions to send arms to Brazil. This could have given the Brazilians all the excuses they needed to procrastinate, to delay, or to refuse to cooperate with the United States on other matters of hemispheric defense. However, thanks to far-sighted leadership they did none of these things. Their only major refusal, that of forbidding United States troops in Brazil, was brought about by the necessities of internal politics, and it too was breaking down by December, 1941.

This solidarity with Brazil was matched by United States military relations with Mexico during the same period. This was as remarkable, if not more remarkable, since the expropriation policies of the Mexican Government were more of a potential stumbling block than any aspect of Brazilian-United States relations. United States public

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<sup>147</sup>Hull to Caffrey, December 25, 1941, Foreign Relations, 1941, VI, pp. 513-14; Conn and Fairchild, The Framework . . . , pp. 300-02.

opinion was nearly unanimous in favor of Brazil, but it was heavily divided about Mexico. Despite the unfavorable public opinion, the Roosevelt Administration refused to let the oil companies and their supporters ruin relations with Mexico. As one crisis led to another in 1940 and 1941, they were determined to clear the air by reaching an agreement with Mexico over the previous claims.

By the late spring and early summer some progress was being made on the claims controversy, but Mexican public opinion still was not favorable to the United States. Many of the Mexican leftists were toeing the Communist line and that meant, in May, 1941, opposing the Allies. They put great pressures on the Mexican Government to give an account of its foreign policies and to give assurances to the Mexican people that no secret treaties had been made with the United States. This was done by Avila Camacho in a restatement of his nation's autonomy and sovereignty. However, shortly thereafter the Nazi attack on Soviet Russia forced the extreme leftists to reverse their position completely. After that, attacks on the United States lessened and finally disappeared. This gave both countries more room to operate in and particularly gave the Mexican Government more widespread

support for its policies of closer collaboration with the United States.<sup>148</sup>

After the United States received transit rights for military aircraft in the spring of 1941, negotiations for naval base rights were intensified. The Navy Department wanted a long term lease and United States sovereignty over any newly constructed bases such as in the destroyer deal with Britain, while the Mexican Government wanted the United States to pay for their construction and allow total Mexican sovereignty over them. These conditions were political necessities in Mexico. Even after the United States changed its position and made it known that it would agree to the joint use of the proposed naval bases as an emergency measure, the Mexican Government still balked. After other disappointments in the late summer of 1941, the State Department, realizing that the key to the whole situation was the claims controversy, decided to defer further negotiations until after the contemplated claims agreement was signed. When this finally occurred on November 19, 1941 United States-Mexican relations on defense and related matters rapidly brightened.<sup>149</sup>

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<sup>148</sup>Howard F. Cline, The United States and Mexico (Cambridge: Harvard University Press, 1953), p. 266.

<sup>149</sup>Langer and Gleason, The Undeclared War, pp. 607-08.

After the Pearl Harbor attack nearly all restraints on Mexico's foreign policy toward the United States were lifted and quick agreements followed. On December 8, the United States received permission to carry out reconnaissance and install radar stations in Sonora and Baja California. On December 24, the United States received the full use of Mexican ports subject only to prior notification, and on January 12, 1942 the previously discussed United States-Mexican Joint Defense Commission was set up and began functioning. Mexico had expressed solidarity with the United States soon after Pearl Harbor.<sup>150</sup> She was quickly to prove the worth of her statements by her policies that materially helped the United States. Ultimately, they were to force Mexico to join the war and take an active part in it. This success of the United States policy with Mexico was a direct result of the November claims agreements. Without them, Mexico undoubtedly would have been much more restrained in her actions although her violent anti-Fascism insured that she would remain hostile to the Axis.

As in Mexico's case, United States-Panamanian relations were operating under a cloud during 1941. The United States wanted base sites in Panamanian territory

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<sup>150</sup>Conn and Fairchild, The Framework . . . , pp. 338, 357; Cline, p. 267.

to help protect the Canal, while Panama wanted substantial concessions in return. Negotiations had been held during 1940 and early 1941 but to no avail. Consequently, President Roosevelt and the State Department, citing the 1936 Treaty, used direct pressure on Panama to allow the United States authorities to begin construction of the proposed base sites before a definite settlement on Panama's twelve point counter requests was made. Arnulfo Arias, the allegedly pro-Axis President of Panama, after threatening to resign, grudgingly agreed. When he did so, much of the leverage that Panama could exert against the United States vanished in favor of the fait accompli. Nevertheless, the United States and Panama carried out further negotiations throughout 1941 in hopes of settling this impasse.

During the spring and early summer of 1941, lengthy discussions were held between Under Secretary of State Welles and either Ambassador Carlos A. Brin or Foreign Minister Raul de Roux of Panama. In these confused negotiations many issues came up. The United States was willing to give in to some of Panama's demands but only in return for a satisfactory arrangement on the base sites. Panama, on the other hand, would agree on the details of the base sites only when she was satisfied on her twelve point program. This program dealt with a

multitude of things including the control of waterworks, the transfer of lots, the sale of produce, bridge and road construction, the importation of labor, and many other assorted questions. The State Department could not agree to all of the Panamanian demands on these questions, but the real trouble came over the details of the base sites. On this question, Panamanian and United States representatives failed to agree on just how the 1936 Convention applied to the 1941 situation. They also were in conflict over the amount of rent to be paid, the termination date of the occupation of the base sites, the size of the United States garrisons, and the use of the airfields.<sup>151</sup>

Thus, the situation in mid-1941 did not augur well for the future. The major question was just how much money it was worth to the United States to avoid trouble with Panama. Since trouble with Panama would have an effect on United States relations with the other American countries, particularly those countries with which the United States sought base concessions, Sumner Welles believed and Roosevelt agreed, that settlement was worth a "few millions of dollars." Despite Welles' wish to be

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<sup>151</sup>Wright, Department of State Bulletin, 1952, p. 215; Langer and Gleason, The Undeclared War, pp. 612-13; Foreign Relations, 1941, VII, pp. 441-55.





conciliatory, the War Department was pressuring the State Department to keep concessions to a minimum, and the Panamanian Government was demanding large concessions. The result was that when Foreign Minister de Roux returned to Panama in late June no settlement had been reached.<sup>152</sup>

For the remainder of the Arias Administration negotiations continued, but no substantial progress was made. Just as a new United States draft was to be submitted to the Arias Administration in early October, a bloodless coup occurred and Arias was forced from power. In one way this was fortunate for the United States because the new President, Ricardo Adolfo de la Guardia, was much more in favor of the brand of inter-Americanism that the United States was attempting to follow than his predecessor. On the other hand, the rapid removal of Arias brought to mind the possibilities that this was all part of a United States plot. The pro-Axis press and German propaganda agencies had a field day, but there was no evidence that pointed to United States collusion with the revolutionaries.<sup>153</sup> In fact, United States officials tried to go out of their way to avoid

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<sup>152</sup> Welles to Roosevelt, June 19, 1941, Foreign Relations, 1941, VII, pp. 452-53; Langer and Gleason, The Undeclared War, p. 613; Wright, Department of State Bulletin, 1952, pp. 215-16.

