Pan American Dialectic:

The Impact of Liberal and Nationalist Ideologies on U.S. Policy Toward Latin America from Good Neighbor to the Cold War, 1933-1949

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A dissertation submitted to the faculty of the University of North Carolina at Chapel Hill in partial fulfillment of the requirements for the degree of Doctor of Philosophy in the Department of History.

Chapel Hill
2001

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ABSTRACT

ANTONIO N. FINS: Pan American Dialectic: The Impact of Liberal and Nationalist Ideologies on U.S. Policy Toward Latin America from Good Neighbor to the Cold War, 1933-1949
(Under the direction of Michael H. Hunt)

The premise of this dissertation is that tension between liberal and nationalist ideology sparked Cold War tension in the Americas in the post-World War II era. In making this argument, the dissertation advances the scholarly debate in the field by positing that ideology, in the form of internal political and economic trends, not the emerging superpower rivalry, fueled Cold War tension in the hemisphere. The dissertation proves this argument by tracing political and economic conflict in the Western Hemisphere diplomacy dating back to the Good Neighbor policy. In five case studies, the dissertation shows how different features of economic diplomacy led to conflict between the united States and key Latin American nations from 1933 to 1949. Those features are: trade policy, monetary policy, control of natural resources, competitive economics and political rivalry. The dissertation's case studies focus on Cuba, Brazil, Mexico, Argentina and the Bolivarian republics, Colombia and Venezuela.

ACKNOWLEDGMENTS

First and foremost, I am indebted to Dr. Michael Hunt. All along he has offered wisdom, knowledge and support, always balancing his duty to guide and set a high threshold with the understanding that it was I who had to execute the project based on the historiography and the research. For that, he has my respect and gratitude.

I would also like to thank the members of my committee: Dr. Lars Schoultz, Dr. Louis Perez, Jr., Dr. John Chasteen and Dr. Peter Coclanis. Their input bolstered my understanding and grasp of their respective fields, adding credibility to my conclusions.

I also owe a debt of gratitude to the different professors who, over the course of the decade, offered invaluable assistance. Dr. John Chasteen, in addition to serving on the committee, also was a role model and a valuable sounding board. So was Dr. John French, who oversaw much of this project. Dr. Richard Kohn helped develop the original concept for the master's thesis. And Dr. Peter Filene was instrumental in various ways, but critical in teaching us the building block of writing meaningful history – framing the question.

I wish to acknowledge the foundations of the Rockefeller Archive Center, the Harry S. Truman Presidential Library, the Franklin Roosevelt Presidential Library, John F. Kennedy Presidential Library and the UNC Department of History for their generous financial support.

Finally, the only way to thank my family, my wife Ana, daughter Katrina and son Anthony is to dedicate this project to them for their love and never ending support.

PREFACE

The following dissertation was successfully defended in May 2001. However, due to personal reasons, it was not submitted for degree conferral until 2009. As such, it reflects the historiography, research and viewpoints in the field up to May 2001, but not beyond.

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Author's Note: The following dissertation was successfully defended in May 2001. However, due to personal reasons, it was not submitted for degree conferral until 2009. As such, it reflects the historiography, research and viewpoints in the field up to May 2001, but not beyond.

The debate was as much a fixture in the ritual as the shuffling of cards and the unfiltered cigarettes. Every Monday afternoon, my paternal grandfather and his card mates, all exiles from Cuba, gathered for a game of cards and a discussion of politics in a central Miami apartment. Politics meant conflict in faraway places like Vietnam, a topic dropped soon after the oldest son of one of the players died there in combat in July 1968. The topic that was always shuffled was Cuba – specifically, communism and Fidel Castro.

Too young to understand the intensity of the discussion, I surmised that it was a serious matter by the amount of blame and finger-pointing shuffled, stacked and cut throughout the course of the afternoon. Who lost Cuba? The communists in Cuba. The corrupt Batistianos. Fidel Castro. His brother, Raul. Che Guevara. The Soviets. The United States. The Mafia. John Kennedy. More than for assignation of fault, however, the card table discussion was a struggle for comprehension. With all the commonality that appeared to bind Cuba – as well as the other Latin American nations – to the United States, why had there been such a deep diplomatic, economic, and social split between the United States and many of the hemisphere's countries in the decades following the Second World War?

This question was a particularly sharp one for my grandfather's generation, given the bright hopes and grand expectations they harbored earlier in their lives. Having come of age in Cuba between the Great War and the Great Depression, they followed the political arena in Washington as closely as they had in Havana, especially during the Pan American[1] renaissance of the early 1930s. This inter-American vision was largely a nineteenth century, post-colonial construct, but Pan Americanism quickly became synonymous with Franklin Roosevelt, the Good Neighbor Policy,[2] and hemispheric liberalism. In their day, my grandfather and his friends listened to FDR and his diplomats speak optimistically about an integrated hemisphere, buoyed by a more equitable distribution of the fruits of everyone's labor. They saw this U.S. president and his diplomats back up their dreamy talk with apparent deeds. In the face of a near civil war in 1933 Cuba, FDR abrogated the Platt Amendment and broke with past precedents in refraining from sending troops. After the Mexican government seized U.S. oil refineries in 1938, FDR acquiesced to the taking. It seemed Washington had turned a page and was truly committed to a new deal for Latin America, too.

This retro-Pan American moment certainly swept up my grandfather and his card mates. As

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[1] Pan Americanism is generally defined as the belief in shared interests in the hemisphere and regional leadership by the United States. For early scholarship focused on Pan American ideology and beliefs, see Samuel Flagg Bemis, *The Latin America Policy of the United States* (New York: Harcourt Brace Jovanovich, 1943); J. Fred Rippy, *Latin America and the Industrial Age*, (New York: G.P. Putnam and Sons, 1944); and Frank Tannenbaum *Whiter Latin America?* (New York: Thomas Y. Cromwell Co. 1934).

[2] The Good Neighbor's origins date are traced to Herbert Hoover's approach to hemispheric diplomacy. See Alexander DeConde, *Herbert Hoover's Latin America Policy* (Stanford: Stanford University Press, 1951) and Robert Freeman Smith, "Latin America, the United States and the European Powers, 1830-1930," in *The Cambridge History of Latin America*, 6 (Cambridge: Cambridge University Press, 1986), pp. 118-19.

they emerged from the Depression, the political wrangling in Cuba and World War II, the promise of a new and better era appeared attainable. For a moment, they believed, it really did appear to them as if the countries of the hemisphere formed "one great continental community" held together by "their common political, economic, and cultural ties."[3] Then, in the early 1950s, the Pan American vision turned fuzzy. By the mid-1960s, it was gone. My grandfather and his friends instead found themselves playing cards in a cramped and smoky apartment in a foreign city grasping for reasons to explain how the Pan American Century of progress had unraveled within the span of a generation – their generation.

Growing up in the shadow of the Cold War they bequeathed to my generation, I, too, searched for ways to explain the troubled state of inter-American diplomacy and commerce. Conventional wisdom held that the region was merely divided in the heated confrontation between the world's two nuclear superpowers, their incompatible ideologies, and their rival camps. But by the time I entered graduate school in the autumn of 1991, that simplistic explanation had lost its conviction. The past decade of graduate and independent study, and the dissertation that it has produced, offers an intriguing alternative explanation. Rather than the Cold War, an answer to the perplexing questions, and the sources of so much anxiety and frustration, is found in the Good Neighbor years that my grandparents and others had recalled with so much hope and promise.

This dissertation's central argument is that the early 1930s marked a watershed in Pan American political economy, or the way that political pressures affect economic and monetary policies across the hemisphere. The unraveling of the free trade and free investment liberal

[3] Editorial in *Miami Business* (May 1952), p. 2, box "The Miamian, 1952-1965," South Florida Historical Museum, Miami, Fla.

consensus that governed inter-American commerce up to 1930 set the hemisphere's hegemonic economic and political order against itself. While the region's industrial power, the United States, continued to champion liberal commercial treaties and arrangements, the countries that fed U.S. manufacturers with raw materials, from Mexico to Brazil, attempted to break ranks. To varying degrees, these nations turned against export-oriented development to pursue nationalist and inward-looking strategies designed to cultivate autonomous economic growth. The liberal-nationalist hemispheric conflict of the 1930s and 1940s that underlay the Good Neighbor ultimately produced diplomatic confrontation, armed violence, and massive demographic shifts that altered the daily lives, and futures, of millions of people across the Americas.

The focus of the Good Neighbor Policy, this dissertation hypothesizes, was the Roosevelt Administration's push for economic liberalism in the hemisphere. FDR and his diplomats insisted that opening doors to trade and investment offered relief from the ill effects of the Depression. In addition, they argued that cross-border commerce and business partnerships reduced tension and established interdependent bonds that might avoid conflicts between countries and peoples. The logic of the Good Neighbor Policy, and the promise of this *Pax Pan Americana*, is that participation in a communal economic network was the way to hemispheric peace and prosperity.

This liberal program ran counter to emerging nationalist macroeconomic strategies that simultaneously coalesced across Latin America. Nationalism was partly a by-product of the political, economic and social currents that raced through countries like Cuba, Brazil, Mexico, Argentina, Colombia, and Venezuela in the first decades of the century. The nationalists' blueprint reserved raw materials for domestic industry instead of for export. The strategy also blocked imports of manufactured goods in order to promote industrialization within national borders. Nationalists backed rules that impeded currency flows to stabilize currencies, slow inflation, and improve living standards. The nationalist agenda also included provisions for tight regulation of foreign companies and expropriation of businesses when such measures served the larger national interest as defined by the state. Not only did these policies run counter to Washington's liberal model, they specifically emerged from suspicions and skepticism toward the *norteamericanos* and their liberal program.[4] Indeed, in many ways, it was a reaction to the liberal agenda.

To show how the liberal-nationalist dialectic played out, this dissertation examines five diplomatic episodes between 1933 and 1949. The countries chosen accounted for the bulk of U.S. capital and commerce invested in Latin America in the 1930s.[5] The first case study treated by the dissertation is the 1933 revolution in Cuba, where liberals in the Roosevelt Administration insisted that a treaty to bolster U.S.-Cuba trade was necessary to quell the civil strife engulfing the island. The next chapter looks at U.S. efforts to reassert free currency exchange flows in Brazil in the mid-1930s. The following case study analyzes the U.S.-Mexican standoff over the 1938 expropriation of U.S.-owned oil refineries in Mexico. In the fourth study, the post-World War II confrontation between the United States and Argentina gets a fresh examination as a stand-off over political and economic models rather than personality

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[4] Tulio Halperin Donghi, *The Contemporary History of Latin America*, John Charles Chasteen, ed., (Durham: Duke University Press, 1993), p. 161.

[5] Cuba, Mexico, Argentina, Brazil, Colombia and Venezuela accounted for the bulk of the $3.9 billion in U.S. Latin American investment in 1938. The countries accounted for almost 85 percent of total Latin America trade – the bulk of which went to the United States – in 1938. These statistics are cited in from Joan Raushenbush, *Look at Latin America* (New York: Foreign policy Association, 1940) pp. 109-112, 126-132.

clashes and post- World War II anti-Nazism. The final chapter looks at U.S. policy toward Colombia and Venezuela in the aftermath of the April 1948 rebellion in Bogota. This chapter shows how U.S. policy-makers used Cold War containment policies to curtail Latin American economic nationalism. Each chapter focuses on a different country and a different issue in the contest between economic liberalism and nationalism. Each confrontation, or dispute, reveals how the liberal and nationalist models and approaches to macroeconomic policy competed against each other across the region.

This story and the conclusions it yields transcend the current literature on the Good Neighbor epoch. The historiography on this era remains divided over the goals and achievements of FDR's Latin America policy. On one side, a group of scholars argues the Good Neighbor was a serious effort to chart a new course in hemispheric relations with a non-intervention pledge, whether or not it succeeded in doing so.[6] Another school of historians insists that Roosevelt was no better than the dollar diplomats of the earlier, interventionist era. They argue that Good Neighbor restraint resulted from a preference for other policy options stressing more subtle

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[6] Discussions of non-intervention pledges, more so than questions of political economy, dominate the best known work in the Good Neighbor library. See Bryce Wood, *The Making of the Good Neighbor Policy* (New York: Columbia University Press, 1961).

Several works that focus specifically on the Good Neighbor Policy's economic diplomacy argue that the Roosevelt program attempted to break from past diplomacy-with-guns tactics, though they admit the effort produced mixed results. See Lloyd C. Gardner's *Economic Aspects of New Deal Diplomacy* (Madison: University of Wisconsin Press, 1964); Richard Steward, *Trade and Hemisphere: The Good Neighbor Policy and Reciprocal Trade* (Columbia: University of Missouri Press, 1975); Paul Varg, "The Economic Side of the Good Neighbor Policy: The Reciprocal Trade Program and Latin America," *Pacific Historical Review* 45 (February 1976), pp. 47-71; and Cole Blasier, *The Hovering Giant: U.S. Responses to Revolutionary Change in Latin America, 1910-1985* (Pittsburgh: University of Pittsburgh Press, 1985), pp. 15-32, 101-27.

pressure and forms of coercion.[7] Wherever U.S. interests faced a challenge, the Roosevelt Administration acted with resolve equal to that of its predecessors to either co-opt opponents[8] or suppress them in a varying array on countries including Cuba, Argentina and Mexico.[9] Scholarly consensus is found in the explanations for the Good Neighbor's demise. Historians generally agree that the Good Neighbor ceased to exist, as a genuine attempt to alter diplomacy or as a mask for less altruistic intentions, at the nascent stages of the Cold War.[10]

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[7] The skeptical works argue that the Good Neighbor was a veiled attempt to reassert U.S. hegemony and domination. See David Green, *The Containment of Latin America*, (Chicago: Quadrangle Books, 1972); Jules Benjamin, "The Framework of U.S. Relations with Latin America in the Twentieth Century: An Interpretive Essay," *Diplomatic History*, 11 (Spring 1987), pp. 91-112; Gordon Connell-Smith *The United States and Latin America: An Historical Analysis of Inter-American Relations* (London: Heinemann Educational Books, 1974); Robert Freeman Smith, ed., *The United States and the Latin American Sphere of Influence* (Malabar, Fla: Krieger Publishing, 1981); Lloyd Meacham, *The United States and Inter-American Security, 1889-1960* (Austin: University of Texas Press, 1961); Lester Langley, *The United States and the Caribbean in the Twentieth Century* (Athens: University of Georgia Press, 1985), pp. 137-61; and Frederick Marks, *Wind Over Sand: The Diplomacy of Franklin Roosevelt* Athens: University of Georgia Press, 1988), pp. 217-50.

[8] For discussion centered on Washington's desire to co-opt internal challenges in other nations see Stephen Randall, *The Diplomacy of Modernization: U.S. Colombian-Relations, 1920-1940* (Toronto: University of Toronto Press, 1977); Randall B. Woods, *The Roosevelt Foreign Policy Establishment and the Good Neighbor Policy: The United States and Argentina, 1941-1945* (Lawrence: The Regents Press of Kansas, 1979); Knut Walter, *The Regime of Anastasio Somoza, 1936-1956* (Chapel Hill: University of North Carolina Press, 1993); and Lars Schoultz, *Beneath the United States: A History of U.S. Policy Toward Latin America* (Cambridge: Harvard University Press, 1998), p. 290-315.

[9] For discussions of U.S. attempts to thwart nationalist challenges in Latin America, see Lorenzo Meyer, *Mexico and the United States in the Oil Controversy, 1917-1942* (Austin: University of Texas Press, 1972); Irwin Gellman, *Roosevelt and Batista: Good Neighbor Diplomacy in Cuba, 1933-1945* (Albuquerque: University of New Mexico Press, 1973); and Ronald Newton, *The "Nazi Menace" in Argentina, 1937-1947* (Stanford: Stanford University Press, 1993).

[10] Examples of this school include Roger Trask, "The Impact of the Cold War on U.S.-Latin American Relations, 1945-1949," in *Diplomatic History*, 1 (Summer 1977), pp. 271-284; F. Parkinson, *Latin America, The Cold War and World Powers, 1945-1973: A Study in*

This dissertation, instead, takes a fresh look at the Good Neighbor by arguing that its brand of U.S. economic liberalism clashed with coherent and competing Latin American nationalist ideologies. These two ideologies pre-dated the 1930s. However, the Great Depression set them against each other in a dialectic that dominated public policy and diplomacy in the hemisphere for the next six decades. Throughout the 1930s and 1940s, the liberal-nationalist rivalry sparked friction and stalemate across the hemisphere. At the core of the disputes were meaningful and complex issues – from currency exchange rules to property rights – on which larger macroeconomic policies and political philosophies turned.

From crisis to crisis, the confrontations heated and then abated with face-saving compromises. These settlements were anything but harmonious accommodations, as Good Neighbor historiography often suggests. The brittle treaties, pacts, and gentlemen's agreements yielded by standoff and stalemate only served to quell tensions temporarily, leaving each side to brood listlessly until the next flap. This unsettled and restless quality of inter-American relations, best explains why Pan American diplomacy remained volatile, and occasionally turned violent, through the balance of the century.