<sup>153</sup> Wright, Department of State Bulletin, 1952, p. 216; Langer and Gleason, The Undeclared War, pp. 614-15.

interfering in Panama's internal affairs. Nevertheless some damage was done and the credibility of the State Department was threatened.

Just because there was a new administration in Panama did not mean that the United States would quickly get what it wanted. In spite of greater friendship between the two countries, Arias' demands were a political issue in Panama, and the new Administration could not back down. This delayed the final definitive agreement until well after Pearl Harbor. Panama got many of the concessions she wanted in the agreement of May 18, 1942, and the United States got legal control of the base sites.<sup>154</sup> It was unfortunate for the United States program of solidarity that these agreements took so long to accomplish, but the policy that the United States followed, of getting Panamanian permission to take control of the sites before working out the details of this control, was probably correct despite the image of pressure that it conjured up. If this policy had not been followed, either the United States would not have had possession of the base sites at the time of Pearl Harbor, or they would have been taken by force in direct violation of the

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<sup>154</sup> Panama did not ratify the agreements until May 11, 1943.

intentions of the Good Neighbor Policy. This would have horrified the rest of Latin America.

In spite of these troubles with Panama, the State Department had reason to believe that, as 1941 drew to a close, United States influence and solidarity with the other American Republics was increasing and that there was greater trust in the United States than ever before.<sup>155</sup> The passage of Lend-Lease, the granting of its provisions to the Latin American nations, specific agreements with Bolivia, Brazil, Cuba, the Dominican Republic, Haiti, Nicaragua, and Paraguay, and negotiations with many other American countries helped to point out the stake that each American country had in a United States victory if war broke out. Other military agreements already mentioned added to his confidence for the future.

After the Pearl Harbor disaster, much of this confidence was rewarded by Latin American words and actions. All twenty Latin American countries expressed friendship toward the United States and declared they would follow the inter-American agreements passed at Lima, Panama, and Havana. The nine small countries of Central America and the Caribbean, which were in the United States

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<sup>155</sup>Memorandum of the Division of American Republics, entitled "The Tangible Results of the United States Policy on Non-Intervention in the Other American Republics," November 10, 1941, quoted in Langer and Gleason, The Undeclared War, p. 264.

orbit, immediately declared war; Mexico, Colombia, Venezuela, and Ecuador severed diplomatic relations, and the other countries expressed solidarity and refused to consider the American countries at war as belligerents. Roosevelt's immediate reaction to the actions of all the Latin American countries was that they were "excellent" and "wholly satisfactory."<sup>156</sup> With the United States entrance into the war both the fruits of the Good Neighbor Policy and whatever rotten apples were left. over would be open for all the world to see. Whether the most important of the Latin American countries would back up their words with actions that the United States wanted them to take would determine once and for all whether Latin American was lined-up with the United States and whether the overall United States policy was a success or failure.

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<sup>156</sup>Franklin D. Roosevelt, "Press Conferences," XVII, December 12, 1941, p. 362.

## CHAPTER VI

### CONCLUSION

In one sense United States successes and failures in lining up Latin America can be measured by the dates the various Latin American countries declared war after the attack on Pearl Harbor. An assessment based on this criteria shows that the Central American Republics, the Caribbean countries, and Panama, all of whom declared war against the Axis within days after the Japanese attack on Pearl Harbor, were the countries most closely aligned with the United States. This part of the comparison is accurate, but it breaks down in part when the actions of the remaining Latin American countries are considered. It is true that Argentina, the main hemispheric antagonist of both the United States and inter-American solidarity, was the last to declare war against the Axis, thus seemingly backing up the proposed thesis. But her action, coming after years of increased inter-American pressure to purge herself of pro-Axis actions, followed just on the heels of the declarations of war of six of the other American Republics all of whom were decidedly more pro-Allied. The main reason these six countries had not

declared war earlier was that it was not originally United States policy to persuade all the Latin American Republics to declare war against the Axis. Except for the nine republics tied closest to the United States who all declared war in December, 1941, the State Department wished only that the Latin American countries show their solidarity by breaking off diplomatic relations with the Axis. This action would line them up by putting them in the position of neutrals following benevolent policies toward the United States and her allies. Its purpose was to lessen the probable necessity of defending them because a declaration of war by them might have led to an Axis attack.

This wartime policy was changed by early 1945 when it became apparent that the United States and her allies were going to win. With little threat to the hemisphere and with the Latin American countries now wishing the prestige of attendance at and participation in the post-war settlement, the Roosevelt Administration reversed its policy and welcomed Latin American declarations of war. This latter policy had been followed previously by four Latin American countries who felt it was necessary for various reasons for them to declare war. Mexico had declared war on May 22, 1942 and Brazil on August 22, 1942, after Axis sinkings of their ships. By 1945 both were taking an active, if limited, part in the war. Brazil

sent troops and Mexico sent an air squadron. Bolivia declared war on April 7, 1943, and Colombia, after trying to convince the seven remaining South American non-belligerents to declare war for the sake of strengthening their position in postwar negotiations, declared war on November 26, 1943. By early 1945 six of the seven remaining non-belligerents were convinced that it was in their postwar interest to declare war, and they did after getting the blessing of the United States. This left Argentina as the only blot against Pan American solidarity. At the Mexico City Conference of February, 1945, from which Argentina was excluded, the American countries worked out a formula that aimed at ending Argentina's isolation and at returning her in good grace to the family of the American nations. This required Argentina's declaration of war. Her acceptance of this condition was quickly followed by her declarations of war against Germany and Japan on March 27, 1945. Thus just two weeks before the end of the war in Europe, the hemisphere began to follow a common military policy.

While these declarations of war were one example of hemispheric solidarity, they are misleading in that countries such as Ecuador, Uruguay and Venezuela who were among the staunchest supporters of the United States did not declare war until February, 1945. A better measure of Latin American solidarity with the United States was



the other kinds of anti-Axis and pro-United States actions that individual countries had been taking since the outbreak of war in Europe. These policies, which were made and followed from 1939 to 1941, generally were augmented in the later period. Those countries most closely aligned with the United States before Pearl Harbor remained that way. The two countries undecided or hostile only changed very slowly despite increased pressure by the United States and some other Latin American countries. Thus it would be well to sum up United States relations with individual countries in Latin America prior to December, 1941 and compare these individual relations with the overall aims of United States diplomacy. In this way the successes and failures of United States policy can best be pointed out.

The five Central American Republics and the three Caribbean Republics can be dealt with quickly. They had long been tied to the United States by economic and military necessities and were sure to follow the United States lead into the war. Their active belligerency provided no manpower and little military aid to the Allies, but it did allow these countries to intern enemy aliens and to insure that their territory would not be used by the Axis as a base for raids on inter-American shipping or on the Panama Canal. They could afford to declare war because they knew that the United States had to protect

them in order to insure its own defense. These declarations were only gestures, however, and the United States would have treated them the same had they only broken off diplomatic relations with the Axis.

Panama was the other Latin American country that declared war immediately after Pearl Harbor. Although Panama also was sure to ally herself with the United States, she deserves special attention due to the long standing difficulties that existed between the two countries over the Panama Canal and United States rights in Panama.

The preponderance of United States military power in the Canal Zone and the requirements for hemispheric and canal defense strained Panamanian-United States relations. President Arnulfo Arias sought to take advantage of one obvious United States dilemma. This was, how far should it go to placate the Arias Administration before demanding its treaty rights and bolstering the defense of the canal? Arias and many other Panamanians thought that, by holding out as long as they could before agreeing to follow the Panama-United States Treaty, they could receive a long list of concessions that would benefit their country materially. The danger was that, if they held out too long, the Roosevelt Administration might demand that the treaty be enforced and begin sending in men. A unilateral action like this would have broken the

non-intervention pledge of the Good Neighbor Policy and played into the hands of pro-Axis and anti-United States hemispheric opinion. Arias was purported to be pro-Axis, but he grudgingly yielded to United States demands to occupy the needed base sites before final agreements were made. If he had held out to the bitter end, a breach in hemispheric solidarity surely would have occurred. Fortunately, United States pressure worked, and the base sites were occupied before final financial settlements were decided upon. After Arias was overthrown, the United States and Panama continued negotiations, and Panama received substantial concessions when the agreement was signed in early 1942. Even before this, Panama had declared war on the side of the United States.

It was clear in this case that Panama's special relationship with the United States due to the canal was a great potential threat to solidarity. A combination of nationalism and opportunism on Panama's part combined with the demands of United States military leaders for action had put increasing pressures on the Roosevelt Administration. Fortunately, diplomatic pressures, rather than military ones, worked and both hemispheric defense and the Good Neighbor Policy were preserved.

All the other Latin American countries, although they did not declare war immediately, took decisive steps to express their adherence to the inter-American

agreements of Lima, Panama, and Havana. While each of their communications to the State Department was slightly different, they generally followed three lines of thinking. Solidarity was expressed by all the countries. Some went further and promised to treat the United States and her allies as non-belligerents, thus allowing them the rights of neutrals. Other countries broke diplomatic relations with the Axis. These actions were perfectly satisfactory to the United States at that time. When the Rio de Janeiro Conference was held in late January, 1942, State Department policy had changed slightly. By then the United States wanted to reach an agreement with the Latin American nations to make it compulsory that all non-belligerent republics break off diplomatic relations with the Axis. When this was opposed, particularly by Argentina, the Rio Conference decided to "recommend" that this be done. Shortly thereafter, all the remaining countries except Argentina and Chile severed relations.<sup>1</sup> Thus, within a short time after Pearl Harbor, all the American Republics, except Argentina and Chile, had followed United States

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<sup>1</sup>For the famous intra-governmental dispute between Hull and Welles, see Hull's Memoirs, pp. 1143-50, 1377 and Welles, Seven Decisions that Shaped History (New York: Harper, 1951), pp. 94-122, as well as Foreign Relations, 1942, V, pp. 6-48.

wishes, and even these two countries had expressed solidarity and promised not to treat the United States as a belligerent.

This nearly complete acquiescence in United States wishes reflected the hard work that had gone into the making of United States policies in the 1939-1941 period as well as the recognition by the overwhelming majority of Latin American Governments that their destiny, at least during the war period, coincided with that of the United States. Yet each of these countries had individual problems with the United States that require individual treatment in order that their actions can be understood.

The three countries of northern South America, an area well within the traditional orbit of the United States, had had very diverse relations with the United States in the 1939-1941 period. Of the three, the relations between Venezuela and the United States were the most uneventful and uncontroversial. The Venezuelan Government was pro-United States and pro-British, and the country was economically tied, through its enormous oil production, to companies of these two countries. The State Department had further strengthened these ties in November, 1939 with a trade agreement. By early 1940 the United States had received permission from Venezuela, as well as Colombia and Ecuador, to patrol their coasts. Venezuela continued to follow the United States lead

thereafter, and in 1941, after cooperating in removing the danger of a possible Axis threat against the oil refineries on Aruba and Curacao, the two countries signed a naval mission agreement. Thus at the time of Pearl Harbor, Venezuela's cooperation was practically assured.

Colombia's relations with the United States, while generally good, were complicated in the 1939-1941 period by the dilemma over what actions to take against SCADTA and what to do about Colombia's debts owed to United States citizens. The first of these was perhaps easier to solve in the long run. By early 1940 the State Department, the Colombian Government, and Pan American Airways were working on plans to eliminate SCADTA. AVIANCA was set up in June, 1940 under Pan American Airways leadership. Less than a year later ARCO, a small German-influenced airline, was purchased by AVIANCA, thus ending the Axis airline threat in Colombia. During these negotiations the State Department had received all that could reasonably be expected regarding Colombian cooperation.

The other major problem in United States-Colombian relations was more difficult to solve. Colombia was in default on its debts owed United States citizens, and the F.B.P.C. was demanding a settlement. Since Colombia wanted an Export-Import loan, tremendous pressure was applied on the State Department to prevent this loan until an agreement with the F.B.P.C. was reached. Before World

War II began, the State Department backed the F.B.P.C. and refused the loan. Once the war began the decision was made to encourage settlements but to look at each case individually. Consequently, when Colombia agreed to a temporary debt settlement in February, 1940, an Export-Import loan was permitted. However, when the F.B.P.C. continued to press Colombia for a permanent settlement, the patience of the State Department ran out. By late 1940 they believed that the Colombian offer, that had been rejected by the F.B.P.C., was a reasonable one. Therefore, they verbally backed the Colombian Government, and by doing so, they stood up to a powerful domestic vested interest group for the first time. This courageous action was long in coming, and it certainly helped relations with Colombia as another Export-Import loan followed in 1941. Undoubtedly this should have been done before in Colombia and in other countries in which F.B.P.C. actions were detrimental to the carrying out of closer hemispheric relations, but at least it was done well before the United States entered the war.

During 1941 the United States tried to ensure that Nazi subversion in Colombia could and would be handled by the Colombian Government. By September President Roosevelt feared that secret airfields in Colombia could be used by pro-Axis groups to attack the Panama Canal. This question was settled by assurances from the Colombian Government,

but in Colombia, as well as in other Latin American countries, the question of the publication of the "Black List" aroused great public hostility especially among groups who felt they were unjustly on the list. This temporary split between the two nations was smoothed over by Colombia's President Santos so that by Pearl Harbor relations were on an even keel again. Colombia immediately broke off relations with the Axis after the Japanese attack, remained a staunch friend of the United States during 1942, and finally declared war on the Axis in November, 1943.