This study focuses on the years between 1933 and 1949 for several reasons. First, there is ample evidence in the historical literature to demonstrate that the Roosevelt government's push for reciprocity in trade and investment marked a turning point in U.S. economic and foreign

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Diplomatic History, (Beverly Hills: Sage Publications, 1974); Stephen Rabe, "The Elusive Conference: U.S. Economic Relations with Latin America, 1945-1952," in *Diplomatic History*, 6 (Summer 1978), pp. 279-284; Lester Langley, *America and the Americas: The United States in the Western Hemisphere*, (Athens: University of Georgia Press, 1989); Samuel Bailey, *The United States and the Development of South America*, (New York: New Viewpoints Press, 1976); and Chester Pach, "The Containment of Military Aid to Latin America, 1944-1949," in *Diplomatic History*, 6 (Summer 1982), pp. 225-44.

diplomacy following the failed protectionist policies that preceded this administration. And while economic nationalism was present during the earlier decades of the century,[11] it did not pose as serious a threat to U.S. interests as these policies did after 1933. The dissertation will show that economic nationalism in Brazil, Mexico, and Argentina, and the governments that promulgated it, were much stronger than earlier ones. They also set the stage for more radical challenges in Latin America – Guatemala in 1954, Cuba in 1959, the Dominican Republic in 1965 and Nicaragua in 1979.

This dissertation employs tools and methodologies currently in vogue in the diplomatic history field. One of those is to stress the role ideology played in steering inter-American diplomacy.[12] The other is a concern with focusing beyond U.S. actions as described in U.S. documents and sources.[13] Wherever possible, I have sculpted the opposing Latin American view from non-U.S. sources to show how the gaps in ideas and experiences and marked the Good Neighbor Policy. While the focus of this study is also on the public sector, I remain convinced there is a need to study the conduct of the state. There is value in the traditional diplomatic history focus on the state and its ability, either through its legislature, its finance

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[11] Michael Krenn, *U.S. Policy Toward Economic Nationalism in Latin America, 1919-1929* (Wilmington, De.: Scholarly Resources, 1990), pp. xiii-xv.
[12] For readings on the influence of ideology, ethnicity and race in diplomacy see Michael H. Hunt *Ideology and U.S. Foreign Policy* (New Haven: Yale University Press, 1987) and Emily Rosenberg *Spreading the American Dream: American Economic and Cultural Expansion, 1890-1945* (New York: Hill and Wang, 1989).

[13] See Elizabeth Cobbs Hoffman, "Diplomatic History and the Meaning of Life: Toward a Global American History," in *Diplomatic History* 21 (Fall 1997), pp. 499-518; Louis Pérez, Jr., "History, Historiography, and Cuban Studies: Thirty Years Later," in Damian Fernandez, ed., *Cuban Studies Since the Revolution* (Gainesville: University Press of Florida, 1992), pp. 64-65; and Stephen Rabe, "Marching Ahead (Slowly): The Historiography of Inter-American Relations," *Diplomatic History*, 11 (Spring 1987), p. 307.

ministry or its central bank, to set or alter economic policy.

This dissertation falls short of offering a complete analysis because of its dependence on U.S. archives and sources for primary research. To truly understand how the liberal-nationalist dialectic played out, an equally broad survey of primary and archival research must be conducted in the countries chosen for this study. That said, the dissertation does offer fresh perspectives on U.S. motives and interests. It offers a fresh look at what drove policy-makers' actions, and how those actions affected strategic, commercial and diplomatic relations. Those who prefer international history and scholarly analyses that delve heavily into foreign archives might feel dissatisfied with the limitations in this work, but it should be taken into account that the goal herein is to broaden the conversation, thus spurring future research into the way ideology in the form of the liberal-nationalist rivalry molded policy in the hemisphere.

Moreover, a work that analyzes the failure of free trade and open investment policies in 1930s Latin America in the midst of the liberal renewal of the past decade may seem anachronistic. Recently, a pair of scholars concluded in a widely read work that "U.S. businesses face a dazzling array of opportunities in Latin America's new climate."[14] The privatization of state-owned enterprises does indeed seem to open a cornucopia of commercial possibilities, as do the proliferation of trading in the region's stock exchanges. The region's ability to recover from financial disasters - the Mexican peso crisis in 1995 and the devaluation of the Brazilian currency in January 1999 – is proof that this capitalist revolution has succeeded, neo-liberals say.

However, the Pan American liberal-nationalist dialectic of the 1930s and the ruptures it

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[14] Paul Craig Roberts and Karen LaFollette Araujo, *The Capitalist Revolution in Latin America* (New York: Oxford University Press, 1997), p. 4.

created raise relevant questions about present political economy in the Americas. The development of policy, especially economic policy, depends on the juncture of ideas and power. It has been said, “a good idea cannot become policy if it meets certain kinds of opposition, and a bad idea can become policy if it is able to obtain support.”[15] At the heart of the Pan American dialectic was a battle over experiences, ideas and strategies that shaped the political economy of the region. In the 1930s, U.S. policy-makers and commercial interests blamed protectionism for the industrial and agricultural disaster called the Great Depression. In Latin America, the public debate pointed the finger at the “exploitative” liberal system that had ruled the region’s economics, finances, and development since 1870. The lesson of that extraordinary time, for yesterday, today and tomorrow, is that the success or failure of liberalism, whether in the form of an Alliance for Progress or a North American Free Trade Agreement, may well depend on perceptions, shaped by experiences, of equity, or the lack thereof.

Ultimately, my contribution to the field, through this dissertation, is to underline how the intrinsic economic interests of the United States and several Latin American countries clashed, and how this conflict defined hemispheric relations from the Good Neighbor to the dawn of the Cold War. By 1948, the United States and the republics of the Americas were more divided than ever before. These festering and irresolvable tensions fueled a decades-long contest defined by covert operations, *coup d’etats*, and guerrilla insurgencies that would in turn produce wave after wave of immigrants and exiles dreaming of Pan America, but living and arguing the Cold War.

[15] Peter A. Gourevitch, “Keynesian Politics: The Political Sources of Economic Policy Choices,” in Peter A. Hall, ed., *The Political Power of Economic Ideas Keynesianism Across Nations* (Princeton: Princeton University Press, 1989), pp. 87-88.

Chapter I

The Rise of Liberalism and Nationalism

Across the Western Hemisphere

The global financial depression that gripped the hemisphere during the early 1930s bolstered rival ideological approaches to Pan American politics, diplomacy and commerce. In the industrial United States, the Depression boomeranged against protectionism and renewed expansionist interest in foreign markets as an efficient way to foster prosperity and nurture democratic governance. Across Latin America, however, the Great Depression helped unravel the decades-old liberal guard and the export-oriented development system that bound the region's agricultural fields and mining centers to industry in the United States and Europe. The Depression also bolstered political and economic philosophizing focused on inward-looking measures, such as trade barriers to protect nascent industry, as a strategy for development and progress.

The pendulum swings were not unprecedented in either sphere of the Pan American neighborhood. During the seventy-year span between the Civil War and the Great Depression, interests from different regions and economic sectors within the United States periodically pushed for extra-territorial expansion through liberal commercial arrangements and policies. But the dominance of agricultural political interests, the necessity to direct industrial output toward domestic industries, and the U.S. government's preoccupation with coast-to-coast settlement constrained inter-hemispheric liberalism and hegemony.[16] In Latin America, nationalism and protectionism enjoyed occasional support.[17] Nevertheless, political and popular support for the economic nationalist agenda typically receded as global demand for nitrates, precious metals, rubber, and other commodities periodically allowed the masters of the export economies to indulge in opulent excesses during so-called "dances of the millions."

However, in the midst of a depression marked by the most sustained bout of deflation ever recorded, U.S. liberals and internationalists gained the upper hand for good. Open markets, liberals said, multiplied the sources of buyers and sellers. The ability to sell more, they added, created a basis for demand to outstrip supply, which raised prices. Moreover, liberal internationalists stressed that global commerce promoted peace: Countries with vested interests in each other's economically productive quarters and financial welfare were less likely to war with each other.

Commercial expansionism found itself in vogue partly because of the backlash in the United States against the 1930 Smoot-Hawley Tariff and other protectionist measures associated with the defeated and discredited Hoover Administration. The boomerang effect from such measures – by 1933 the tariff was actually blamed for worsening the Depression – proved so severe that it reoriented the focus and objectives of U.S. foreign economic policy for the

[16] See David M. Pletcher, *The Diplomacy of Trade and Investment: American Economic Expansion in the Hemisphere, 1865-1900* (Columbia: University of Missouri Press, 1998) and Walter LaFeber, *The New Empire: An Interpretation of American Expansion, 1860-1898* (Ithaca: Cornell University Press, 1963).

[17] See Paul Gootenberg, *Between Silver and Guano: Commercial Policy and the State in Postindependence Peru* (Princeton, N.J.: Princeton University Press, 1989) and Michael Krenn, *U.S. Policy Toward Economic Nationalism in Latin America*, (Wilmington, De.: Scholarly Resources, Inc., 1990), pp. 142-43.

balance of the century. After 1933, foreign economic policy focused on lowering protective tariffs instead of raising them. The Reciprocal Trade Agreement program offered by the Roosevelt Administration in 1933 was a fundamental step in this direction.[18]

Simultaneously, Latin American liberals' grip on public policy and economic power broke, freeing space for nationalist, inward-looking strategies. Nationalism rose to the forefront of the 1930s landscape as the emerging political actors blamed the Depression, in part or in whole, on previous liberal failures. In the wake of financial collapse, governments mulled ways to nurture nascent manufacturing sectors with tariffs and to capture a higher share of export-driven wages through nationalization of these industries. In addition, the public sector experimented with decrees intended to grant organized labor a stronger bargaining position against management at foreign-dominated industries. The nationalists advocated currency exchange restrictions to protect against swings in monetary values. The 1930s experimentation with nationalism ultimately led to the creation of bureaucratic state-owned enterprises, created stronger import substitution programs and erected trade barriers that dominated the public policy, commercial, and diplomatic arenas for generations to come. The effectiveness of these strategies is open to

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[18] For discussion on the importance of these treaties in reorienting U.S. foreign economic policy, see Carolyn Rhodes, *Reciprocity, U.S. Trade Policy, and the GATT Regime* (Ithaca: Cornell University Press, 1993); Richard N. Cooper, "Trade Policy as Foreign Policy," in Robert M. Stern, ed., *U.S. Trade Policies in a Changing World* (Cambridge: Massachusetts Institute of Technology Press, 1987); and Robert Pollard, *Economic Security and the Origins of the Cold War, 1945-1950* (New York: Columbia University Press, 1985).

For skeptical appraisals of the motives and results of reciprocal trade, see Joyce and Gabriel Kolko, *The Limits of Power: The World and United States Policy, 1945-1954,* (New York: Harper & Row, 1972); William Cline, *Reciprocity: A New Approach to World Trade Policy?* (Cambridge: Massachusetts Institute of Technology Press, 1983); and Robert E. Baldwin, "The Changing Nature of U.S. Trade Policy Since World War II," in Baldwin and Anne O. Krueger, eds., *The Structure and Recent Evolution of U.S. Trade Policy* (Chicago: University of Chicago Press, 1984).

critique – but it is unquestionable that the nationalist agenda came to dominate the debate.[19]

To be sure, the hemisphere's rising liberal and nationalist orders faced internal opposition along the way. In the United States, the liberals of the 1930s confronted resistance from protectionists, whether New Dealers in Franklin Roosevelt's government or isolationists in the Republican Party, speaking for constituents and interests opposed to opening domestic markets to foreign products. In Latin America, the challenge to nationalism emerged from liberals seeking to reestablish the old order and from more radical figures and parties arguing for even more resolute breaks with the world's industrial core. Despite fits-and-starts, however, the end result was that the once stable and reliable financial and commercial links between the hemisphere's premier industrial nation and its peripheral, supplier economies snapped in the early years of the 1930s. The aftermath of that break yielded a more volatile and fractious era.

Good Neighbor Liberalism

The liberals in the new Roosevelt Administration viewed the growing unrest and militarization across the Pan American backyard with alarm, and they blamed the disconcerting trends on the precipitous drop in inter-hemispheric commerce and the isolation of countries and peoples. FDR's foreign policy team insisted that the only course out of the Depression and away from war lay in reopening hemispheric trade and investment lines to generate prosperity, defuse tension and promote political stability and tranquility. Vibrant international commerce, liberals asserted, created channels to unload excess production, bolster prices and end the deflationary

[19] See Victor Bulmer-Thomas, "The Latin American economies, 1929-1939, in Leslie Bethell, ed., *Latin America: Economy and Society Since 1930* (Cambridge: Cambridge University Press), pp. 65-114; Rosemary Thorpe, "The Latin American economies, 1939-c.1950 in Bethell, ed., *Latin America: Economy and Society Since 1930*, pp. 115-48; and Joseph Love, "Economic Ideas in Latin America *The Cambridge History of Latin America*, 6 (Cambridge: Cambridge University Press, 1994), pp. 66-95.

spin that marked the Depression. Trade, they said, also produced favorable by-products. Prosperity created an interdependent relationship among countries that liberals believed defused pressure for war and conflict by bolstering democratic governance and institutions. "The practice of the half-insane policy of economic isolation during the past ten years by America and the world is the largest single underlying cause of the world panic," charged the new Secretary of State Cordell Hull. "The mad pursuit of economic nationalism has proved disastrous."[20]

A good example of how such “half-insane” policies courted disaster, Hull and others claimed, existed in Cuba. In less than ten years, the island’s standing as a U.S. trading partner dropped from sixth to sixteenth place. Sales of American exports on the island fell by 67 percent to $57 million between 1924 and 1932.[21] In that time, the liberals added, Cuban political and social institutions began to crumble. So, a society that under U.S. tutelage had moved toward democratic civility, the liberals said with dismay, had now slipped back toward chaos. Liberals insisted the nexus between the drop in U.S.-Cuba commerce and the rise in friction on the island was indisputable. Sumner Welles charged that protectionist measures “deprived our neighbors” of markets in the United States. He accused the tariff of pushing “some of the countries to the edge of national ruin with resultant unemployment and starvation for many millions of their peoples."[22]

Four hallmark features defined Good Neighbor liberalism as it evolved and gained

[20] “Cordell Hull,” *Time*, 21 (April 17, 1933), pp. 11-12.

[21] Foreign Policy Association, *Problems of the New Cuba* (New York: FPA, 1935), p. 60.

[22] Welles, *The Time for Decision* (New York: Harper Brothers, 1944), p. 191.

momentum under FDR's sponsorship. First, it supported freer trade by reducing tariffs and by opposing financial policies that limited currency exchanges. It also championed the rights of private property owners and the preeminence of the international judicial system to resolve business disputes. And though FDR's brand of liberalism fashioned a broader role for regulatory government, it still eschewed intrusive models that positioned the state as an economic manager or a central planning authority. Finally, the ascendant liberal faith rejected groups and actors it considered revolutionary or radical and formed alliances with individuals and groups favorably disposed to a liberal, Pan American agenda.

There is reason to argue that the administration's liberal bent advanced self-serving motives.[23] Liberals criticized public policy that either impeded U.S.-made exports to other countries or that reduced the supply of cheap raw materials for U.S. industry. Between 1921 and 1925, U.S. farmers sold an average of $4.7 billion in commodities to its trading partners. By the end of 1932, with the Depression at full tilt, those exports shrank to $1.6 billion. U.S. merchants also bought far less from their trade partners – $4 billion a year from 1926 to 1930 versus $1.4 billion in 1933.[24] The free traders of the 1930s had their gaze clearly fixed their on returning to the profitable ways of the 1920s. Thor Watson, the president of International Business Machines Corporation, argued that the United States had to stand at the forefront of world economic planning given that "with six percent of the world's population, [the United

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[23] See also Robert Dallek, *Franklin D. Roosevelt and American Foreign Policy, 1933-1945* (New York: Oxford University Press, 1979), pp. 92-93. Dallek concluded "whatever Roosevelt's or Hull's intentions, the reciprocal trade program chiefly served American interests rather than world economic interests."

[24] U.S. Department of Commerce, *Commodity Yearbook 1939* (New York: Commodity Research Bureau, 1939), pp. 41.

States] manufactures fifty percent of all the goods manufactured" and needed consumer markets.[25] Civic groups also pressed for an open trade policy. Charles Franklin Jones, general manager of the Miami Board of Foreign Commerce, urged the organization to seek trade opportunities even as the Smoot-Hawley Act went into force. "The members of this board," he said, "have no desire to sit still and think or to simply stand up and talk about what ought to be done to promote our foreign commerce with Latin America."[26]

However, 1930s liberalism claimed a deeper ideological ancestry that preached a quasi-evangelical belief in peace and prosperity through cross-border commerce. It was Woodrow Wilson, the father of twentieth century liberalism in U.S. politics, who most eloquently and convincingly spoke of expansion in the missionary language of Progressive uplift and modernization as an alternative to radical or revolutionary models.[27] Wilson argued that economic diplomacy and foreign relations should foster human progress, nurture underdeveloped areas, and achieve the betterment of mankind by way of reformed and socially responsible democratic capitalism. This brand of liberalism insisted that prosperity from trade and investment incubated middle class democracy. Liberals said that democracy, in

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[25] Watson to FDR, July 6, 1935, White House Official File, OF 614-A, box 319, Franklin D. Roosevelt Library, Hyde Park, N.Y. Collection cited hereafter as Official File.
[26] Quoted in *Miami Business* (May 1952), p. 3, in box "The Miamian," South Florida Historical Museum, Miami, Fla.

[27] For early and more recent examples of works that view Wilson as a founder of liberal and anti-revolutionary foreign policy, see Robert Freeman Smith, *The United States and Revolutionary Mexico, 1916-1932* (Chicago: University of Chicago Press, 1972); Arthur S. Link, *Woodrow Wilson: Revolution, War and Peace* (Arlington Heights, Ill.: Harlan Davidson, Inc., 1979); Mark Gilderhus, *Pan American Visions: Woodrow Wilson in the Western Hemisphere, 1913-1921* (Tucson: University of Arizona Press, 1986); and Amos Perlmutter, *Making the World Safe for Democracy: A Century of Wilsonianism and its Totalitarian Challengers* (Chapel Hill: University of North Carolina Press, 1997).

turn, stabilized government and muted fluctuations between the extremes of the right and left. People from across the Americas, liberals insisted, shared this vision of unity and progressive Pan American economics and democracy.[28]

The ranks of diplomats and policy specialists within the Roosevelt government counted more than a few torchbearers of Wilsonian liberalism – starting with the president. A frequent traveler through the region, Franklin D. Roosevelt was better acquainted with Latin America than most of his predecessors. His support for non-interventionist policies and his call for a mutually beneficial economic integration struck the right chords in the region. Plus, FDR's easy-going, at-home approach during his travels in the Americas won him popularity. At the very least, the U.S. president's affable image neutralized suspicions about FDR that grew from his support for Mexican incursions by U.S. troops during the Wilson years and for boasting that he authored the Haitian constitution.[29]

Secretary of State Cordell Hull, a Tennessee native who fought in the Spanish-American War, was a life-long free trade advocate and the most adamant internationalist in FDR's government. Hull's free trade credentials dated as far back as his first years in Congress in the early 1900s. At the time, the Democratic Party "advocated unilateral reductions in tariff" levels and Hull was among the staunchest advocates for lower rates. As secretary of state, Hull was stubborn and relentless in his insistence on open markets. Soon after leaving the Senate for

[28] Scholars generally accept that Wilson and his diplomats believed in the Pan American creed of shared interests, goals, geography and history despite their heavy-handed handling of the Mexican Revolution. In fact, historian Gilderhus has argued that "regional integration" in the Western Hemisphere was the overarching goal of Wilsonian diplomacy in Latin America. See Gilderhus, *Pan American Visions*, p. 156.

[29] William Leuchtenburg, *Franklin D. Roosevelt and the New Deal, 1932-1940* (New York: Harper & Row, 1963), p. 208.

FDR's cabinet, Hull suggested the United States slash its tariffs unilaterally by 10 percent.[30] While impractical, Hull's proposal revealed his determined liberal stance. He would ultimately achieve results at great professional and personal cost.

Another articulate advocate for a liberal rebirth was FDR's chief Pan American specialist, Benjamin Sumner Welles. A career diplomat, Welles boasted plenty of experience in the Caribbean, Central America and South America. His first assignment in the region was at the U.S. embassy in Argentina during the First World War. He then headed the Latin America office at the State Department during Wilson's second term. A graduate of Groton and Columbia University, Welles' claims to fame were his mediation of the 1924 Honduran revolution as well as his attempts to resolve civil and political unrest in the Dominican Republic. Welles, too, was convinced there was a direct link between the precipitous decline in commerce around the globe, particularly in regards to Latin America, and the rise in conflict and anti-Americanism.

To be sure, the FDR-Hull-Welles triumvirate proved itself an uneasy and tense triangle. The three frequently bickered among themselves over policies and strategies – and one later scholar concluded it was hard to conceive how they managed to direct U.S. foreign policy.[31] However, the common denominator that joined the trio together was their belief that world trade and cross-border prosperity offered the best way to jolt the hemisphere's countries out of the Depression and avoid war. Because of that faith, and their commitment to pursuing a reopening

[30] Judith Goldstein, *Ideas, Interests, and American Trade Policy* (Ithaca: Cornell University Press, 1993), pp. 140-145.

[31] Irwin F. Gellman, *Secret Affairs: Franklin Roosevelt, Cordell Hull and Sumner Welles* (Baltimore: The Johns Hopkins University Press, 1995), p. iii.

of markets over the next twelve years, FDR, Hull and Welles set the general direction for U.S. economic foreign policy for the balance of the century.[32]

The centerpiece of the Roosevelt government's liberal project in the Americas was the reciprocal trade agreements program. Advocates for reciprocity insisted that the United States and its key trading partners should sign bilateral treaties providing tariff, customs, and other trade incentives and concessions on specific products and goods. The administration especially coveted treaties with Latin American countries, as following chapters will discuss. Reciprocity was ideally suited for Latin America, FDR and other liberals said, given the commonality of interests between the two regions: U.S. industry needed Latin American raw materials just as producers of those commodities needed markets. Thus, they suggested it might be easy for the United States to restore the "open market" in the hemisphere where there was a natural fit between north and south.

Roosevelt liberals encountered resistance, particularly within their own government. The slew of New Deal recovery programs pushed by the administration in its first one-hundred days closed U.S. markets even as the liberals pressed for open markets overseas. The Agricultural Adjustment Administration and National Recovery Act sought to end the Depression by sparking price increases partly by closing doors to cheaper foreign imports.[33] The Agricultural

[32] Economists who make this claim include Robert Pollard, *Economic Security and the Origins of the Cold War, 1945-1950* (New York: Columbia University Press, 1985), pp. 10-15; Richard Cooper, "Trade Policy as Foreign Policy," in Robert M. Stern, ed., *U.S. Trade Policies in a Changing World*, (Boston: Massachusetts Institute of Technology, 1987), p. 291; and Carolyn Rhodes *Reciprocity, U.S. Trade Policy and the GATT Regime* (Ithaca, N.Y.: Cornell University Press, 1993) pp. 7-16.

[33] Pollard, *Economic Security and the Origins of the Cold War, 1945-1950*, pp. 10-11.

Adjustment Administration, for example, provided price supports for U.S. farmers. Created to please the rural electorate, the AAA essentially clogged efforts to expand trade by placing roadblocks to agricultural imports into the U.S. markets.

Inward-looking measures received support from George Peek, the White House trade advisor, and members of the White House kitchen cabinet dubbed the "brains trust." These FDR advisors argued against what they viewed as counterproductive free trade programs they said would flood markets with imported foodstuffs – and drive down agricultural prices. Free trade, they insisted, hurt U.S. farmers, who would risk defaulting on loans, losing their farms and cause banks to fail.[34] Facing political pressure over New Deal reforms in the United States, FDR initially vacillated between protectionism and free trade.[35]

However, other liberals, in and outside of the administration, did not waver or back down. One commentator in the 1930s referred to the increasingly adamant, if not obtuse, Hull as the "Galahad of internationalism in a nationalist administration."[36] In fact, Hull found plenty of support from other liberals within FDR's government. Attorney Adolf Berle, who closely monitored Welles role in Cuba and later served as U.S. ambassador to Brazil, was among a handful of university professors and intellectuals that FDR frequently turned to for counsel. Others who toted the banner, to various degrees, included newspaper publisher Josephus Daniels, tycoon Nelson Rockefeller, diplomat William Phillips and businessmen Spruille

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[34] Richard Holt, *The Reluctant Superpower: A History of Americas' Global Economic Reach* (New York: Kondasha International, 1995), pp. 105-115.

[35] Robert Dallek, *Franklin D. Roosevelt and American Foreign Policy, 1933-1945* (New York: Oxford University Press, 1979), p. 19.

[36] Quoted in Leuchtenburg, *Franklin D. Roosevelt and the New Deal*, p. 203.

Braden. Outside the administration, scholars, businessmen and journalists also championed the missionary faith that free trade and protection for foreign private investment might set off a wave of prosperity, giving aid and comfort to those within.

Improved economic performance around the hemisphere, these advocates argued, would foster U.S.-style social and political institutions and open backward regions to the technological wonders of U.S. production, from radios to sewing machines to automobiles.[37] For example, Robert Patchin, president of the W.R. Grace Co., worked to "spread the gospel" of Pan American liberalism. "The export of these [resources] is as essential to our foreign trade and, conjointly, to our domestic prosperity, as is the export of Latin America's raw materials to hers," wrote Patchin. "In a very special sense, the United States and Latin American republics are economically complementary to each other."[38] The complementary link, the Good Neighbor liberals concluded, rested on an indisputable conviction that trade and investment offered paths to peace and prosperity.

Ultimately, the liberals outnumbered, out-muscled and out-shouted their protectionist foes. By emphasizing more limited reciprocal treaties with individual countries, and not a broader free trade agenda, Hull enlisted enough support to convince FDR to push for reciprocal treaties in Congress in the spring of 1934. Congress ultimately approved the program over the objections of farmers, industrialists, and the protectionists at the White House. This achievement was no minor feat. Now the liberals had to convince the rest of the hemisphere to

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[37] Thomas O'Brien, *The Revolutionary Mission: U.S. Business Enterprise in Latin America, 1900-1945* (Cambridge: Cambridge University Press, 1993).

[38] Patchin to Welles, August 22, 1933, in Official File, box 319, FDRL. For quote and discussion of the "special" economic bonds in the region, see Patchin's udated speech "Reciprocity and Nationalism," attached to letter from Patchin to Welles.

trust in their open door regime as well.

Economic Nationalism in Latin America

Just as the Great Depression forced a change in mindset among U.S. policy-makers, the economic meltdown jolted the thinking of governments and people across Latin America.[39] The new leaders and forces stepping to the forefront in Latin America embraced a different formula from the one that Washington prescribed. This direction was decidedly anti-Pan American and anti-liberal. Protectionist measures included exchange controls that safeguarded currency stocks by limiting money swaps. Other measures included state intervention in the economy to influence manufacturing of products for domestic consumption and to strengthen labor's hand during negotiations with multinational companies. To monitor and enforce these policies, the states enlarged those parts of their bureaucracy charged with regulating industry and agriculture.

Nationalists justified their policies with emotional calls to defend and recapture national pride and self-determination, but, more importantly, they also believed their program made economic sense. Nationalists adamantly insisted their dependence on the prices paid for their metals, coffee, sugar, and rubber ultimately tied their fate to the gyrations of the international markets. Through internal development measures, such as ownership of domestic industry, economic nationalism promised profit from domestic labor, not foreign hand-offs. While the turn toward liberalism in the United States was a rapid and immediate reaction to the Depression, the opposition to liberalism in Latin America had brewed for decades. Nationalism,

[39] Tulio Halperin Donghi, *The Contemporary History of Latin America,* John Chasteen ed., (Durham: Duke University Press, 1993), p. 209. The author writes that the Depression "had a rapid and devastating impact on Latin America" with "long-term implications for the political and economic formulas that characterized the mature neo-colonial order" existing from 1870 to 1930.

in fact, developed from the financial volatility confounding the region since its integration into the global commodity market in the latter half of the nineteenth century.

In part, the economic nationalist tide swelled higher and higher because of a combination of important demographic and social changes that occurred between 1870 and 1930. The first factor was the chronic and debilitating intra-class strife that persistently weakened the liberal political and economic groups that dominated government and finance. The second development paving the way for economic nationalism was the rise of popular groups in the cities and the countryside that challenged the liberal elite. The final ingredient was the volatility in the global commodity markets that periodically undermined stability and discredited the region's liberal economies. Each of these factors played a determining role in the six countries examined in this dissertation.

The liberal, export-oriented trade and investment regime in Latin American developed after 1870 when elite groups seized control of the export industries in Latin America and bound their plantations, underground mines, and export enclaves to the world trading system. The opening of European and U.S. markets for raw materials from Latin American agricultural lands and mining centers created avenues for enormous riches – and unleashed bitter friction. Battles ensued between elite groups struggling for control of railroads, customs houses, ports, and government patronage. The penetration of foreign capital in industry and agriculture meant many dominant local producers slowly ceased to be entirely national in origin, a development that fueled intra-elite warfare and anti-foreign sentiment. So, throughout its existence from 1870 to 1930, the liberal-dominated order spawned intra-class friction as well as economic growth.[40]

[40] For studies on liberal class friction, see Charles Bergquist, *Coffee and Conflict in Colombia, 1886-1910* (Durham: Duke University Press, 1978), and Maurice Zietlin, *The*

The strife ultimately prevented the elites from investing riches derived from periodic export booms to solidify their hold on power – or to purchase a measure of longevity.

As elite factions warred among themselves, the second factor, a demographic evolution, occurred in many countries. The liberal push to commercialize agriculture and extractive industries created a rush to expand plantations and mining centers, triggering a struggle for labor.[41] The consolidation within export producing zones displaced smaller landowners and peasants, who then relocated to burgeoning towns and villages. Immigration from Europe also bolstered growth in population centers and sparked an urban revolution as cities accumulated political and economic power.[42] Urbanization forged a middle class that altered the balance of power in the hemisphere.[43] These changes in economics and demographics reshaped political alliances, placing even more pressure on the established, elite-led orders. Where societies were once mostly dominated by landowning planters and the Catholic Church, modernity opened the

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Civil Wars in Chile, Or, The Bourgeois Revolutions That Never Were (Princeton: Princeton University Press, 1984).

[41] Florencia Mallon, *The Defense of Community in Peru's Central Highlands: Peasant Struggle and Capitalist Transition, 1860-1940* (Princeton: Princeton University Press, 1983), pp. 168-243 and Steve Stein, *Populism in Peru: The Emergence of the Masses and the Politics of Social Control* (Madison: University of Wisconsin Press, 1980), pp. 65-66 and 69-73.

[42] There is disagreement on when urbanization took hold in the region. However, the consensus is that by 1930, urbanization had produced sizeable urban centers. See Orlandina de Oliveira, "Urban social structures in Latin America, 1930-1990," in *Latin America: Economy and Society Since 1930*, pp. 241-312 and Thomas Merrick, "The Population of Latin America, 1930-1990," in *Latin America: Economy and Society Since 1930*, pp. 3-61.

[43] Nicholas Sánchez-Albornoz, "The Growth of Latin American Cities, 1870-1930," in *The Cambridge History of Latin America* 4 (Cambridge: Cambridge University Press, 1986), p. 263. Urbanization, writes Nicholas Sánchez-Albornoz, increased the "influence of middle class elements in particular altered the degree of political control exercised by national elites in a number of Latin American countries."

doors to working class labor, middle class white-collar types, and the military – all represented by an array of political parties and movements.

These emerging popular classes and groups fostered ideological diversity across the Americas. The 1930s challenge to the liberal paradigm came from a plurality of groups including anarcho-syndicalists and university intellectuals who mixed indigenous ideologies with European socialism, anarchism, and corporatism during the early decades of the century. These groups countered liberal dogma with their own nationalist visions and policies. They looked within national borders for solutions to the economic malaise. The fundamental tenets of the nationalist faith included tighter regulation of industries controlled by non-native capital to ensure that social justice and welfare initiatives were carried out through control of significant industries via nationalization or expropriation and establishing barriers to keep out manufactured imports that stunted internal industrialization. Economic nationalists promised uplift, too, but through a different process than export-driven growth.

The third factor, the economic volatility built into the liberal arrangement, revealed the inherent weaknesses, inequities and unreliability of the export-driven economic model in Latin America. Time and again, severe economic contractions followed booms. Monoculture societies like Cuba, for example, saw enjoyed riches when the price paid for sugar surged, but faced tremendous pressure when demand slackened and prices declined. During World War I, the disruption in trade with Europe led to the loss of markets and a precipitous decline in commerce, jobs, wages, and standards of living even in countries not dependent on one crop. Moreover, the export-dependent growth produced uneven development. Investment in critical infrastructure, such as railroads, aimed to serve commodities production, sometimes squeezing local producers by favoring the facilities owned by foreign capital.

The roots of the initial nationalist challenge to liberalism are found in the demands for labor reforms that buzzed through urban centers, and which translated into public policy in a wide variety of ways. In turn-of-the-century Uruguay, the government of Jose Batlle y Ordoñez courted the labor sectors by establishing free primary education, an eight-hour workday, old-age pensions, and guaranteeing workers the right to strike.[44] In Argentina, anarchist- and syndicalist-led strikes forced the ruling Conservatives to grant the right to vote to all males with the Saenz Peña Law of 1912. The emerging Buenos Aires middle classes later coalesced through the Radical Civic Union and seized power in 1916.[45]

By the second decade of the century, nationalism proved capable of dislodging the liberal, post-colonial order in Latin America. The most studied example of such a challenge is the Mexican revolution.[46] Backed by foreign money, railroads were established and oil exploration began under the paternal tutelage of Porfirio Díaz. Industry surged, too, financed by the international customs houses and investment firms that served as gatekeepers of capital. The Díaz regime, however, crumbled in 1910 during a revolt against foreign domination of industry

[44] Ruth Berins Collier and David Collier, *Shaping the Political Arena: Critical Junctures, the Labor Movement, and Regime Dynamics in Latin America* (Princeton: Princeton University Press, 1991), p. 275.