Like Colombia, Ecuador had problems with debts owed to United States citizens and with a German-owned airline. In the late spring of 1940 Ecuador requested an emergency Export-Import loan because of the war-caused breakdown of its overseas sales. Despite the fact that Ecuador was in total default on its United States-owned bonds, the State Department ultimately got the Export-Import Bank to lend Ecuador over a million dollars. Since the F.B.P.C. was not then negotiating with Ecuador for a debt settlement, this tangle was circumvented. The real reason why the State Department was so interested in giving Ecuador the loan was that it was then negotiating with Ecuador for the elimination of SEDTA, and the President of Ecuador feared a coup d'etat unless the financial problem was solved. If the latter had happened, discussions over SEDTA certainly would have terminated without success.



Even with the loan, it was a long time before SEDTA was eliminated. Panagra was set up in competition with SEDTA in December, 1940, but the Ecuadoran Government was reluctant, for political and legal reasons, to cancel SEDTA's contract. Ultimately SEDTA's fuel supplies were dried up by United States actions, and it ceased operations in October, 1941.

A further complication to United States-Ecuadoran relations, as well as to hemispheric solidarity, was the border dispute between Ecuador and Peru. The United States as well as other Latin American countries sought to prevent this long-standing dispute from deteriorating into open war. They could not prevent this, but they did use their combined diplomatic pressure to end the fighting and ultimately to get the disputants to reach an agreement at the Rio de Janeiro Conference in January, 1942.

Once the United States got into the war, Ecuador was able politically to carry out some long-standing State and War Department desires. Consequently, the United States was given base rights in the Galapagos Islands and at Salinas in Ecuador. These base rights, combined with military and naval mission agreements that had been signed in 1940, assured that the United States would have an increasing amount of interest and influence in Ecuador.

Ecuador's antagonist, Peru, and the three remaining countries of the second magnitude in South America, Bolivia, Paraguay and Uruguay, all reacted similarly after the attack on Pearl Harbor. Each in its own way declared its solidarity and its cooperation, but none immediately severed diplomatic relations with the Axis. However, all of them followed the recommendations of the Rio de Janeiro Conference and broke relations by the end of the Conference.

Peru's relations with the United States had not always been as satisfactory as they were at the time of the Rio de Janeiro Conference. In fact, the relations of the previous two and one half years took on the configuration of a roller coaster. They started rather low, reached a high point in mid-1941, took a dip in late 1941, and improved rapidly after the United States entered the war.

The main problem in 1939 was that Peru was having economic problems partly due to cotton market competition with the United States. Peru also resented the special treatment that the United States gave to Cuban sugar especially since Peruvian sugar was in great over-supply. When Peru requested an Export-Import loan to help her solve her financial problems, she was turned down because of her defaulted debts. For these reasons and other more personal ones, Peru's President, Oscar Benavides, was

cool, if not hostile, to the United States. In fact, there was some fear that Japanese barter trading tactics combined with Benavides' apparent admiration of Nazi Germany might serve as wedges to help divide the American nations.<sup>2</sup>

Peru's financial situation worsened during the rest of the "Phony War" period, but relations with the United States began to improve after Manuel Prado was elected President. In fact, the State Department decided to go against the wishes of the F.B.P.C. and grant Peru a \$2 million Export-Import loan in June, 1940. A further \$10 million credit that cancelled the \$2 million credit was forthcoming in December, 1940. These, combined with an unexpected revival of Peru's economy due mainly to the war, led to a much greater United States influence in Peru during the first half of 1941. After discussions with the State Department, Peru cancelled the operating permit of Lufthansa in late March, and, between mid-June and August, Peru first prohibited the re-export of strategic raw materials and then passed an export control law. Also, an Italian air mission was replaced by one from the United States.

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<sup>2</sup>For a more detailed discussion of this see Carey, pp. 102-05.

These actions were gratifying to the United States, but just as relations reached their highpoint, the Ecuador-Peru border dispute broke out in open war. When the United States requisitioned 18 Douglas planes that were consigned for Peru, a storm of protest threatened to disrupt these excellent relations. Fortunately, the breach was only temporary, and, after Pearl Harbor, Peru quickly made it clear that she was solidly behind the United States. Japanese funds were frozen, and the United States was given permission to use a base at Talara. After Peru broke all diplomatic relations with the Axis in early 1942, an Export-Import loan of \$25,000,000, an agreement to purchase up to 200,000 bales of Peruvian cotton annually, and a Lend-Lease agreement followed quickly.<sup>3</sup>

Bolivia's relations with the United States had been hampered since 1937 because of the expropriation of the holdings of Standard Oil Company. This combined with her total default on bonds had aroused the wrath of the F.B.P.C. and practically precluded needed Export-Import loans. Bolivia also had a large pro-Axis minority and German underground to contend with. These difficulties could have but did not alienate Bolivia from the United States.

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<sup>3</sup>David Popper, "Hemisphere Solidarity in the War Crisis," Foreign Policy Reports, XVIII (May 15, 1942), pp. 59-60.

Once the war began, Bolivia requested financial help from the United States. Despite Sumner Welles' backing, the rest of the State Department opposed helping Bolivia because of "public and Congressional opinion"; consequently, no loan was allowed.<sup>4</sup> The Bolivian economy declined further in 1940, but the United States refused to take any compensatory action until October when an agreement was signed for the yearly purchase of 18,000 tons of fine tin. The aim of this purchase was both to benefit the United States and to help Bolivia out of her financial troubles. It helped draw the two countries closer together, but it was no substitute for what the State Department really wanted--settlements on the Standard Oil expropriation and on debts.

Despite failings in those areas, relations continued to improve in early 1941. In May agreements were reached over the replacement of the German-influenced Lloyd Aereo Boliviano with Panagra and over the preclusive purchase of Bolivian tungsten by the Metals Reserve Company. After the failure of a Nazi backed attempt to overthrow the Bolivian Government in July, Ernst Wendler, the German Minister was declared persona non grata. This event further alienated Bolivia from the Axis and resulted in a

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<sup>4</sup>Hull to Welles, September 30, 1939, Foreign Relations, 1939, V, pp. 320-21.

Bolivian crackdown on pro-Axis elements in the country. It also resulted in closer relations with the United States as the Bolivian Government quickly assented to United States wishes and passed an export control law on July 31. This was followed in September and October by agreements to sell lead and zinc to the United States and by the signing of a pact that terminated an Italian military mission in return for the sending of a United States aviation mission. Finally, a Lend-Lease agreement was agreed upon on December 6. Thus, even with the expropriation question and the debt problem unsolved, much had been accomplished before the United States entry into the war.

Paraguay and Uruguay, the two smallest countries in southern South America, took contrasting stances in the 1939-1941 period. Paraguay, in part because of its land-locked location and limited strategic resources, played a very small role in hemispheric solidarity or in United States plans. Paraguay received a tiny Export-Import Bank loan of \$500,000 in June, 1939, but, despite chronic financial troubles thereafter and continued negotiations with the United States, no further loans were negotiated before Pearl Harbor. The most notable step to further United States-Paraguayan relations was the signing of a Lend-Lease agreement on September 20, 1941. Paraguay just continued to follow the lead of the vast majority of the other American Republics.