[45] David Rock, *Politics in Argentina: 1890-1930: The Rise and Fall of Radicalism* (Cambridge: Cambridge University Press, 1975) and Peter Smith, "The Breakdown of Democracy in Argentina, 1916-1930," in Juan J. Linz and Alfred Stephan, eds., *The Breakdown of Democratic Regimes: Latin America* (Baltimore: Johns Hopkins University Press, 1978).

[46] Alan Knight, *The Mexican Revolution*, I (Cambridge: Cambridge University Press, 1986). Knight documented how, during three decades in power, Porfiro Díaz's "modernization" efforts eventually resulted in his violent ouster from power.

and inequities in rural development. The new government and leaders failed to reach a consensus and, in fact, the country sank into civil war – a conflict that tempted its northern neighbor to intrude. The consolidation of the Mexican Revolution in the 1917 constitution produced a progressive provision, Article 27, that guaranteed national ownership of sub-soil rights. Mexico's revolution unnerved and unsettled elite classes elsewhere precisely because Díaz once appeared untouchable.

The mid-1920s drop in commodity prices, an omen of even tougher times ahead, fueled more unrest and impatience elsewhere. Tulio Halperin Donghi writes that “the crisis of the 1930s came as a rude anticlimax to half a century of economic expansion composed of discreet local cycles of boom and bust” stimulated by productive consumption patterns in the United States and Europe.[47] The Depression again forced Latin American politicians and economists to face the fact that their fortunes were tied to industry in faraway countries. This realization and reappraisal was evident in the countries surveyed by this dissertation – Cuba, Brazil, Mexico and Argentina.

Brazil’s First Republic, which lasted from 1889 to 1930, owed much of its economic growth, political power and social transformation to a massive expansion of exports. European immigration, urbanization, and wider avenues for communication and transportation plus investment in manufacturing derived from the macroeconomic assimilation of the Brazilian economy into export markets.[48] The export economy of the country’s First Republic brought to power an oligarchy of coffee planters and their clients, and they promoted changes and policies

[47] Halperin Donghi, *The Contemporary History of Latin America*, p. 169.

[48] Warren Dean, “The Brazilian Economy, 1870-1930 in *The Cambridge History of Latin America*, 5 (Cambridge: University of Cambridge Press, 1986), pp. 685-724.

that suited their needs. The system of patronage remained unchanged despite reformist demands for a wider dispersion of political power.[49] The tide turned after the First World War when the conflict sapped European industry, leading to a steep decline in demand for – and the value of – Brazilian exports. The economic dislocation that followed fueled labor agitation, restlessness in the middle class and distrust within the military.[50]

In Cuba, the sugar economy that flourished in the decades after the Spanish-American War unraveled with the Great Depression. In a sixteen-year span between 1914 and 1930, the number of sugar mills on the island jumped more than four-fold to fifty-three – while the price of the grainy sweetener bolted from about 1.95 cents to 23 cents per pound between 1912 and 1923. A six-fold surge in U.S. investment to $1.2 billion by 1924 also bolstered Cuba's finances. The island's prosperity fueled lavish spending by the upper class and the emergence of the bourgeois middle class.[51] However, waning demand for Cuban sugar in the mid-1920s caused the inflated and dependent Cuban sugar-export economy to collapse. The economic crisis added more pressure to the political system, and the battle for power between Gerardo Machado and his political opposition.[52]

The 1930s crisis in Mexico followed a post-revolution decade of social and political turmoil.

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[49] Emilia Viotti Da Costa, "Brazil: The Age of Reform," *The Cambridge History of Latin America* 5:776-77.

[50] Boris Fausto, "The Social and Political Structure of the First Republic," *The Cambridge History of Latin America*, 5:779-830.

[51] Luis Aguilar, "Cuba, c. 1860-1934," *The Cambridge History of Latin America*, 5:256-258.

[52] Louis Pérez, Jr., *Cuba: Between Reform and Revolution* (New York: Oxford University Press, 1988), pp. 251-1260.

Under Díaz, Mexican economic growth became more and more dependent on foreign markets and investments. International money and technological progress resulted in record-setting 8 percent increases in the country's gross domestic product. However, the Díaz government also produced disparities within the economy. Some agricultural enterprises were outfitted with modern machinery, others were left to primitive means. Some regions modernized, others were left unchanged.[53] The civil war in 1910, and the resulting post-revolutionary governments of the 1920s did little to alter the imbalances. Alvaro Obregón and Plutarco Calles sought to create a modern economy that was capitalist and nationalist. But Mexico's development, however, still relied on foreign investment and exports. Twenty years of internecine warfare passed, but the Mexican Revolution had not changed the fundamental structure of the country's economy.[54]

Like Mexico, Argentina displayed evidence of uneven development. The years between 1914 and 1930 witnessed significant increases in Argentine exports of chipped beef, wheat, and fuel production. The export boom led to increases in per capita income and living standards. But the period was also marked by a World War I depression blamed on the contraction in Argentina's export markets and decline in commodity prices. The drop of demand for exports created a deficit in the country's balance of payments that forced a reduction in imports and a subsequent decline in government revenues. Moreover the depressions increased unemployment in the urban centers, a drop in rural land prices and a rush of bankruptcies.[55] The

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[53] John Womack, "The Mexican Revolution, 1910-1920," in *The Cambridge History of Latin America*, 5:28-31.

[54] Jean Meyer, "Mexico: Revolution and Reconstruction in the 1920s," in *The Cambridge History of Latin America*, 5:193.

[55] David Rock, "Argentina from the First World War to the Revolution of 1930," in *The Cambridge History of Latin America*, 5:419-452.

Wall Street crash and the Great Depression placed severe fiscal constraints on the Argentine government led by President Hipolito Yrigoyen. Weakened by a reduction in resources, Yrigoyen's presidency ended in September 1930 during a coup led by the military.

Conclusion

These examples of mounting pressures were replicated in other Latin American countries. Across the region, 1930 marked the breakdown of the tenuous post-colonial grip of the liberal ruling elites. The discrediting of the export-oriented commercial system created opportunities for anti-liberalism to permeate both the public policy mindset and the intellectual debate in one form or another in many areas of Latin America. But nationalism was more than just a simple, knee-jerk reaction against liberalism. It developed into a distinct and coherent development model that placed faith in the state as the agent for internally focused solutions to the economic crisis. Those solutions emphasized exchange controls and high tariffs to bar the flow of manufactured goods into the region to bolster their own industrial centers. Where industry was owned by foreign money, the economic nationalist agenda preached nationalization of properties with compensation to owners only when feasible.

The political and social stability the nationalists envisioned did not necessarily depend on a one-man/one-vote system. Instead, it tended to rely on collective concepts, or corporatist visions of cartels and organizations working with the state to resolve disputes and reach settlements based on conceptions of a collective common good.[56] Though the strains of nationalism evoked many different responses and solutions, the general philosophy was embraced by a wide array of groups and classes, from emerging industrialists to middle-class merchants to blue-collar

[56] Charles Hale, "Political and Social Ideas in Latin America, 1870-1930," in *The Cambridge History of Latin America*, 4:435-441.

dockworkers to peasants.

The Depression had put the United States out of step with its neighbors in the Americas. FDR and his diplomatic team looked to raise U.S. prestige and interests through a reestablishment of a liberal order at the very moment that nationalists were turning to rival models and methods. This divergence of views and programs was the source of a feud that would rupture the illusions of Pan American unity. Signs of that illusion would first appear in Cuba in 1933 even as the liberal program was taking shape in Washington.

CHAPTER II

Using Trade to Thwart Revolution in Cuba

The tension between the liberal agenda promulgated by the Roosevelt Administration and Latin American economic nationalism first surfaced in Cuba. In 1933, FDR and his diplomats confronted the increasingly violent revolt against Cuban President Gerardo Machado. Amidst the growing crisis, the Roosevelt liberals proposed a wide-ranging trade treaty they said would jumpstart the Cuban economy and ease pressure on the besieged Cuban leader. However, the key to negotiating the commercial accord ultimately depended on replacing Machado with a trusted, reliable ally who would promote export-oriented measures, a task that was infinitely more difficult in the diverse Cuban political arena of 1933. The intense drama that followed proved the strength and acceptance of nationalist groups and ideas on the island.

The difficulties that awaited the liberals in Cuba were not so evident when FDR sent Sumner Welles to Havana in May 1933 to launch Good Neighbor economic diplomacy. Welles' followed in the footsteps of a previous "mediator," Enoch Crowder, who likewise arrived in Cuba in 1921 to sort out a disputed election, stem revolt, and seed economic progress. Welles, however, found Depression-era Cuba embroiled in a complex set of disputes involving a wider web of protagonists. Besides the better known political protagonists from the establishment Conservative, Popular and Liberal parties, the opposition included a broad spectrum of anti-Machado activists from labor unions, university student groups, and the Cuban Communist

Party.[57] The long line of politicos on the scene, whether on center stage or in the background, offered a variety of competing visions for Cuba's development.[58] Many of their platforms soon proved unpalatable to the Roosevelt liberals. The divergence in views and ambitions set the stage for the ensuing, intense diplomatic standoff between Cuba and the United States.

In fact, Good Neighbor liberalism in Cuba was a reactive policy to currents and events that Hull, Welles and other U.S. liberals found difficult to predict, discern, or control. Despite the economic power that U.S. interests wielded on the island, the factors that propelled the drama in Cuba were rooted in domestic organizations with nationalist views and plans. These groups included the professional middle class, labor unions, student groups, and intellectual societies. They also included a younger generation of Cubans born after the war of independence. The U.S. pledge to promote tranquility through trade and more U.S. tutelage simply proved unpalatable to these sectors of the emerging and developing Cuban society. These new groups and classes flatly rejected the Welles' liberal offer, forcing U.S. diplomats

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[57] There is consensus among historians that the early 1930s marked a watershed in Cuban political activism. See Luis Aguilar, *Cuba 1933: Prolog to Revolution* (Ithaca, N.Y.: Cornell University Press, 1972); Louis Pérez, Jr., "Cuba, *c*. 1930-1959," in Leslie Bethell, ed., *The Cambridge History of Latin America*, 7 (Cambridge: Cambridge University Press, 1990); Pérez, Jr., *Cuba: Between Reform and Revolution* (New York: Oxford University Press, 1988); Hugh Thomas, *Cuba: The Pursuit of Freedom* (New York: Harper & Row, 1971); Jaime Suchlicki, *Cuba: From Columbus to Castro* (Washington: Pergamon-Brassey, 1986); and Samuel Farber, *Revolution and Reaction in Cuba, 1933-1960* (Middletown, Ct.: Wesleyan University Press, 1976).

[58] For background on the nationalist views of the emerging political leaders and groups, see Pérez, "Cuba, c. 1930-1959," *The Cambridge History of Latin America*, 7:419-63; Pérez, *Cuba and the United States: Ties of Singular Intimacy* (Athens: University of Georgia Press, 1990); Aguilar, "Cuba, c. 1860-1934," in Bethell, ed., *The Cambridge History of Latin America* 7 (Cambridge: Cambridge University Press, 1990), pp. 258-63; and Jules Benjamin, *The United States and Cuba: Hegemony and Dependent Development, 1880-1934* (Pittsburgh: University of Pittsburgh Press, 1974).

to change goals and tactics. After the fact, Good Neighbor advocates in contemporary diplomacy and later historiography argued that the Roosevelt program was a proactive approach to the hemisphere, but the Cuba episode suggests the opposite.

Almost from the moment he arrived in Cuba, Welles and his mission were not only engulfed in the anti-Machado uprising but also overwhelmed by the liberal-nationalist clash of ideas. First, Machado resisted the treaty. Then, a junta led by Ramon Grau San Martín, which followed Machado's regime, was openly hostile to it. Refusing to leave Cuba without an accord, Welles turned again and again to cajoling in picking-and-choosing potential presidents and strongmen, even as his superiors in Washington decried intervention. Welles ultimately negotiated a favorable commercial treaty with a compliant Cuban government, but the nationalist genie had been unleashed in Cuba.

The Cuba episode, on the surface, suggested a liberal victory but, in reality, the treaty helped promote the very chronic economic and social volatility in Cuba that it was supposed to ameliorate. While Cuba received generous allotments and prices for sugar exports, the pact bonded the island to the cyclical twists in the commodity markets and undermined efforts to diversify the Cuban economy.[59] The treaty further relegated the island's finances to the management of foreign companies and financiers and left Cubans to battle over the one corporation they could dominate, the government. The damaging effects from these results, in the long run, fueled not only Cuban nationalist sentiments but a successful call for more radical

[59] For discussion on how the trade treaty bound the Cuban economy to U.S. industry, see Pérez, "Cuba, *c*. 1930-1959," in *The Cambridge History of Latin America*; Pérez, *Cuba: Between Reform and Revolution* (New York: Oxford University Press, 1988); Marifeli Pérez-Stable, *The Cuban Revolution: Origins, Course and Legacy* (New York: Oxford University Press, 1993); and Irwin Gellman, *Roosevelt and Batista: Good Neighbor Diplomacy in Cuba, 1933-1945* (Albuquerque: University of New Mexico Press, 1973).

measures.

Defining the Problem, Designing the Solution

On the evening of February 26, 1933, a freight train traveling to Esperanza, a town in Cuba's Matanzas province, suddenly bolted from the rails at the crack of a sharp explosion. The engine and eighteen cars ran off the tracks, killing the engineer and a conductor[60] and elicited immediate suspicion from the government and the train's owners that the blast was the work of saboteurs. The suspected attack on the railroad cars owned by the British United Railways of Habana was just one in a growing list of assaults on foreign companies and their representatives in Cuba. Two days before the Matanzas episode, suspicious explosions derailed four trains owned by other U.S. and British companies. Earlier in February 1933, Cuban police arrested two attorneys and three other employees of the law office of Rosales and Lavedon, the firm of choice for the National City Bank of New York and other U.S. companies. The violence and the arrests, reported one U.S. news correspondent, had turned Havana into a "gallery [of] disappearances and secret organizations."[61]

For the Roosevelt Administration, the increasing violence in Cuba presented the first important challenge to the Good Neighbor Policy of military restraint and Pan American liberalism. In early April, FDR's foreign policy team quickly sized up the reason for the strife on the island: The combination of the Depression and repressive rule fueled unrest and violence. "As a result of all that has happened in Cuba [it] lies at our feet exhausted, bruised and

[60] *Diario de la Marina*, Havana, February 27, 1933, p. 13; Ambassador Harry F. Guggenheim to Secretary of State Henry Stimson, February 28, 1933, in U.S. Department of State, *Papers Relating to the Foreign Relations of the United States* [source hereafter cited as *FRUS*], *1933*, 5 (Washington: Government Printing Office, 1952), p. 272.

bleeding; but, full of submerged vitality, and if taken by the hand and put on her feet she will soon forget her troubles," wrote Welles.[62]

The liberal blueprint to put Cuba back on her feet was a simple one. To foster prosperity on the island, Hull and Welles surmised that both the U.S. and Cuban governments needed to restore commerce. Massive U.S. purchases of Cuban sugar, they said, would promote Cuban economic progress. Once the island's economy stabilized, the two senior diplomats believed they could rebuild a democratic government patterned after the one in the United States. As long as the strife continued, however, Hull feared that "the younger generation from whom the leaders of Cuba tomorrow must spring" only learned that changes in government resulted from "measures of violence and revolution" instead of constitutional government.[63]

The Roosevelt liberals suggested that the Machado government was at least partly to blame for the troubles on the island. Machado had annoyed U.S. officials by straying from the road toward democratic government and liberal economics during the late 1920s. FDR's foreign policy team did not look favorably on a series of constitutional changes in the island's government that had eliminated the vice-presidency, extended terms of office for the Cuban congress, and created a six-year presidential term. While Machado modified the political blueprint imposed by the Platt Amendment, Cuba also drifted from the U.S. economic orbit. In less than ten years, Cuba fell from sixth to sixteenth among U.S. trading partners. U.S. exports

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[61] Hubert Herring, "Machado Must Go," *The Nation*, 29 (May 3, 1933), p. 500.

[62] Welles, "Memo Cuban Affairs," April 21, 1933, box 22, in the Papers of Sumner Welles, Franklin D. Roosevelt Library, Hyde Park, N.Y. Collection hereafter cited as Welles Papers.

[63] Welles instructions from Hull, May 1, *FRUS 1933*, 5:282.

to the island dropped 67 percent to $57 million between 1924 and 1933.[64] The Havana newspaper *Diario de la Marina* calculated that Cuban purchases of U.S. products fell nearly 50 percent to $58 million from 1931 to 1932, while purchases of Cuban goods dropped by about 40 percent in the same period.[65]

Hull and Welles argued that a rebirth of trade and prosperity would bring Cuba back into the liberal fold and promote stable democratic governance. The first step in their plan was to negotiate a reciprocal treaty to lower tariffs and raise quotas on selected goods bought from Cuba. In April 1933, the administration decided Cuba should be the laboratory to test the development theory. In a statement calling for a new trade agreement, Welles noted that Cuba “is potentially one of the greatest customers of the American continent” of U.S.-made products and that the island “depends upon fair and generous treatment of the United States for her economic life.” The statement concluded that “there is no country of the Western Hemisphere with which our relations should be closer than with Cuba."[66]

Hull worried that the civil strife would continue to undermine efforts to increase commerce between Cuba and the United States. Early in 1933, Hull wrote that he viewed "with the gravest of concern the situation now existing in Cuba." A reciprocal trade agreement, Hull claimed, "cannot be undertaken so long as this situation of political unrest in Cuba continues."[67] And

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[64] Foreign Policy Association, *Problems of the New Cuba* (New York: Foreign Policy Association, 1935), p. 60.

[65] *Diario de la Marina*, February 27, 1933, p. 13.

[66] Statement by Welles, April 20, 1933, *FRUS 1933*, 5:278.

[67] Hull to Welles, May 1, 1933, *FRUS 1933*, 5:279.

without a trade agreement and economic revival, it would be difficult to achieve the second prong of the liberal vision: a stable constitutional democracy. The liberals found themselves in a Catch-22. Without a trade treaty, prosperity seemed an impossible feat. Without peace and tranquility, a treaty to promote trade and prosperity appeared beyond reach. Without the ability to control political events in Cuba, the stability required to launch the liberal agenda remained elusive.

To resolve this quandary, FDR and Hull turned to Welles. The president had originally picked Welles as his chief Pan American strategist in the State Department because of the Castillean-speaking Brahmin's experience in hemispheric diplomacy – including a stint serving as a mediator between dictator Rafael Trujillo and his opposition a few years before in the Dominican Republic. Welles accepted the challenge and was handed clear instructions from the president and secretary of state: Negotiate a commercial treaty and with Machado and the opposition to write a new electoral code and constitution providing for elections at the earliest possible date.

Welles harbored initial doubts about the strategy's practicality, but his mission garnered endorsements from various quarters. "If you can arrange before Congress meets next January to restore civil rights and constitutional government, and elect a vice president to replace Machado, you will render a great service to the Cuban people and accomplish a diplomatic achievement for the present administration," wrote congressman Hamilton Fish of New York.[68] At least one U.S. manufacturer with business interests on the island welcomed the prospects of improved commerce. A.

[68] Fish to Welles, June 27, 1933, Welles Papers, box 24, FDRL.

Cornhall of the William L. Barrell Company complained that duties on cotton piece goods had risen by 60 percent since 1926. He said that attention to tariff reform and reciprocity might produce an improvement in business.[69] Welles was unimpressed. The U.S. envoy was no fan of Machado, whom he believed was “detested” by many Cubans. "This policy is not sensational," he wrote. "It will satisfy neither one side nor the other down here."[70]

With his mission defined, the U.S. ambassador arrived at the port of Havana on a Sunday afternoon in May. He at once made an impression. A Cuban writer compared Welles – dressed in a dark suit in contrast to the more common tropical white linen attire – to a protagonist from a Lord Byron novel.[71] In their first meeting, Welles and Machado exchanged public greetings and then, in a private chat, Welles handed the president a letter from FDR. Welles told Machado that he was there not to "involve himself in Cuban political matters” but to negotiate a commercial treaty “for the mutual benefit of both countries." He asked for Machado’s cooperation in turning the public's attention from "general agitation to economic interest." Welles suggested the Cuban leader "carry out a program of conciliation” as well as conducting “absolutely fair and uncontrolled national elections." Welles reported to Hull that Machado "was very obviously impressed with the declarations which I made to him."[72]

Welles and his superiors expected Machado to accept the offer. They reasoned that

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[69] Cornhall to Welles, April 27, 1933, Welles Papers, box 24, FDRL.

[70] Welles to FDR, May 18, 1933, in White House Official Files 470, box 81, Franklin D. Roosevelt Library, Hyde Park, N.Y. Collection hereafter cited as Official File.

[71] Miguel de Marcos, "Sumner Welles: Conspirador Romantico,” in *Bohemia*, November 19, 1933, p. 4.

[72] Welles to Hull, May 13, 1933, *FRUS 1933,* 5:288.

Machado, a former manager in Cuba's U.S.-run electric company, fully understood the benefits of U.S. investment and corporate patronage. They recognized Machado possessed a relatively solid record of cooperation with past U.S. administrators in Cuba. Before he assumed the presidency in 1925, Machado set the tone for his government during a luncheon sponsored by the Bankers' Club of New York. There he assured U.S. merchants "that they will have absolute guarantees for their business interests under the administration of Cuba." He pledged no tolerance for strikes, labor unrest and other actions disrupting "the tranquility of the Government and the peace of the country." The audience, which included representatives of the U.S. sugar industry and Wall Street financiers, nodded in approval.[73] Throughout his eight years in power, Machado zealously repaid Cuba's external debts to U.S. banks and ardently kept the "communistic" and anti-Yankee elements under a tight grip. The question now, however, was whether Machado could hold his grasp on Cuba long enough to approve the treaty and spark a measure of economic recovery before his days in power came to a merciful end.

Machado: From Liberalism to Nationalism

Machado later recalled that he greeted Welles and his mission on that May Sunday with initial skepticism. From the moment that the "ambassador came to shake my hand, we met face to face and I understood that the battle had begun.[74] It is difficult to determine whether

[73] Quoted from Perez, *Cuba Under the Platt Amendment, 1902-1934* (Pittsburgh: University of Pittsburgh Press, 1986), p. 162.

[74] Machado, "Ocho años de gobierno," [draft memoirs] in the Machado Collection, box 6, folder 2, p. 85, at the University of Miami Otto G. Richter Library. This collection is hereafter cited as Machado Collection. The draft, written several years after his ouster, reveals the lingering bitterness that Machado harbored for Welles as well as the ex-president's tormentors he wrote in a draft of his autobiography written a few years later.

Machado truly had been that perceptive, or whether bitterness over his subsequent ouster colored his later recollection. What is indisputable is that Machado came to resent Welles and to resist the liberal blueprint. This stance, ironically, placed the Cuban president more in accord with his most virulent, nationalist opponents than with Welles and the U.S. plan to bolster Machado's own prospects, standing and future.

Stocky and stern, the white-haired Gerardo Machado y Morales fashioned himself as a classic authoritarian, paternal figure. A veteran of the war with Spain, where he lost his middle finger to injury and rose to field commander, Machado subsequently served in a series of post-independence provincial government posts. Possessing a dominating personality, Machado held little but contempt for most of his rival political chieftains who he saw as weak-willed and corrupt. Machado blamed his presidential predecessors, Mario Menocal and Rogelio Zayas, for leaving him a country that was "disorganized and full of disintegrating currents . . . that was the product of twenty years of government in which all the errors and the evils of the colonial regime became accentuated."[75] After his first four-year term in power expired, Machado declared that calm in Cuba existed only because "my government has zealously guarded order and assured social discipline."[76] To guarantee its continuation, he changed the constitution to give himself a new six-year term, eliminate the position of vice-president to quell talk of successors and a keep a pliant congress.

His eight years in power increased Machado's wealth and commercial holdings. A well-to-do businessman, Machado learned to profit from the same protectionist policies that Welles

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[75] Machado's second inaugural address, May 20, 1929, Machado Collection, box 7, Richter Library.

[76] Machado, "Ocho años," Machado Collection, box 6, p. 16, Richter Library.

sought to roll back. The U.S. Smoot-Hawley Act, plus a parallel measure in Cuba, made it harder for Cubans to buy from U.S. merchants but easier for them to buy from the small but emerging Cuban manufacturing sector in which Machado possessed an array of investments and interests. By 1928, according to his personal financial statements, Machado owned a diversified investment portfolio that included shares in paint, metals and shoe factories as well as stock in International Telephone and Telegraph, a U.S. company that owned much of Cuba's phone industry. His proudest achievement – a public works law that initiated a series of projects including roads, sewers and ports – also benefited his real estate and agricultural holdings.[77]

Machado's emphasis on internal economic diversification worried U.S. diplomats in Cuba during the late 1920s and early 1930s. The embassy and consulates received various complaints from U.S. businessmen claiming they were muscled out of local contracts. A subsidiary of a large U.S. paint firm, for example, groused that a customer canceled an order because "such pressure was being brought upon him to buy from the Cuban factory."[78] Machado's purchase of the Banco Comercial de Cuba, and his plans to issue government bonds, alarmed U.S. financiers. These types of transactions, the bankers insisted, were the unrivaled domain of the National City Bank of New York and the Chase Manhattan Bank.[79]

While trade with the United States declined, Cuba's contacts with Europe revived. Machado

[77] Machado Family Financial Statements, Machado Collection, box 8, folder 7, Richter Library.

[78] C.B. Curtis to Stimson, November 27, 1928, Machado Collection, box 8, folder 4, Richter Library.

[79] Curtis to Stimson, December 28, 1928, Machado Collection, box 8, folder 4, Richter Library.

boasted that during his tenure, exports and imports from Great Britain and Spain had increased.[80] At his second inaugural, Machado played favorites with the Spaniards – allegedly even allowing the Spanish navy cruiser *Almirante Cervera* to moor above the spot where the U.S.S. *Maine* sank.[81] He spoke with bluster and bravado as Cuba appeared to step away from the U.S. economic orbit. During a speech to a group of Spanish-American War veterans, Machado boasted that "morally, the Platt Amendment does not exist. It has been replaced by the patriotism and virtue of the Cubans."[82] The United States, he was quoted as saying, was "not authorized to meddle in Cuban affairs. That was the business of the Cuban people. The Platt Amendment did not exist in Cuba anymore."[83]

Evidence suggests Machado was an opportunist, not a nationalist. To the ire of his domestic foes, for example, he zealously made sure that payments to U.S. bondholders and debtor banks arrived on time. He pushed a law through the Cuban congress reducing the tax burden on U.S.-owned power and transportation companies while also allowing them to use land and property owned by the Cuban state or to private citizens. And to the delight of foreign investors, he played hardball with labor activists, as promised. Intellectuals, political adversaries, university professors, students, and the members of the nascent communist party all faced his wrath.

Eager to protect his wealth and his grip on power, Machado proved unenthusiastic about the

[80] Machado, Ocho años, Machado Collection, box 6, folder 2, Richter Library.

[81] Noble B. Judah to Secretary of State, June 1, 1929, Machado Collection, box 8, folder 4, Richter Library.

[82] Machado speech to the United Spanish-American War veterans, October 8, 1928, Machado Collection, box 7, folder 1, Richter Library.

[83] Judah to Secretary of State, January 7, 1929, Machado Collection, box 8, folder 4, Richter Library.

liberal trade agreement and government reforms that Welles was proposing in 1933. The first deadlock between Welles and Machado arrived during the first set of treaty talks. The U.S. envoy reported that Machado's representatives held steadfast to "a natural desire to afford protection to legitimate Cuban industries" and to not "impair the advantages now possessed in Cuba by Great Britain for her textiles and certain other categories of imports."[84] In fact, Machado made clear that Cuba was disposed to grant favored status to U.S. products only over those of other countries. Machado said he was adamant against tariff reform that threatened to hurt the smaller farmer, the cattle rancher, and the small-scale industrialist. Not coincidentally, these were all activities in which Machado invested. And any tariff reductions, Machado insisted, were conditioned on parallel cuts in the U.S. sugar tariff, the setting of a fixed sugar quota, and favored treatment for tobacco and other winter agricultural produce that entered the U.S. market without duties. Machado did desire a treaty to increase commerce and revenues for his cash-poor government, but such a pact had to be crafted along *his* terms. "We demonstrated that we were not willing to sacrifice Cuba to serve the particular interests of Chicago [and its commodities markets]," Machado later boasted.[85]

Sporadic violence throughout the country and Cuban government disputes with creditor banks also complicated treaty negotiations. In May, Machado's *Guardia Rural* posse killed three employees of the U.S.-owned Cuban Company’s sugar mill. Welles warned Machado that the U.S. government would not "tolerate" the murders "any more than it had been willing to countenance on a similar situation in the years preceding the Spanish-American War."[86]

[84] Welles to Herbert Feis, May 31, 1933, Welles Papers, box 41, FDRL.

[85] Machado, “Ocho años,” Machado Collection, box 6, folder 2, Richter Library.

[86] Welles to Hull, May 22, 1933, *FRUS 1933*, 5:293.

Machado also angered U.S. financiers in 1933 by retreating on his promise to pay back a portion of the island's debts to U.S. banks – a sharp break from a practice that for years earned him the benefit of the doubt. In late May, the Cuban government decided to issue $40 million in gold bonds to cover repayment of previous loans instead of using government cash collected from taxes.[87] The bankers were displeased with the offer of bonds instead of cash, and they insisted the float should have been for twice as much.

The growing strength and unity exhibited by the anti-Machado dissidents further complicated the talks. A divided and defeated lot after a failed uprising in August 1931, the opposition groups reorganized under the auspices of an umbrella group, the New York-based *Junta Revolucionaria Cubana*, to offer a united front. This group included the Cuban political figures most familiar to U.S. officials in Washington and Havana, former president Mario Menocal and party captain Carlos Mendieta. Although they hailed from rival parties, both men represented the elite *los hombres del '95*," or the leaders of the wars of independence that later headed post-independence governments. Menocal served as Cuba's president from 1916 to 1920 under the banner of the Conservative Party. Mendieta was a former Liberal Party chieftain who now headed the Nationalist Party. Another figure, Mariano Miguel Gómez, represented the Liberal party in the junta. Though hailing from different factions, these personalities and their respective parties sought to return Cuba to the pre-Machado system that allowed parties to take turns in office. But in the spring of 1933, neither group embraced Welles' attempt to negotiate with Machado. "Over what exists nothing can be constructed, nothing just, stable or

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[87] Memo by L. Casas of the National City Bank of New York, May 24, 1933, Welles Papers, box 26, FDRL.

permanent," wrote opposition figure Aurelio Hevia. "Everything that would be done would have its origin in vice."[88]

Other segments of the Cuban polity less familiar to Welles, Hull and other U.S. officials also gained strength and cohesion. Radical change was the goal of a wide array of non-elite actors, labor unions, university students, and the enlisted men in the military, whose influence finally coalesced in the summer of 1933. Organizations such as the labor union *Confederación de Trabajadores Cubanos* and the Cuban communist party positioned themselves as nascent power brokers. And a secretive group, known as ABC, took charge of the anti-Machado battle in the summer of 1933. The ABC's most recognized leader, Joaquín Martínez Saenz, claimed the group was formed because of the inaction and impotence of previous governing organizations, such as the Mendieta-led Nationalists.[89] The ABC's chief goal was to run Machado and his government from office by force. Ideologically, the ABC's mildly reformist platform included measures to protect small farms, to reduce large landholdings through taxation policies, to put caps on corporate land holdings, and to nationalize public utilities that were monopolies.[90] Discord also brewed in another quarter, the military. Non-commissioned soldiers in the Cuban army grew restless over pay, housing and potential reductions in their ranks.[91]

Yet it was the University of Havana's *Directorio Estudiantil*, or student directorate, created

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[88] Hevia to Cosme de la Torriente, June 10, 1933, Welles Papers, box 31, FDRL.

[89] Joaquín Martínez Saenz, "Como se Fundó el A.B.C.," *Bohemia*, October 29, 1933, p. 36.

[90] Aguilar, *Cuba 1933*, pp. 120-21.

[91] Pérez, "Cuba c. 1930-1959," *Cambridge History of Latin America* 7:430.

in the late 1920s, that ultimately emerged as the nationalist vanguard in Machado's last year. The student group initially sought to eliminate government meddling in the university.[92] But the expulsion, imprisonment, and subsequent murder of a popular student leader, Julio Mella, turned many student activists against the Machado regime. Mella's death galvanized the university group into a formidable activist organization with a much broader and progressive public policy platform.[93] By the end of 1932, the students assailed the government for making external debt payments while many Cubans suffered hunger. The student directorate pledged in late December of that year to replace Machado's regime with a government that "will revise all Cuban values" along a more nationalist path.[94] Within the year, the student group would get its chance to do so.

Welles' hands were full just dealing with the Cuban political factions most familiar, and closest, to him. Machado would not budge and the mainstream opposition grew increasingly agitated and impatient. A provocative junta manifesto issued in the summer of 1933 called for a "renovating revolution . . . to totally liquidate the political system that has culminated in the bloody tyranny that we are fighting."[95] If a breakthrough was not achieved by the end of June,

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[92] "Manifesto-Programa del Directorio Estudiantil Universitario de 28 de octubre 1930," in Justo Carrillo Papers, box 1, folder "Manifesto 1930," at the University of Miami Otto G. Richter Library. Collection hereafter cited as Carrillo Papers.