Uruguay, on the other hand, because of its democratic beliefs and pro-allied sympathies, was a leader in the promotion of both hemispheric solidarity and friendship with the United States. Shortly after the war began Uruguay got deeply involved because of the Graf von Spee incident. This episode must have convinced the Uruguayan Government that the tiny nation's best hope for the future was to have strong friends. Thus she was eager to tie herself both to the United States and to Brazil. After the Nazi invasion of the low countries, she took the lead in calling for a united American protest. The United States and all the other American Republics acquiesced in this anti-Axis gesture.

Not long after this, Uruguay went through an internal crisis brought about by the discovery of a German plot to take over the country. The threat was quickly put down, and Uruguay was backed up by the dispatch of two United States cruisers to Uruguayan waters and by the help that Brazil gave Uruguay in arms and ammunition. Relations then proceeded smoothly until the late autumn of 1940 when a heated controversy broke out in Uruguay over allegations that an agreement had been signed that allowed the United States to use Uruguayan bases.<sup>5</sup> Although

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<sup>5</sup>The War Department had been pushing this idea, but the State Department was more cautious, realizing the powers of foreign nationalism. This uproar bolstered the State Department's policy.

this was false, it led to the censuring of Prime Minister Guani by the Uruguayan Senate. However, when the President of Uruguay assured the Senate that Uruguay's sovereignty had not been compromised and that the United States had not received permission to use bases, the crisis simmered down. In the long run, this episode did not undermine the good relations between the two countries.

As the United States inched closer to war, by June, 1941, Uruguay let it be known that any American state that defended itself from non-American aggression would not be considered a belligerent. Thus once again Uruguay had taken the lead among the American states.<sup>6</sup> Uruguay was unique among the South American states in that its foreign policy wishes sometimes antedated similar United States desires. The United States did not have to line up Uruguay so much as to keep up with her.

Unfortunately these excellent relations with Uruguay were generally not complemented by close and friendly relations with Argentina, Uruguay's more powerful neighbor. Argentina proved to be a consistent thorn in the side of hemispheric solidarity. Yet in the years 1939-1941 much had been accomplished despite occasional Argentine recalcitrance and distrust of the intentions of

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<sup>6</sup>This had been Uruguay's position in World War I. After the attack on Pearl Harbor other American Republics followed this policy.



the United States. Early examples of Argentine cooperation were the September, 1939 agreement to permit the sending of United States aviation instructors to Argentina and the Argentine acquiescence in the plan for a security zone around the Western Hemisphere.

Despite the failure of Argentina and the United States to reach a trade agreement in late 1939 and early 1940, the Argentine Government, particularly President Ortiz and Foreign Minister Cantilo, favored closer relations. The Graf von Spee incident apparently was enough to show them that the position of a neutral in a world war was tenuous at best. Accordingly, after the Nazi successes in April, Cantilo proposed that the American Republics drop neutrality in favor of non-belligerency. This plan was rebuffed by the United States out of fear that it would hopelessly divide the American nations.<sup>7</sup>

One can only speculate on what might have happened had the United States supported Argentina, but without this support and with rising opposition at home, Cantilo shelved the plan. For a short while thereafter a Nazi sinking of an Argentine ship combined with what Ambassador Armour called a "clumsy attempt" by the Germans to cover

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<sup>7</sup>The State Department took the position that it would be best to conserve the gains made at Panama rather than to chart a new course toward the unknown of non-belligerency.

up fifth column activities in Argentina infuriated and strengthened the Argentine Government in opposition to Germany. But just as President Ortiz appeared more willing to support plans for hemispheric solidarity, illness required that the President remain in the background. This allowed Vice President Ramon S. Castillo to become Acting President, and he was more favorable to the Axis system and more blindly nationalistic.

Consequently, when the Havana Conference met, the Argentine delegation was extremely reluctant to follow the wishes of the United States. Finally Secretary Hull went over the head of the delegation and Acting President Castillo and appealed directly to President Ortiz. This worked and Argentina bent to inter-American wishes and signed the Act of Havana.

The United States continued to try to bring about closer relations thereafter but was only occasionally successful. Within the next five months military staff agreements were made with every Latin American Government approached except Argentina. During the same period the United States and Argentina did negotiate loans totalling \$110,000,000, but the Argentine Congress never passed the enabling legislation so the loans were never used. Economic similarities and Argentine resentment over seemingly discriminatory United States laws restricting Argentine beef imports also served to rankle relations.

By the spring of 1941, German victories in Europe and increased German activity in Argentina combined with domestic unrest practically forced Argentina to act timidly. Consequently, relations with the United States continued to be checkered. Argentina worked well with the United States and other nations who tried to mediate the Ecuador-Peru boundary dispute, but she vigorously opposed the use of the United States "Black List" in Argentina. At the same time economic negotiations with the United States culminated in October in a long awaited trade agreement. This was followed by assurances from Argentina that she would cooperate with the United States in getting rid of the Axis controlled airlines in Argentina. Just before Pearl Harbor an agreement for the sale of tungsten was negotiated with the Metals Reserve Company. Subsequently on December 2, Castillo promised that Argentina would carry out her continental commitments. Therefore, as the United States entered the war, relations with Argentina appeared to be on the upswing. Unfortunately this did not prove to be true, and Argentina came to be the major exception to the rule of hemispheric solidarity.

She was not totally alone however, as Chile followed her lead for over a year before severing relations with the Axis in January, 1943. In one sense this was a surprising development. Chile's Government was much more democratic than Argentina's, and her relations

with the United States had usually been much closer. However, Chile, like Argentina, had many ties with Germany that made it difficult to sever relations. For example, although there were probably less than 60,000 Chileans born in Germany or of German descent, they were much more influential than their small numbers indicate. Many were leaders in industry, commerce, or agriculture and had retained their close identity and connections with Germany. They were especially useful as fund raisers and propagandists for the Nazi cause. Besides this, the Chilean Army had long been trained, equipped, and influenced by Germany. Despite these problems for United States policy, there were a substantial number of pluses in the period 1939-1941.

The fact that Chile had reached a temporary agreement with the F.B.P.C. simplified her relations with the United States somewhat. Consequently, an Export-Import loan was quickly forthcoming once war broke out. This did not do much to solve Chile's deteriorating economic position however. By mid 1940 the loss of markets for copper and nitrates had become critical, and Chile looked to the United States to help her out. Another Export-Import loan of \$12,000,000 was negotiated in June, but what Chile really needed was substantial increases of United States purchases of nitrates and copper. By December exchange problems necessitated a third Export-Import loan of

\$5,000,000. At the same time the Defense Supplies Corporation agreement to purchase 300,000 tons of nitrates was made, and discussions about copper purchases began.