[93] Aguilar, *Cuba 1933*, p. 73.

[94] "Manifesto del Directorio Estudiantil Universitario al Pueblo de Cuba," December 21, 1932, Carrillo Papers, box 1, folder "Manifesto December 1932.

[95] Junta statement, circa June 1933, in Official File 470, box 11, FDRL.

Welles and others feared, more bloodshed might necessitate U.S. military intervention. In Washington, Jefferson Caffery and Charles Taussig, two principal State Department and White House advisors on Latin America, urged a reconsideration of the attitude toward Machado. "The Opposition has become disturbed at the possibility that Machado will be further strengthened by the negotiation of any reciprocal trade agreement," Caffery wrote Welles. "Some gesture must be made towards the opposition. I don't know how much longer the Junta will wait without resorting to violence, unless some positive indication is given so that their grievances are to be taken under consideration."[96]

Cease-fire, Garage Diplomacy, and Revolution

Barely a month into Welles' Cuba mission, the United States turned a pivotal corner, quietly, with a strategy change that traded carrots for sticks. Instead of seeking political stability and reform following economic rejuvenation, they chose to restore public tranquility through a political settlement. The first step was to establish, and maintain a truce, however tenuous, between Machado and the junta. The next step would be setting a timetable for electing a new government more disposed to negotiating a commercial treaty. Welles' efforts to negotiate a cease-fire – the so-called "mediation" – received an early boost. Cosme de la Torriente, a former president of the League of Nations Assembly and a Machado opponent, publicly supported a U.S.-negotiated truce in June. Welles then cheerfully reported to Hull and FDR that de la Torriente sent representatives from Cuba to New York and Miami to demand that exile opposition forces, particularly Menocal's group, drop their "revolutionary" program and agree to participate in the mediation process in Havana.[97]

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[96] Caffery to Welles, May 19, 1933, in Official File 159, box 17, FDRL.

[97] Welles to Phillips, June 10, 1933, *FRUS 1933*, 5:306-7.

By the end of June other key members of the opposition agreed to participate in the truce talks with the Machado government. The sessions were irreverently dubbed "garage" diplomacy by critical Cuban observers because some of the discussions were held in the U.S. embassy's garage. Machado seemed willing to go along with garage diplomacy at first. He indicated his willingness to accept a slate of reforms including freeing prisoners, easing press censorship, and permitting the return of exiled rivals. Machado even consented to inviting Columbia University professor Lee McBain to come to Cuba to press for structural changes in government institutions along U.S. lines.[98]

Welles was soon convinced that "these negotiations will have a successful outcome."[99] In a mid-July report to FDR, he gleefully reported that "I am happy to say that the various delegations are concentrating upon questions of principle, upon changing the system rather than the individuals." He predicted that "we can work out a fair and just solution of the political problem strictly within the line of a constitutional procedure." As truce talks progressed, Welles reported "the ground is very well cleared now for me to commence immediately the negotiations for the revision of the commercial treaty." If Cuba is permitted to sell two million tons of sugar in the U.S. at stable prices – plus a preferential advantage provided by the reciprocal treaty – Welles predicted that "there is no reason why social conditions in Cuba should not improve materially."[100]

There was a catch, however. While Welles was willing to settle for reform, the anti-

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[98] Aguilar, *Cuba 1933*, pp. 136-38.

[99] Welles to Hull, July 1, 1933, *FRUS 1933*, 5:317.

[100] Welles to FDR, July 17, 1933, *FRUS 1933*, 5:323-25.

Machado opposition in Cuba wanted immediate change. But Machado refused to accede to the one demand that his adversaries most sorely wanted – his resignation. Machado stated his position publicly in late July. Appearing before the Cuban congress, he broke with protocol, first, by publicly acknowledging the existence of the U.S.-inspired mediation and then linking the process to Welles personally. Machado claimed that his "cooperation" came from "spontaneous will and did not follow instructions or mandates" from Welles or the U.S. government. "I would have left the presidency rather than accept a foreign demand," he said.[101]

Machado may have relished his public scolding of Welles, but his congressional bravado doomed his own presidency. The disclosure left the mediation effort in shambles, with the U.S. envoy publicly rebuffed, and the new faces in the Cuban political drama seized the moment. First, a series of strikes called by the CTC and other unions swept Havana and many provincial towns. On August 7, police forces, called to stem labor union protests, opened fire on civilians, killing 17 protesters while wounding another 100 people. Three days after the shootings, the officer corps in the military revolted against Machado. Welles feared that "any incident might provoke a general explosion."[102] When Machado proposed handing over the presidency to one of his associates, "some of the members of the opposition [were] bitterly opposed" and Welles warned Hull again that "the maintenance of public order in the next few days will be exceedingly difficult."[103] On August 12, the army staged a palace coup that sent Machado fleeing into exile. Welles expressed relief. He told Hull and FDR that "I now have confidence

[101] Machado, draft of "Ocho años," Machado Collection, box 6, folder 2.

[102] Welles to Hull, August 11, 1933, *FRUS 1933*, 5:356.

[103] Welles to Hull, August 11, 1933, *FRUS 1933*, 5:357.

that the situation has been saved."[104]

The coup marked Machado's political death knell, but it was a defeat for Welles and Cuban liberalism, too. The organizations and coalitions that prodded Machado's ouster, labor unions, the communist party, and the university groups, were nationalist in thought and action, if not origin. Though Machado's removal appeared to pave the way for constitutional and liberal commercial reforms, the coup actually opened avenues for nationalists – even if they still need to wait another turn before gaining power. The editors at the *New Republic* correctly prophesied that the times now called for "new men, new measures, a new Cuba" to replace the ousted Machado regime.[105] And those men, their measures and the Cuba they longed for were decidedly nationalist in substance and style.

To be sure, Welles quickly recovered from the stunning events of August 12. With threats of U.S. intervention and more cajoling, he molded an interim government headed by Carlos Manuel de Cespedes. The provisional president, a former ambassador to the U.S. and France, possessed a familiar name, de Cespedes, to Cubans – he was a descendent of a historic figure in the mid-nineteenth century independence battles. After taking the oath, Machado's successor received a warm but somewhat distant embrace from the tall, lanky American ambassador. Tenuous, too, would be the level of support from the Cuban polity. Welles recognized the margin for error in Cuba was slim. "Poverty and destitution exist throughout the Republic," he wrote. "Under these conditions no government can stand." "Chaos" thus loomed. His solution: Cuba needed a freeze on debt repayment, U.S. loans so that the government could pay salaries,

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[104] Welles to Hull, August 12, 1933, *FRUS 1933*, 5:359.

[105] "The Week: Cuba," *The New Republic*, 76 (August 23, 1933), p. 1.

a sale of U.S. Treasury bonds to Wall Street banks in Cuba (which would then use the bonds to circulate currency) and generous prices and generous quotas for its sugar.[106]

However, the U.S. Treasury rejected the proposed bond sale, and U.S. financial policy drifted. In a brief, if not terse response, Assistant Secretary Dean Acheson said that the U.S. Treasury would not aid in floating a money-raising bond issue in the United States. He also said the Reconstruction Finance Corporation would not lend the island any money "until the whole matter of Cuban finances is put on a sounder basis." The best the Treasury could do, Acheson said, was to extend credits to Cuba that were equal to what the island paid for purchases of U.S. exports. In August of 1933, Cuban remittances to the United States for export payments totaled about $2 million a month.[107]

To Welles' dismay and chagrin, events again spun out of his control. The strikes in Cuba continued. Violence increased. Vigilante posses hunted and lynched former political and social rivals in cities and villages across the island. The anti-Machado coalition of old caudillos that Welles linked together in the mediation process suffered a key defection when Menocal's group broke ranks and, as Welles put it, joined with the "extreme radicals." Welles complained his adversaries planned to transform the Cuban government into a revolutionary government. He warned that the coalition was plotting to abolish the Congress and the judiciary as well as "to remove all local provincial and municipal officials throughout the Republic in order to replace them with their own henchmen."[108] Welles figured de Cespedes could not govern for another

[106] Welles to FDR, August 20, 1933, Official File 470, box 21, FDRL.

[107] Dean Acheson to Jefferson Caffery, August 21, 1933, Official File 470, box 21, FDRL.

[108] Welles to Hull, August 22, 1933, *FRUS 1933*, 5:370.

two years, let alone two months, and he proposed elections for Cuba by the end of 1933 saying that an election was needed to avoid more unrest or a “further attempt at revolution.”[109]

Welles still insisted disorder could be quelled with a dose of economic revival. He told Hull that Cuba would need time to heal wounds inflicted by the violence and the repressive Machado government. In addition, deep structural issues within the island’s social and economic order required immediate attention. “The average laborer on the plantations has been paid less than the minimum amount required to feed himself and his family and the conditions of distress and actual destitution which exist cannot be exaggerated,” Welles concluded. The solution, he reiterated, was to get the sugar economy, the country’s biggest industry, to produce again and to distribute its gains more evenly. Of course, all this was "contingent" on how much sugar Cuba produced and sold, and that "depends on the agreement, which is to be reached in Washington as to the Cuban quota."[110]

However, time had run out on the de Cespedes government. On September 4, while the provisional president surveyed damage from a hurricane that ripped across the island's northern coast, a rebellion among rank-and-file soldiers erupted. Official U.S. sources blamed the revolt on a proposed pay cut for the 12,500 enlisted soldiers in the military.[111] But an obscure sergeant named Fulgencio Batista furiously disputed the assertion, saying the rebellion sought to "cleanse the uniform" of its corrupt Machado stains by purging Machado officers from their

[109] Welles to Hull, August 24, 1933, Official File 470, box 21, Cuba folder, FDRL.

[110] Welles to Hull, August 30, 1933, *FRUS 1933*, 5:377-78.

[111] *The New York Times*, September 5, 1933, p. 1.

ranks.[112] To back Batista's words, the enlisted men marched five-hundred of their erstwhile commanding officers at gunpoint out of the Camp Columbia army headquarters in Havana. In a peculiar twist of fate, the ousted officers found refuge in the Hotel Nacional, where Welles was also living. Meanwhile, the military's new leaders stripped their commander-in-chief, de Cespedes, of his duties as provisional president. The ousted president refused to challenge the conspirators. He preferred seclusion at home rather than to "lend myself to a farce where the only sound is the firing of machine guns."[113]

After the sergeant's revolt, a new governing group, known as the *Pentarquia*, replaced the de Cespedes' provisional government. The Pentarquia government did not include military officers, but it ruled with the backing of the army. The university's student directorate dominated the government and the students chose Ramon Grau San Martín, a University of Havana medical professor, as president. Grau's ascension concluded the directorate's rise from obscure actor in the Cuban political scene to center stage in the September drama. Following its inception in 1927, the directorate gradually developed a broad and more radical program. At first narrowly focused on academic freedom, the directorate had, by July 1933, widened its concerns to include literacy campaigns in the countryside, a ban on child labor, establishment of minimum wages and advocated reorganization of health services and housing, particularly for the peasantry.

The directorate steadfastly opposed the proposed U.S. commercial treaty. Instead of

[112] *Diario de la Marina*, September 5, 1933, p. 1. A year later, Batista claimed that the September revolt was part of a process of Cuban political and social renewal. See Batista, "Primera Alocución: 1943," in *Dos Fechas: Aniversarios y Testimonios* (Mexico: Ediciones Botas, 1973), p. 32.

[113] *Diaro de la Marina*, September 6, 1933, p. 4.

depending on export-oriented growth dependent on sales to the U.S. market, the directorate pledged to diversify Cuba's trade by expanding its commercial ties to Canada and the other countries of the Americas.[114] Directorate member Herminio Portela Vila, a historian, was an outspoken critic of the United States. He publicly castigated Washington for trying to "convert Cuba's Machado problem into one of give and take by offering concessions to Cuban sugar."[115] Antonio Guiteras, another directorate founder, promised that the new government would fight "fiercely against the root of our ills – economic imperialism."[116]

The directorate-guided government soon unleashed a series of nationalist decrees that angered Welles. The best-known measures included a rule that forced foreign-owned electric utilities to slash their kilowatt charges in half, a minimum wage law, and a decree requiring at least half of the workforce of all companies had to be native-born Cubans. Grau explained that the goal of his economic plan was the "nationalization of employment and wealth of the country, the development of small landowners by dividing [large land estates] and the erasure of national debts."[117] He insisted the government would follow "a revolutionary program."[118] The Grau government disputed accusations that it adhered to Bolshevik principles and denied that its members were Communists.[119]

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[114] Directorio Estudiantil, "Al Pueblo de Cuba," July 1933, Carrillo Papers, box 1, folder 2.

[115] Herminio Portell Vila, "Cuba y los Estados Unidos," *Bohemia*, September 17, 1933, p. 22.

[116] Antonio Guiteras, "Septembrismo," *Bohemia*, April 4, 1934, p. 30.

[117] *Bohemia*, January 7, 1934, p. 17.

[118] *Diario de la Marina*, December 31, 1933, p. 1.

[119] Cuban Embassy to the U.S. State Deptartment, September 7, 1933, *FRUS 1933*, 5:396.

Welles appraised the government and the military elements backing the government differently. He concluded two days after the coup that the new government was “an undisciplined group of individuals of divergent tendencies representing the most irresponsible elements in the city of Habana with practically no support whatsoever outside the capitol."[120] He charged that the government included "the most extreme radicals of the student organization and three university professors who are frankly communistic."[121] Other U.S. citizens living in Cuba endorsed that view. "[T]he attitude of the soldiers and a substantial part of the population is swayed by the last agitator with whom they talk," wrote Maurice McGovern, president of the American Chamber of Commerce of Cuba. "[T]he communistic element is the best organized element in Cuba today."[122] Welles initially was suspicious, too, of the army sergeants that ousted de Cespedes and kept the Pentarquia in power. Following the coup against de Cespedes, Welles wrote that "the disorganized and demoralized” force behind the new government “now realize their mistake" and may "resort to desperate measures if they become sufficiently drunk."[123]

After warning of a "communistic" takeover, Welles called for intervention. But beyond sending the *U.S.S. Mississippi* and a few smaller warships to sail along the island’s coast as a warning, Hull and FDR refused to consider landing Marines on the island. Both men were

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[120] Welles to Hull, September 6, 1933, *FRUS 1933*, 5:392.

[121] Welles to Hull, September 5, 1933, *FRUS 1933*, 5:382.

[122] McGovern to Welles, September 5, 1933, in Official File 470, box 21, FDRL.

[123] Welles to Hull, September 8, 1933, *FRUS 1933*, 5:403-04.

adamant against reversing their previous pledges to not commit troops, even if the Platt Amendment still gave the United States the legal right to send troops to the island. "Such an act would further embitter our relations with all of Latin America," Hull wrote. "It would also undo all our protestations of non-intervention and non-interference."[124] Besides "if we have to go in there again," Hull reasoned, "we will never be able to come out and we will have on our hands the troubles of thirty years ago."[125]

Without troops, Welles had to embark on another round of garage diplomacy and secret meetings to dislodge the “radical” Grau government. First, the ambassador reached out to the anti-Machado coalition that counted Mendieta, Martínez Saenz of the ABC, Menocal, and Gómez. The coalition now called for a "government of consensus" headed by Mendieta and others not viewed as radicals.[126] Then Welles scolded the members of the student directorate, whom he said were "immature" and failed to "grasp even in a rudimentary sense the grave dangers" facing Cuba. He warned “the American companies – the public utilities, importers and sugar mills – cannot and will not do business under the present conditions.” Welles also calculated that Cuba’s treasury was low on funds and “will be empty within a period of two weeks.” He estimated “the food supplies in Habana and the other ports are barely sufficient."[127] Welles repeated a similar lecture to Grau. He pointed out that some U.S. financial, commercial and agricultural businesses refused to pay taxes. Others, Welles added, were closing down

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[124] Hull, *Memoirs*, p. 313.

[125] Memo of Conversation, Welles and Hull, September 5, 1933, *FRUS 1933*, 5:389.

[126] Welles to Hull, September 16, 1933, *FRUS 1933*, 5:440-42.

[127] Memo of Conversation by Welles, September 16, 1933, *FRUS 1933*, 5:441.

operations or canceling orders to protest their opposition to “a continuation of the present regime.” Welles recalls telling Grau that all these actions “must certainly convince him . . . that the Government was not supported by exceedingly important elements in the country."[128]

Welles understood that to end the stalemate he needed to strike a deal between the Mendieta-led coalition and the army. It was not possible to scrap the directorate without bringing both together. Thus, the focus of garage diplomacy turned to the sergeant in command, Fulgencio Batista. During their first meeting, Batista mouthed the very words that Welles wanted to hear. "We assured him that the [military] would give protection to property and life by maintaining public order,” Batista later recalled. He also promised to protect the rights of U.S. property owners by giving them the same protection that Cubans enjoyed “because we wanted to end the anarchy and the communist agitation."[129]

Welles was sold. He cabled Hull that Batista's attitude "was extremely reasonable . . . and he expressed rigorous opposition to all communist propaganda and activities."[130] Welles set up meetings between Batista and coalition members such as Mendieta and Gómez. By early October, garage diplomacy had helped drive a wedge between the army and the directorate. A satisfied Welles reported to Hull on the "healthy reaction among the soldiers themselves against those elements in the government and especially those members of the [directorate] whom they consider identified with the Communist organization."[131] He explained to Leslie Buell of the

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[128] Memo of Conversation by Welles, September 17, 1933, *FRUS 1933*, 5:443.

[129] Fulgencio Batista, *Piedras y leyes* (Mexico: Ediciones Botas, 1961) pp. 14-15.

[130] Welles to Hull, September 21, 1933, *FRUS 1933*, 5:451.

[131] Welles to Hull, October 1, 1933, *FRUS 1933*, 5:461.

Foreign Policy Association what his diplomacy had achieved – "the immediate fusion of the center and left groups with the participation of the present leaders of the army for the purpose of bringing about a change in the government."[132]

Pressure from U.S. citizens on the island mounted. William Whitman, an official at the U.S.-owned electric company, complained bitterly that government decrees regulating the price of power would cost the company $3 million a year. The company, he warned, faced “bankruptcy, the partial if not complete suspension of its services within a very few months, and hence the enforced elimination of the best taxpayer and employer of labor in the republic of Cuba."[133] The U.S. Chamber of Commerce in Cuba charged the Grau government with being "antagonistic to capital and business in general” and with having “completely destroyed confidence of the commercial, industrial and agricultural interests of the nation.” The end result, the business organization said, was “a state of chaos and disintegration of grave consequences to the future welfare of the island," wrote Maurice McGovern, the president the U.S. Chamber of Commerce in Cuba.[134]

Unfortunately for Welles and U.S. businessmen opposing Grau, garage diplomacy was less fruitful the second time around. In late October, the ambassador offered the presidency to Mendieta. But the caudillo turned it down saying he lacked support he needed to hold a coalition together. An exasperated Welles reported to Hull that Mendieta "is unwilling to face the responsibility of the moment.”[135] By late November, Welles was worn out by the travails of

[132] Welles to Buell, October 24, 1933, Welles Papers, box 12, FDRL.

[133] Whitman to Welles, circa fall 1933, Welles Papers, box 16, FDRL.

[134] McGovern to Welles, November 15, 1933, Welles Papers, box 10, FDRL.

[135] Welles to Hull, November 2, 1933, *FRUS 1933*, 5:508.

dealing with the round robin of opposition figures and shifting alliances.

With his civilian allies noncommittal, Welles now turned to Batista again. He repeatedly noted that the "influence of Batista is very powerful" and that he appeared to have near command of all the troops.[136] In early October, Welles flattered the erstwhile sergeant with assurances that he “was the only individual in Cuba today who represented authority." The support of his troops and his firm anti-Communist stance put Cuba’s salvation in his hands."[137] In the weeks that followed, Batista gathered army support for a change in government. Thus, the alliance between the U.S. ambassador and the former army stenographer took shape, and cemented Batista's grip on the Cuban political scene for the next generation.

The drama surrounding the directorate-led government ended in early January with Grau's resignation. The formerly reluctant Mendieta succeeded Grau. Washington quickly recognized the new president. The first order of business was to reestablish economic relations through a new commercial treaty. Negotiations, suspended during the summer, quickly resumed. To buy time for the Cuban economy, Washington suspended repayment of the $52 million the island owed U.S. financial institutions such as the House of Morgan and the Chase National Bank. The moratorium stipulated that the Cuban government continue making annual payments of $4 million to cover interest charges on the debt.

On August 24, 1934, Welles got his treaty. The trade accord immediately gave the U.S. preferential treatment on over four-hundred items. The tariff on U.S.-made automobiles, for

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[136] Welles to Hull, September 21, 1933, *FRUS 1933*, 5:452.

[137] Welles to Buell, October 24, 1933, Welles Papers, box 12, FDRL.

example, was slashed from 24 percent of value to 12 percent. Cuba received a tariff cut on its sugar from 1.5 cents to less than a penny per pound – half the rate the United States charged on sugar imports from the rest of the world. U.S. officials insisted that the pact was a breakthrough. Hull beamed that "we have every hope that this agreement will rapidly restore to the American farmer, to the American wage earner, and to the American manufacturer, the benefits of the import market to Cuba."[138] Charles Taussig, an FDR adviser and the president of the American Molasses Co. in New York, congratulated Welles. He told an audience that the United States played a leading role in ending the political turmoil that “overshadowed the fundamental economic errors that were responsible for Cuba's plight."[139]

The clash between liberals and nationalists in and out of Cuba over trade and development strategies continued. A bitter Grau charged that the bad blood between his government and Welles had developed because “I did not pay interest on the Cuban debt to the Chase National Bank."[140] He lashed out at the new trade terms that he said placed Cuba in an economically subservient position. The treaty, he claimed, sacrificed "the most vital interests of Cuba's collective welfare” and reduced his country “to the status of colony." The result, he said, is that Cubans "have no alternative but to plead for a humble destiny, granted by foreign consciences and hands, or to fight for government jobs in Byzantine and vengeful political battles."[141]

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[138] “Trade Pact,” *Newsweek*, 4 (September 1, 1934), p. 32.

[139] Taussig speech to the Foreign Trade Council, November 2, 1934, Welles Papers, box 37, FDRL.

[140] *Diario de la Marina*, February 5, 1934, p. 14.

[141] Ramón Grau San Martín, *La revolución cubana ante América* (Mexico: Imprenta Manuel León Sánchez, 1936), pp. 34-35.

Conclusion

The commercial treaty produced by the Welles-Batista pact marked another watershed in U.S.-Cuban economic diplomacy. The United States obtained its coveted trade treaty and, as Welles and others predicted, trade surged. By 1939, Cuba's gross domestic product rose by 50 percent largely because of the doubling of sugar sales to U.S. makers of sweets and other foodstuffs.[142] But that pact also wedded Cuba's economy to that of the United States in ways that produced macroeconomic achievements at the price of political destabilization and stark financial inequality.

The reciprocal treaty had an immediate impact on the amount of sugar Cuba produced and the dollars it earned. By 1938, sugar output increased by nearly two-thirds to 2.9 million tons, while the value more than doubled to 120.2 million pesos. Ten years later, the size of the crop rose to 5.8 million tons, and the sweet powder accounted for 90 percent of country's exports. The profits generated by the massive increases in sugar sales were spent on a menu of U.S. imported consumer products. In the mid-1950s, Cuba ranked first among Latin American countries in the number of automobiles and telephones and rated third in the number of radios and televisions owned. In 1950, Cubans spent $515 million in imports, mostly from the United States.[143]

While the reciprocal treaty improved commerce, it also promoted uneven development. Those sectors of the economy linked to the sugar trade resumed the boom-and-bust cycle of

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[142] Victor Bulmer-Thomas, "The Latin American economies, 1929-1939" in Leslie Bethell, ed., *Latin America: Economy and Society Since 1930* (Cambridge: Cambridge University Press, 1998), p. 90.

[143] Pérez, "Cuba c. 1930-1959," *The Cambridge History of Latin America* 7:438-45, 449-52.

previous decades. Cuba's manufacturing center consistently faced strong competition from cheaper, low-duty U.S. goods. So, the country's factories learned to produce little more than light consumer goods and food. The ramifications were felt over time: Post-World War II Cuba was not able to provide the 25,000 or so jobs a year that its growing work-age population demanded. Drops in sugar prices during the 1950s sparked a series of recessions that compounded the anemic job growth. The island also grew more and more vulnerable to destabilizing bouts of inflation. Between 1939 and 1950, Cuba's money supply jumped five-fold while the cost of living rose by 145 percent.

The economy's instability placed added pressure on the flinty political arena. Grau's ouster in early 1934 did not end the unrest on the island. The next six years were marked by political murders and the toppling of governments as nine different men attempted to govern Cuba. None were able to last in power for very long. Finally, in 1940, Batista himself stepped to the foreground as both the de facto and titular leader. By then, Batista's deft use of repression and social reforms had helped cool passions on the island.[144] But the political rivalry between the different factions continued. The economic treaty handed control of the island's financial lifeline to foreign players, Cubans again sparred for the one institution they could dominate, the government. By the mid-1940s, the fight over the government spoils system was as heated and lucrative as ever. The number of people on the government's payroll doubled between 1943 and 1949. By 1950, one of out of every ten Cubans worked in a government job of some sort. Governments were notoriously corrupt and accusations of massive graft, if not outright theft, were routine. Grau, who eventually became president again in 1944, is said to have embezzled

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[144] Pérez, *Cuba: Between Reform and Revolution*, pp. 276-81.

$174 million by the time he left office in 1949. Ultimately, Batista ended the electoral charade with a 1952 coup that fixed him firmly in power.

Roosevelt and his liberal diplomats, in characteristic custom, still claimed victory even though some officials and other analysts harbored doubts about the island's future. When Batista visited the White House in December 1942, FDR toasted the Cuban leader and justified U.S. diplomatic and economic efforts in Cuba. FDR pointed out that when one of the hemisphere's countries "is unhappy and full of unrest, in a serious depression" then that "affects the happiness and the prosperity" of the hemisphere.[145] But others conceded that the rise in trade and investment and accompanying economic improvement brought only a superficial sense of prosperity and progress. Welles worried in 1938 that peace and prosperity in Cuba were unattainable until "the average businessmen and bankers, within as well as outside Cuba, know what guarantees they may possess for the business enterprises in which they desire to participate."[146]

There lay the source of the problem. The 1933 revolt showed that Cuban dissatisfaction with U.S.-sponsored liberalism was deep enough to form a nationalist challenge. And the product of the clash, the 1934 treaty, provided a target: The dependency of the island on the United States. The economic umbilical chord – and the way that U.S. cultural and social institutions penetrated and molded the Cuban institutions and mores[147] – rendered the island's political structures, its financial wherewithal, and cultural development dependent on

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[145] FDR toast to Batista, December 8, 1942, in Official File 470, Box 21, FDRL.

[146] Welles to FDR, November 7, 1938 in Official File 470, Box 21, FDRL.

[147] Pérez, *On Becoming Cuban: Identity, Nationality and Culture* (Chapel Hill: University of North Carolina Press, 1999).

the United States. Continued revolt against liberalism was, thus, predictable. The only question remaining after 1933 was whether it was possible to channel and harness that opposition energy to build a lasting political and economic order that was viable outside the liberal universe. Watching the spectacle in Cuba in 1933, U.S. newsman Tom Pettey predicted that "eventually an army of bearded Cubans will come out of the woods ready to begin a real revolution."[148] Prophetic words indeed.

[148] "Cuba," *Time*, 22 (October 2, 1933), p.19.

CHAPTER III

Liberal Reciprocity Blocked in Brazil

Even as Sumner Welles remained mired in Cuba, the Roosevelt Administration turned its attention toward Brazil in the summer of 1933. Though Brazilian-U.S. trade ties had expanded since the start of the century, Brazil remained a relatively untapped market for U.S.-made manufactured goods.[149] In the mid-1930s, Hull and other U.S. officials sought to broaden commerce with Brazil's thirty-five million people, a population larger than the total number of inhabitants in the continent's other countries combined. At the same time, U.S. government officials grew uneasy with the inroads made into the Brazilian market by the European powers, most notably Nazi Germany. To even the score, the United States offered a commercial treaty to reduce tariffs and open markets for its exports to South America's largest country.

Roosevelt's open door advocates soon found that a reciprocal treaty was a hard sell in Brazil.[150] The government of Getulio Vargas saw few advantages in the economic treaty at the outset. The country's main export commodity, coffee, already possessed channels into U.S.

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[149] E. Bradford Burns, *The Unwritten Alliance: Rio Branco and Brazilian-American Relations* (New York: Columbia University Press, 1966).

[150] Unfortunately, a satisfactory history of post-1930 Brazil does not exist, either in English or Portuguese. The brief synthesis of Brazilian political and economic interests after in this chapter is based on more recent general histories of Brazil that treat the Vargas era. See Boris Fausto, *A Concise History of Brazil* (Cambridge: Cambridge University Press, 1999), pp. 198-252; Robert M. Levine, *The History of Brazil* (Westport, Conn.: Greenwood Press, 1999), pp. 97-120; and Ronald Schneider, *Order and Progress: A Political History of Brazil* (Boulder, Colo.: Westview Press, 1991), pp. 107-78.

markets. Vargas also feared that importing more competitive U.S. goods might anger his political base, Brazilian industrialists, who stood to lose domestic market share, and their workers, who might lose jobs. In addition, Vargas worried that a reciprocal pact might stymie Brazilian efforts to increase commerce with other industrial nations, such as Germany. Brazilian Foreign Minister Osvaldo Aranha succinctly summed up the issue saying Brazil had "little to offer, little to gain" from a reciprocal treaty.[151]

Although the Roosevelt Administration ultimately succeeded in obtaining a treaty, it proved to be a flawed pact that did not resolve the most contentious financial debates in U.S.-Brazilian commercial relations. The liberal-nationalist clash over exchange rates and payment processes, as well as trade preferences, led to a brittle trade compromise that failed to measurably increase commerce between the two countries in the years to follow. The inability to satisfactorily resolve these disputes in the mid-1930s set the stage for a diplomatic break between the two countries after World War II – a rupture frequently blamed on Cold War pressures.[152] Rather than setting expectations too high, as historiography suggests, 1930s U.S.-Brazilian diplomacy serves as a study of contrasting interests, frustration and stalemate that set the stage for future disappointment.

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[151] Letter from Aranha to Jose Carlos de Macedo Soares, Brazilian Ambassador to the U.S., March 30, 1934, quoted in Moniz Bandeira, *Presenca dos Estados Unidos no Brasil* (Rio: Editora Civilizacao, 1973), p. 242.

[152] For discussion on how Cold War tensions are said to have soured U.S.-Brazil diplomacy, see Gerald K. Haines, *The Americanization of Brazil: A Study of U.S. Cold War Diplomacy in the Third World, 1945-1954* (Washington: Scholarly Resources, 1989) and Warren Michael Weis *The Roots of Estrangement: The United States and Brazil, 1950-1961* (Columbus: Ohio State University Press, 1987).

The Reciprocal Trade Treaty

While visiting Brazil in November 1936, Franklin Roosevelt rode with Brazilian president Getulio Vargas in a motorcade through the streets of Rio de Janeiro. At one juncture, the two presidents' car faced a group of bystanders chanting anti-Vargas slogans. Possibly chagrined by the demonstration, Vargas reportedly turned to Roosevelt and whispered, "Perhaps you've heard that I am a dictator." FDR, without missing a beat, put Vargas at ease replying; "Perhaps you've heard that I am one too."[153] At a banquet later that day, FDR raised his glass in a toast and proclaimed, "I shall remember . . . that it was two people who invented the New Deal – the President of Brazil and the President of the United States."[154]

The reassuring one-liners and speech-making were simply private and public expressions of the way Franklin Roosevelt assiduously courted Brazil and its enigmatic leader, Getulio Vargas. Though Brazil was the largest country in South America, it was a market that U.S. interests had only recently begun to explore. Its nascent industrial sector beckoned U.S. investment capital. U.S. manufacturers, always on the lookout for sources of raw materials, craved Brazil's vast natural resources – from its coffee plantations to its rubber trees. Brazil fit snugly into the Roosevelt Administration's hegemonic free trade, free world ideology because of its size, its potential, and its early 1930s political instability. As in Cuba, Hull said commerce and prosperity offered hope for stability and peace in the continent's largest country at a time when war and militancy flared in the nearby Chaco region of South America.

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[153] Quoted in Robert Dallek, *Franklin D. Roosevelt and American Foreign Policy, 1932-1945* (New York: Oxford University Press, 1979), p. 132.

[154] FDR remarks of the president at the Brazilian Foreign Office, in White House Official File, box 30, folder 3, in Franklin D. Roosevelt Library, Hyde Park, N.Y. Collection hereafter cited as "Official File."

To draw the giant nation deeper into its economic orbit, the Roosevelt Administration proposed a reciprocal pact. The proposal was not an original concept. Secretary of State Frank Kellogg had offered a similar deal six years before, but the measure died in the shadow of Smoot-Hawley protectionism. The treaty offered by the Roosevelt liberals had a basic goal: increase U.S. exports into Brazil. While Brazilian coffee and other agricultural and mining products entered the United States relatively unimpeded, U.S. diplomats complained that Brazil subjected U.S. products to increasing duties and tariffs. As a result, Welles and other U.S. officials claimed Brazil enjoyed a two-to-one advantage in trade. They were correct. In 1932, the United States consumed roughly $83 million in Brazilian goods while selling only $32 million in products to the South American country. The $50 million trade deficit, according to U.S. calculations, accounted for two-thirds of Brazil's surplus for that year.[155] Welles pointed to Brazil as an example of a country that used a slew of economic, financial, and commercial policies to move "more and more toward a close regulation and control of foreign trade." He insisted that under "these tendencies, the principle of equality is rapidly being superseded by preferential treatment and special advantages."[156]

The Roosevelt Administration claimed a reciprocal treaty was necessary to balance the scales. William Phillips, assistant U.S. secretary of state for economic affairs, insisted that the pact was a fair offer. He said that it was unreasonable for "Brazilian products, which are subject

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[155] Memo of Conversation by W.R. Manning, May 20, 1933, in U.S. Department of State, *Papers Relating to the Foreign Relations of the United States* [cited hereafter as *FRUS*], *1933,* 5 (Washington: Government Printing Office, 1952), pp. 46-47.