What was remarkable about Chilean-United States relations during 1940 was that Chile could have sold increased amounts of copper to Japan but declined to do so. During 1941 Chile's economic situation, contrary to most "expert opinion," began to improve due to the opening up of new markets for copper and nitrates. The United States increased its purchases of copper not only because of the need for stockpiling but because Chile had agreed to stop selling copper to Japan.

By December, 1941, relations with Chile had improved even further. Axis controlled airlines were in the process of being eliminated; Lend-Lease, strategic materials, and trade agreements were being negotiated; and Chile had promised to allow United States naval ships, patrolling the Chilean coast, to enter the ports of Antofagasta and Valpariso to procure fuel and supplies. In fact, on December 10, Ambassador Bowers reported that Chile was "definitely in our orbit." Unfortunately this did not prove to be immediately true.

Chile and the United States still had many problems including difficulties over the protection of Chile's long coastline, and over proposed copper purchases.

Still the fact remains that the United States had good reason in December, 1941 to believe that Chile had been lined up.

Although the high hopes that the State Department had for Argentina and Chile were met with disappointment, the two most powerful and important Latin American countries, Brazil and Mexico, came the closest to doing what the United States wanted them to do. They did this not necessarily because the United States wanted them to, but because they believed it was in their national interest.

Brazil, like Argentina and Chile, had large numbers of immigrants from Germany and Italy who held influential positions in and out of her government. Many of these people were pro-Nazi and pro-Fascist and consequently were a threat to the United States conception of hemispheric security. Also, Getulio Vargas, the Brazillian Dictator-President, was basically an unknown quantity because he combined Axis sympathies with professions for hemispheric solidarity and admiration for the United States. This, combined with Brazil's key location in regard to the defense of the hemisphere, required that Vargas be treated with special consideration. While this requirement was not always met, good relations with Brazil continued to be the highest priority for the United States.

An early example of this concern for the susceptibilities of Brazil occurred immediately after the attack on Poland. Before this, because Brazil had not made a settlement with the F.B.P.C., Export-Import loans, although needed and requested, were not permitted. Yet as a possible impetus to the encouragement of Brazil's friendship at the Panama Conference, this practice was temporarily dropped, and Brazil received a loan. Later in the fall, however, Ambassador Caffrey, in order to protect United States bondholders, prevented a proposed Brazilian agreement with European bondholders from taking place. Shortly thereafter, the State Department interposed its representatives into debt discussions with Brazil in hopes of getting the whole question settled. This removed F.B.P.C. political pressure and allowed much more flexibility in United States-Brazilian relations.

In early 1940 after long negotiations, the State Department was satisfied that it was getting the best deal it could for United States bondholders. The leaders of the F.B.P.C. disagreed, however, and held up settlement. A temporary debt agreement was finally reached in March, and another Export-Import loan followed soon afterwards. While the temporary settlement helped the State Department get internal political support for Brazil's needs, the protracted negotiations and the obstructiveness of the F.B.P.C. should have been taken as lessons to avoid in

future negotiations with other countries. Despite State and Treasury Department disenchantment with the F.B.P.C., neither permitted hemispheric interests consistently to take precedence over internal political interests. This was a mistake made throughout much of the 1939-1941 period.

In spite of these difficulties, economic relations with Brazil did improve although military relations did not get very far for over a year. Although Northeast Brazil was "The Keystone" of United States military plans, "Phony War" complacency and Brazil's reluctance to permit United States troops on her soil in peacetime precluded any agreements. After the Nazi successes in April and May, 1940, the situation became more urgent. In the panic that followed, the United States put together, on paper at least, an expeditionary force which was to be sent to Brazil if the Axis invaded. Despite widespread hemispheric fear that an invasion might come in the near future, Brazil refused to permit United States troops to be sent. About the only thing that was accomplished between the two countries was to hold a series of informal military staff conversations. These conversations were similar to those that the United States held with fifteen other American Republics in that each country wanted modern military aid and credits and neither could be promised in the foreseeable future. At least, personal relations of military leaders were closer.



By the autumn of 1940 better economic and military relations were accomplished through unilateral, bilateral and multilateral actions. In September an agreement was signed authorizing the loan of \$20 million for the Volta Redonda steel mill. This bilateral agreement was a big impetus to close relations as was the multilateral Coffee Agreement of November, 1940. Since Brazil was by far the biggest producer of coffee in the world, a guaranteed market and a guaranteed quota were of great importance in helping to stabilize her economy.

During this time the War Department still was concentrating on the protection of the bulge area of Brazil. Although military leaders of the two countries cooperated and signed satisfactory staff agreements, Brazil did not allow the United States to occupy any of her bases. Politically this was probably impossible except in case of war, but the United States did not do its cause any good by its inability to supply Brazil with anything but obsolete or unusable arms. The most that the United States did to arm Brazil was to intervene unilaterally in a Brazilian-British dispute over the Siquiera Campos. United States intervention caused the British to change their mind and to allow the Nazi arms on the Siquiera Campos to reach Brazil. This undoubtedly improved United States relations with Brazil.

By the late spring of 1941 relations improved further with the signing of a preclusive agreement on the purchase of a large number of strategic materials. In return the United States agreed to another Export-Import loan. Other materials were added to the list in late 1941 and early 1942. These good economic relations more than offset the later Brazilian disapproval of the "Black List."

Military relations between the two countries improved in 1941 despite the inability of the United States to supply Brazil with modern arms. Finally on October 1st a Lend-Lease agreement was signed that promised large amounts of strategic materials in the future. Another agreement allowed Pan American Airways, through a subsidiary company, to build bases for possible emergency use by United States military forces. Although these were not finished by Pearl Harbor, many of them were usable, and, when the United States entered the war, Brazil immediately allowed military men to be sent to the bulge area and the bases to be used as a link to Africa. At the same time, cooperation among the United States, Argentina and Brazil had cut off the fuel supplies of Condor and LATI and forced them to cease operations. These events and agreements were a major reason for continued good relations between the two countries after the United

States entered the war. Brazil immediately broke relations and after many provocations formally entered the war on August 22, 1942.

While much had been accomplished with Brazil, bilateral relations with Mexico had improved even more during the 1939-1941 period. Considering the state of these relations after the expropriations of earlier years had caused the hostile reactions of the domestic vested interest groups, this was the biggest accomplishment of all. Mexico in fact often took the lead and in a sense sought to line up the United States behind its conception of hemispheric solidarity and security. These actions were especially remarkable in contrast to Mexican-United States relations during World War I. Nevertheless, these continued good relations were tempered by constant problems until the "global settlement" of claims was agreed to in November, 1941. Before this relations were close but uncertain.

Before the invasion of Poland the Roosevelt Administration had agreed with Mexico's right to expropriate but had also reminded the Mexicans that expropriation without compensation was confiscation. At first the State Department suggested arbitration, but Mexico considered the matter to be domestic and rejected the idea. The State Department then encouraged direct settlements between the oil companies and the Mexican Government.

Unfortunately the March, 1939 mission of Donald R. Richberg ended in failure. Despite later efforts by the State Department nothing had been accomplished by September, 1939. This especially complicated matters once war began. Since the United States no longer bought Mexican oil, Mexico was forced by necessity to conclude barter deals with Japan, Germany, and Italy to market her oil. This, combined with the apparent increases in strength of the Hispanidad and Sinarquista Movements in Mexico, caused great concern in the United States.

Nevertheless, Mexico cooperated both at the Panama Conference and throughout the "Phony War" period. During this time the Mexican Supreme Court ruled that expropriation was constitutional. This legal opinion opened the way for more discussions about settling all claims between the two countries. However, the State Department still supported the oil companies. The solidarity of the oil companies broke, however, and in the spring of 1940 Sinclair made a unilateral settlement with the Mexican Government. The other companies held out perhaps hoping they could negotiate better with the new Mexican Administration that was to be elected that year.

Despite this lack of success, the Cárdenas Administration did not let economic relations deter the carrying out of its foreign policy. Consequently, in the critical summer of 1940, Cárdenas promised full military

and naval cooperation to the United States if the United States entered the war because of extracontinental aggression. Mexico cooperated at the Havana Conference, and military staff conversations were also held. Although no final decisions were reached in the latter, each knew where the other stood on such matters as arms, credits, and base rights. It was clear that the lack of a settlement on the claims controversy was being allowed to prevent much needed cooperation. For example, a United States-Mexican Defense Commission was discussed. But despite essential agreements, both Mexico and the United States feared domestic opinion, and it was not ratified until after Pearl Harbor.

With the re-election of Roosevelt and the election of Ávila Camacho, Cárdenas' hand-picked candidate, relations began to take on an even more positive note. In November, 1940 outgoing President Cárdenas embargoed oil and scrap metal that formerly went to Japan. He also declared that he expected that all outstanding questions with the United States could be quickly settled. The Roosevelt Administration concurred, so that by early 1941, they began to take a harder line against the oil companies. These sentiments were rewarded by an agreement for reciprocal air transit rights signed on April 1, 1941 and by Ávila Camacho's Pan American Day address which made clear Mexico's anti-Axis sentiments. After the German attack on

Russia in June, leftist sentiment in Mexico switched over to support the government and, in a sense, the United States. This reversal of opinion eliminated one internal danger to Mexico's stand on hemispheric solidarity.

As negotiations continued it was clear that only an oil agreement held up the signing of a "global settlement." Increased pressure was put on the oil companies, and Mexico reciprocated with examples of hemispheric solidarity. On July 15 Mexico passed an export control law. After the publication of the United States "Black List," when Germany tried to tell Mexico how to run her country, Mexico rebuffed her and shortly thereafter broke off economic relations. Thus when the "global settlement" was finally signed in November, Mexico was ready to take its place in the Latin American line up opposed to the Axis.

When the Japanese attacked, Mexico immediately broke off relations with the Axis, and soon afterwards the United States-Mexican Defense Commission was put into effect. Mexico then cooperated wholeheartedly at Rio de Janeiro. After several sinkings of Mexican ships carrying oil to the United States, Mexico declared war in May, 1942 and later took an active part in defeating the Axis.

These bilateral relations that led to a near unanimous hemispheric solidarity were both helped and hindered by United States multilateral actions and policies

during the 1939-1941 period. At the Panama Conference the United States backed the establishment of an Inter-American Financial and Economic Advisory Committee and an Inter-American Neutrality Committee. The latter lost significance as neutrality was replaced by non-belligerency. It ended up as a debating society but still had some significance as a symbol of inter-American neutrality. However, the former became increasingly important in the inter-war period as a bulwark of closer economic relations. Its most significant successes were the multilateral Coffee Agreement of November, 1940; its plans in 1941 to use interned Axis ships in inter-American trade; and its work in the autumn of 1941 to alleviate the tanker shortage by getting inter-American cooperation in the pooling of oil. It was also somewhat successful in its creation of the Inter-American Development Commission, but another of its projects, the Inter-American Bank, was stillborn due to opposition within the United States and in Latin America. This was particularly unfortunate as a successful Inter-American Bank could have circumvented the domestic sentiment within the United States that influenced the State Department to tie Export-Import loans to debt settlements.

The Cartel Plan, which was put forth in the critical summer of 1940, was a radical solution to a radical problem. This plan which could have crippled Nazi inroads

in Latin America was scrapped after Hull opposed it. This was especially unfortunate as it showed that, despite the crisis, traditional methods would be followed in economic relations even though the Axis might receive some advantages from it. The Roosevelt Administration clearly was too conservative both in this matter and in its promotion of the Inter-American Bank.

This was certainly not the complete picture of the summer of 1940 as other, more significant actions were taken. The Metals Reserve and Rubber Reserve Companies were set up for the purpose of acquiring strategic materials primarily from Latin America. In the period before Pearl Harbor they played an increasingly important role in acquiring stocks of these materials. The Export-Import Bank also received new emphasis during this time and, ultimately in September, received a \$500 million increase in capitalization. This was a fine idea as was Secretary Morgenthau's promise to use his stabilization fund for currency stabilization loans in Latin America. Unfortunately, the Export-Import Bank still remained a very conservative institution, and it, along with the State and Treasury Departments, was still unduly influenced by the wishes of the F.B.P.C. Willingness to pay old debts was the key to Export-Import loans, and the F.B.P.C. and State Department disagreed over various Latin American countries' willingness to pay. In emergency times



especially, the vested interests of a domestic minority, no matter how vocal or politically powerful, should not be heeded if the national interest is affected. During this period of time in Latin America, this was a major failing of the State Department.

The State Department had taken the middle way too long in its relations with the F.B.P.C. and the Latin American countries. Once war began in 1939, Roosevelt's claim that the original loans had been "ancient frauds" should have prompted the State Department to eliminate immediately ties between debt settlements and loans. By the summer of 1940, this action was mandatory, but the State Department followed a policy of procrastination. A brave policy decision then would undoubtedly have been a great impetus to closer relations. Unfortunately, the State Department was never able to eliminate the influence of the F.B.P.C. on its Latin American economic policies although the pressure lessened as the United States moved closer to war in 1941.

The formation of what came to be known as the Office of the Coordinator of Inter-American Affairs was another significant action in the summer of 1940. Nelson Rockefeller and his staff brought new leadership to both commercial and cultural relations. Cultural relations were no longer ends in themselves, but were to be a significant part of United States foreign policy.

Rockefeller and his office overshadowed the Cultural Relations Division of the State Department, and continued to carry out innovative policies concerning information, propaganda, health and sanitation, and commerce. However, even what it considered its successes sometimes were legitimately criticized by leading Latin Americans. For example, its prized, glossy publication, En Guardia, was criticized for its quantity rather than quality and for its circulation among diplomats and conservatives rather than through the more common people. Most other criticisms could be summed up by saying that the Coordinator's Office was influenced too much by North Americans and not enough by Latin Americans.<sup>8</sup> Even with these criticisms the Coordinator's Office remained an important innovation, and it symbolized the increased interest and concern that the Roosevelt Administration felt for Latin America.

A final valuable step at this time was the informal staff conversations that were sandwiched around the successful Havana Conference. These conversations gave each of the countries concerned a better idea of what to expect

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<sup>8</sup>En Guardia was originally supposed to be for the common man but apparently this did not prove to be true. See Manuel Seoane, "If I Were Nelson Rockefeller," Harper's, CLXXXVI (February, 1943), pp. 312-18. Even with its failings, it was unfortunate that the Coordinator's Office was discontinued after World War II.

from the United States. Conversely, they also showed the limitations of hemisphere solidarity. The Latin Americans wanted massive arms, material aid, and credits, while the United States wanted both permission to use Latin American bases and support from each country. Neither side received what it wanted because the United States was unable to send much modern military aid due to its own and English requirements.<sup>9</sup> Without this, base agreements were out of the question. Still, except for Argentina's coolness, these negotiations were useful and set the stage for closer relations in 1941. After the attack on Pearl Harbor, the United States acquired nearly all the bases it wanted.

After SCADTA was eliminated in 1940, the United States Government and Pan-American Airways, in cooperation with a number of Latin American Governments, began a systematic policy of ridding Latin America of the menace of Axis-owned or controlled airlines. Plans based on this collaboration worked well in the remainder of 1940 and throughout 1941 so that by the time of Pearl Harbor, Colombia, Ecuador, Peru and Bolivia were free of Axis airlines, and Chile, Argentina and Brazil were in the last

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<sup>9</sup>See Wilson to Hull, October 2, 1940, Foreign Relations, 1940, V, pp. 167-70 for some Uruguayan dis-appointments that must have been typical in Latin America.

stages of their elimination. This program had had a slow and indecisive start but had become one of the most successful projects in the prewar period.

Another successful Axis-denying measure was the State Department's efforts to bring about preclusive buying agreements in 1941. These were accomplished with Bolivia, Brazil, Mexico, Peru and Argentina before Pearl Harbor and with Chile and Colombia shortly thereafter. These, along with the continual progress that the United States made between 1939 and 1941 in placing military advisors and military missions in Latin America, effectively limited Axis influences.

The result of all these accomplishments, partial accomplishments, and failures was the relatively smooth transition that occurred in United States relations with Latin America as the United States entered the war. Every Latin American country immediately acted in a way that was more than satisfactory to the Roosevelt Administration. They either declared war, expressed their solidarity, or promised to treat the United States as a non-belligerent. Even though Chile, and especially Argentina, did not live up to their pre-Pearl Harbor professions, the Roosevelt Administration had good reason to believe that all of Latin America was reasonably in line with the United States with the coming of war. This was no small attainment in the light of inter-American relations just eight years

previous. One can only speculate on what might have happened had not eight years of the Good Neighbor Policy and over two years of increasingly close relations and trust preceded the United States entry into the war, but certainly Latin American reactions would have been quite different from what they were.

This solidarity had many possible implications both for the United States and for the Latin American countries. For example, since this hemisphere was never attacked, were attempts at solidarity wasted efforts? Some revisionist historians believe that if Hitler had controlled Europe, it would have been no great problem for the United States and the Latin American Republics to coexist with him because he had no intention of conquering the Western Hemisphere. In fact, some historians argue that it would have been better for Hitler to conquer Europe than have Soviet Communism on the ascendancy there. If they are right, hemispheric solidarity was worse than a wasted effort. Because it helped defeat Hitler, it played right into the hands of the Communists, and they are considered to be a greater threat than Nazi Germany ever was.

This ex post facto thinking, however, is both inaccurate and illogical. It is inaccurate because Hitler was trying to infiltrate and subjugate the Western

Hemisphere nations.<sup>10</sup> Infiltration had been going on for years and plans for subjugation would have been set in motion once Europe was conquered. In fact, these plans had already been put in partial effect in such American countries as Argentina, Bolivia, Brazil, Chile and Uruguay. Each of these countries discovered Nazi plots against its sovereignty and independence during the 1939-1941 period. There was no doubt that the aspirations of Nazi Germany were a direct and immediate threat to the peace and safety of the Western Hemisphere.

This thinking is also illogical because it assumes that an immediate threat should be disregarded in favor of a potential, long-term threat. Communism has been a menace to the Western Hemisphere countries since World War II, but there was no guarantee that hostility to German ambitions would lead to the triumph of Communism.

Since solidarity was necessary, a second question needs to be answered. Was the United States policy of hemispheric solidarity a driving principle for all time or only a way of expressing mutual interests in times of aggression? There is no single satisfactory answer to this question because beliefs are just as important as facts in long-term interpretations and beliefs are impossible to measure accurately. However, most historians would

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<sup>10</sup>Frye, ibid., pp. 178-79, 190-92, 194.

agree that the United States had had some type of a special relationship with Latin America ever since the founding of the Pan American Union. By the end of 1933, this relationship was being changed from one in which the United States had most of the advantages to one in which each of the countries had responsibilities and received benefits. In the next few years the United States increasingly sought to line up Latin America in a mutually beneficial solidarity. This was started before the Nazi threat was seen, but it received a greater impetus when German designs on Europe and especially on the Western Hemisphere became apparent. Therefore, the United States wish for solidarity probably was interpreted both ways. Some Latin Americans would believe that the United States was only carrying out a temporary policy that was in its own national interest. Other Latin Americans, especially those who looked at inter-American relations from an historical point of view, would see the hemispheric solidarity concept as the culmination of the direction in which the Good Neighbor Policy was leading opinion in the United States. In other words, solidarity was to be the permanent policy of the United States. This conflict of opinion takes on new meaning, if most Latin Americans agreed with the latter hypothesis.

If solidarity was a driving principle for all time, a third question needs to be answered. Did the Latin

American nations have the right to expect that the United States would continue to treat them as a special case once the war ended? This question is really a key to understanding why Latin America acted as it did in the 1939-1941 period. The Axis was a threat so solidarity was necessary. But as a part of the drive toward solidarity, economic, cultural, and defense policy innovations were of great benefit to the Latin American nations. In economic relations, loans were granted; economies were stabilized; past grievances were settled; new and complementary products found a preclusive market in the United States rather than in Europe or Asia; and trade agreements were signed. In cultural relations, great strides were taken to bring together the best in the differing cultures, and, for the first time, a special institution was set up to concentrate on this small aspect of overall policy. In defense relations, staff agreements were made; bases were constructed; Axis airlines were replaced; arms and equipment were promised; and military missions and attachés from the United States superseded European advisors. On the basis of all this, it appears that the United States had committed itself to a long-term, mutually-beneficial, special relationship with Latin America. This meant, that to keep Latin America satisfied wartime policies would have to carry over into peacetime. Latin America would expect this special relationship to continue if not expand.



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