[156] Welles memo, circa 1933, in Sumner Welles Papers, box 168, FDRL. Collection hereafter cited as Welles Papers.

to heavy import duties in other countries," to enter the United States without charges while "U.S. products are subject to heavy import duties in Brazil."[157] To make sure Brazil got the message, U.S. ambassador William Gibson readily updated Brazilian diplomats on the latest U.S. congressional attempts to slap Brazilian coffee with import duties, a role Gibson relished. Gibson wrote Hull that Brazilian government and industry officials and diplomats "had an unpleasant shock a few months ago when there was talk of an import tax on coffee." Gibson then predicted "that they will not feel entirely easy until the situation is covered by treaty."[158]

Nazi Germany's seemingly successful commercial policies in Brazil added to the discontent of U.S. officials. Unlike the free exchange trade program touted by liberals in Washington, German cartels readily purchased goods from Brazil using a non-convertible Aski mark, an exclusive currency that could only be used to purchase German goods. The Aski mark let Adolf Hitler's government finance its trade with Brazil through a quasi-bartering arrangement that promoted anti-liberal quotas, preferences, and payment schemes. Through these practices, Berlin cultivated a strong commercial nexus with Brazil in the early 1930s. In fact, barter trade permitted Germany to become Brazil's second-leading trade partner by the end of 1936.[159] At the same time, Brazil's clamps on free exchange trade had sharply decreased U.S. exports to Brazil. U.S. merchants saw their share of the Brazilian market drop from 30 percent in 1932 to 22 percent in 1936.

Increases in German-Brazilian commerce alarmed advocates of free commerce in the United

[157] Phillips to the Brazilian ambassador to the U.S., August 8, 1933, in *FRUS 1933*, 5:17.

[158] Gibson to Hull, August 21, 1933, *FRUS 1933*, 5:18-19.

[159] *The New York Times*, December 7, 1936, p. 18.

States. Businesses and foreign policy think tanks, such as the Foreign Policy Association and the Council on Foreign Relations, advocated for unrestricted commerce. These groups insisted the Vargas government was not earning money needed to pay debts to U.S. bankers because Brazil received no cash payment for goods sold to Germany. The liberal Foreign Policy Association charged that Germany forced its trade on Brazil with its non-convertible Aski marks – a trade arrangement that constituted extortion. One Foreign Policy Association analyst claimed that "Brazil has broken off trade with the Nazis several times" but each time Berlin "force[d] Brazil to resume trade relations by threatening to close the German market to Brazilian products altogether."[160] Unless the United States countered this economic war with Hitler, liberals warned, Washington would lose important allies like Brazil to the Axis camp. FDR's diplomats had already concluded as much, and their solution to Nazi encroachment on North American business turf in Brazil lay in a reciprocal trade treaty with Brazil.

Vargas Protectionism: Exchange Controls and Barter Trade

A top priority facing the government headed by Getulio Vargas in 1933 was finding ways to prime a stagnant Brazilian economy. At the time he assumed the presidency in October 1930, Vargas inherited a drained treasury, declining prices for the country's chief exports, and soft demand for its manufactured products. Though Brazil was less dependent on exports than countries like Cuba, its economy nonetheless felt the sting of the Depression. The price for Brazilian coffee beans, which accounted for about 72 percent of export earnings between 1924 and 1929, fell by one-third in the fall of the latter year. In 1930, the Brazilian economy, which

[160] Thomas Brockway, *Battle Without Bullets* (New York: Foreign Policy Association, 1939), p. 58.

experienced 6.5 percent growth in its gross domestic product during the early 1920s, shrank by 2.1 percent.[161] As production and sales fell, Brazil continued to purchase imports at a rate that sapped its gold reserves. A believer in a strong, central government, Vargas insisted the economy needed resolute state intervention. The question was whether Vargas could hold on to political power long enough to turn the economy around.

Vargas was a political yeoman of sorts. Crafty and resourceful, Vargas was a machine politician in the pre-1930 elite structure that ran the country's political and commercial institutions. Vargas managed to land a varied number of civil service and political posts even though his political base in the Rio Grande do Sul region was not one of the country's two rival, dominant regions. After serving on the financial committees in the country's parliament, Vargas briefly served in the cabinet of Paulista president Washington Luis de Souza in 1927. He then went home to serve as governor of Rio Grande do Sul in 1928, where he pushed for programs to build schools, bridges, and roads. Vargas made a name for himself, and inroads to power, throughout the 1920s. But a so-called "gentleman's agreement" alternated Brazil's highest office, the presidency, between political rivals from the two most powerful states, Sao Paulo and Minas Gerais. This agreement effectively precluded Vargas from becoming president.

Still, the contentious 1930 presidential election opened a window for the ambitious and opportunistic Vargas to leapfrog his way to the nation's top political post. President Washington Luis's decision to handpick a political boss from Sao Paulo, his own state, to

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[161] Victor Bulmer-Thomas, "The Latin economies, 1929-1939," in Leslie Bethell, ed., *Latin America Economy and Society Since 1930* (Cambridge: Cambridge University Press, 1998), pp. 75-80.

succeed him angered presidential aspirants from the rival region Minas Gerais.[162] The controversial decision came at a critical juncture in Brazilian political, social, and economic development. Brazil's growing industrial base, plus its 1.5 million workers employed in factories, had grown impatient with the pre-1930 political order that emphasized export-oriented growth based primarily on coffee exports at the expense of domestic manufacturing. Women demanded suffrage rights. The military worried about reductions in the officer corps and the enlisted ranks. Industrialists demanded government protection for the nascent factories. The end result is that opposition to the Paulistas surged from a broad popular base that included the middle class, blue-collar workers, soldiers, manufacturers, and nationalists. The October 1930 coup that placed Vargas in power opened the door to a wide arrange of political and social groups and actors.[163] The plurality gave the Vargas government a populist and egalitarian flavor, but it also forced Vargas to work ceaselessly to hold on to power throughout the next fifteen years in the face of challenges from the extreme right and the extreme left.

Once in power, Vargas inherited not just a political system in shambles but a broken economic order as well. Throughout the four-hundred years since the arrival of Portuguese colonialists, the Brazilian economy was dependent on export earnings generated by the sale of specific commodities. First it was brazilwood, from which the country derived its name,

[162] There is consensus that the decision by the president sparked the rebellion in 1930, and that the rebellion opened doors for a wide variety of groups and actors. There is disagreement on how effective Vargas was in controlling the forces that brought him into power and opposed his rule. For a discussion of the different groups and how Vargas managed them to build a more powerful central state, see Fausto, *A Concise History of Brazil*, pp. 201-227. For a discussion that analyzes the different forces that buffeted him during the 1930-1945 period, see Schneider, *Order and Progress*, pp. 115-35.

[163] Fausto, *A Concise History of Brazil*, pp. 216-42.

followed by sugar cane, and then coffee. While the 1920s saw a boom in coffee prices, Brazil in the 1930s was again trapped in another cyclical downturn in the commodities markets.[164]

At the same time, the Depression further aggravated Brazil's already tight balance of payments position. Because the value of coffee and other commodities that Brazil sold to other countries failed to match the money spent buying manufactured imports from industrialized nations, Brazil covered the gap in its balance of payments with loans and, later, by selling off its meager gold reserves. Between 1930 and 1931, Brazil "exported" the $160 million worth of gold in the country's treasury to cover foreign obligations.[165] The consequence of all this was that foreign traders in Brazil would only received payment for their goods when they converted their *milreis* holdings into U.S. dollars, British pounds, or German Aski marks. This practice seriously eroded the Brazilian treasury by depleting its foreign currency stockpiles. In 1932, for example, the Brazilian treasury possessed barely enough exchange to cover its purchases abroad even though imports into Brazil fell 62 percent compared against the 1929 totals.[166]

Like FDR to the north, Vargas planned to reinvigorate trade and commerce between Brazil and the industrialized world – but not through the open commercial and free exchange network that the U.S. liberals demanded. Instead, Vargas maneuvered to build trade ties based on more affordable bartered exchanges that did not drain the country's treasury. This program began with a 1931 decree that placed all foreign exchange transactions under the control of the

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[164] Agnes S. Waddell, "The Revolution in Brazil," Foreign Policy Association Information Service, (March 4, 1931), pp. 500-506.

[165] Brazilian Ambassador Lima e Silva to Hull, September 5, 1933, in *FRUS 1933,* 5:66-67.

[166] American Council of Foreign Bondholders, November 21, 1933, in Official File 11, box 8, FDRL.

country's treasury. The rule forced enterprises buying and selling in Brazil to use the *milreis* as payment. The depletion of the Brazilian treasury's gold and U.S. dollar reserves already severely restricted commerce with Brazil. The currency exchange rules simply made it more difficult for merchants to convert the *milreis* into dollars. So, in practice, the rule favored subsidized barter trade where goods were ultimately exchanged for other goods. In this arena, Berlin enjoyed success because the Aski mark did not require conversion to the *milreis*. A Brazilian holding Aski marks simply used them to buy German goods.

The type of reciprocity that U.S. liberals demanded in the mid-1930s placed Vargas in a difficult position. Vargas's goal was to restructure the role of government to wean the Brazilian economy off its dependency on exports by building the country's industrial base. To be sure, Brazil's turn toward early import substitution programs preceded the Vargas regime.[167] But Vargas sped this shift toward industrialization and away from commodity exports to curb Brazil's appetite for imports and, thus, further shore up its weak financial position.[168] To do so, however, the Brazilian government needed resources to fund industrial expansion. However, Vargas knew that reducing tariffs and duties as U.S. liberals demanded meant losing out on needed revenues. In addition, Vargas feared that he risked provoking resentment and opposition from Brazilian industry if he opened the door to foreign manufactured goods.[169]

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[167] For background on the Vargas-labor relationship, see John French, *The Brazilian Workers' ABC: Class Conflict and Alliances in Modern Sao Paulo* (Chapel Hill: University of North Carolina Press, 1992), pp. 103-51; and Ruth Berins Collier and David Collier, *Shaping the Political Arena: Critical Junctures, the Labor Movement, and Regime Dynamics in Latin America* (Princeton, N.J.: Princeton University Press, 1991), pp. 167-95, 360-402.

[168] Alfonso Arinhos de Melo Franco, "The Tide of Government," *The Atlantic* (February 1956), pp. 154-56; Haines, *The Americanization of Brazil*, pp. 72-73.

[169] Bandeira, *Presenca Dos Estados Unidos No Brasil*, pp. 240-49.

Vargas had good reason to resist U.S. trade overtures. Brazilian industry flourished in the first decades of the twentieth century. In 1930, Brazil listed 30,000 industrial enterprises versus just 13,300 in 1920. Roughly 1.4 million workers earned their paychecks in transportation, textiles, and steel.[170] Vargas not only expected that the nation's manufacturers would become economically powerful, but that their support would be crucial to keeping him in power. In addition, Vargas had a personal-political stake in cultivating trade with Germany even if it annoyed U.S. diplomats. Specifically, Berlin purchased rice, beef and other products produced by Vargas' political home field, Rio Grande do Sul. Those were foodstuffs and other products that U.S. commercial interests did not purchase.[171]

Liberal reciprocity also got a mixed review from U.S. allies in Brazil. Osvaldo Aranha, the Brazilian foreign minister who favored offering the United States preferential treatment over the Europeans, said he failed to see much of a bargain in the reciprocal pact offered by the Roosevelt liberals. Aranha calculated that 97.5 percent of Brazil's imports already entered the United States freely. Even with reduced duties on U.S. goods, the products U.S. companies wanted to sell in Brazil were still more expensive than comparable goods available in other countries.[172] Of course, neither Vargas nor Aranha wanted to risk losing access to the United States, which they viewed as Brazil's most lucrative market. Rather than offend U.S. diplomats,

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[170] Delia Goetz and Varian Fry, *The Good Neighbor: The Story of Two Americas*, Foreign Policy Association, No. 17, May 1939.

[171] Vargas to Aranha, October 30, 1934, in Bandeira *Estados Unidos No Brasil*, pp. 242-43.

[172] Aranha to Macedo Soares, March 30, 1934, in *Presenca dos Estados Unidos No Brasil*, p. 242.

Vargas instructed his chief negotiator, Aranha, to double-talk his way out of the quandary. Aranha was to suggest that negotiations seek a "higher philosophical plane that transcends commercial interests to focus on collaboration and cooperation."[173] Nonsense, to be sure, but vague pledges bought time and ultimately provided both Brazil and the United States a way to save face.

Unfavorable Exchanges: Stalemate in Reciprocal Negotiations

Thus, U.S. economic liberalism was trapped between opposing forces and interests in and out of Brazil. The Brazilian government was mired in a complex monetary and currency web. U.S. merchants wanted better access to markets and an effective currency exchange system. Bondholders called for prompt payment on their debts. Industry and agriculture in both countries desired open foreign markets but demanded safeguards against cheap imports at home. "Two important questions are now before us," wrote one U.S. economist in relation to Brazilian eco-diplomacy. "How to collect debts owed to us and how to continue the huge export trade on which our farms and factory production is now based?"[174] The fate of the reciprocity treaty and Good Neighbor liberalism in Brazil rested on answers to that question. But the solutions offered only elicited a barrage of debate, counterproposals and, most important, deadlock in U.S.-Brazilian treaty talks.

The bottom line, liberals insisted, was that a treaty to reduce tariffs without addressing payment systems accomplished little. For the reciprocal treaty to succeed in practice, U.S. and

[173] Vargas to Aranha, December 31, 1934, in Bandeira *Presenca Dos Estados Unidos No Brasil*, p. 242.

[174] Ryllis Alexander Goolin and William Stone, *America Contradicts Herself* (New York: Foreign Policy Association, 1936), pp. 26-27.

Brazilian officials needed to agree on a payment system that promptly swapped money. U.S. merchants in Brazil charged that Brazilian currency exchange policies – which regulated and limited monetary trading – discriminated against them. Because goods were sold in Brazil using the national currency, the *milreis*, a U.S. trader only profited from a sale after he exchanged the Brazilian currency for U.S. dollars. However, Brazilian government-imposed currency exchange restrictions blocked that process with an array of rules, including narrow hard currency limits for each nationality. These measures limited the stockpile of dollars available for exchange with the *milreis*.

Unable to freely swap large sums of the Brazilian paper money for dollars, U.S. enterprises in Brazil found themselves holding large stockpiles of the Brazilian currency that, for their purposes, possessed little value. The American Chamber of Commerce for Brazil complained to President Roosevelt that "American companies and exporters are being compelled to discontinue shipments which will soon result in closing American branch houses and practically annihilate already diminished American exports."[175] One firm, the Empire Plow Company in Cleveland, Ohio, complained that its Brazilian subsidiary possessed approximately $30,000 in blocked funds and "we do not know when [dollars for exchange] will be granted."[176] Another exporter groused that "it ought to be clear even to our professional politicians that an increase in our exports is dependent entirely upon our getting paid for them."[177] Firms that lent capital to Brazil found themselves in a similar bind after the Brazilian government placed a moratorium

[175] Sloat to FDR, May 12, 1933, in *FRUS, 1933*, 5:43-44.

[176] Empire Plow Company to Peek, February 1, 1935, in Official File 11, box 8, FDRL.

[177] Oscar Hienrichs to Peek, February 2, 1935, in Official File 11, Box 8, FDRL.

on payments to foreign-held debts by municipal, state and national governments. The American Council of Foreign Bondholders criticized Brazilian authorities for failing to make payments on its $754 million in international debts.[178]

Global financial decision-making further deepened the stalemate. Brazil had eliminated the gold standard in 1932, and the United States followed suit in 1933 in hopes of simplifying the process of paying for cross-border sales of goods and services. The end to the gold-based currency created a currency free-float monetary system susceptible to volatile swings in exchange rates and dollar drains. But in doing so, U.S. policy-makers cornered themselves in Brazil. Unless they demanded that the Vargas government earmark more dollars for swaps with *milreis*, Hull, Phillips and Gibson could not reassure U.S. companies and merchants that they stood to win from open trade with Brazil. But forcing Brazil, or any other country, to set aside currency reserves for swaps contradicted the liberals' own calls for unimpeded international flows of commerce and goods. And requiring Brazil to allot special currency reserves for U.S. merchants risked eliciting criticism from other countries that the United States demanded special treatment from Rio at the same time it was calling for equitable arrangements elsewhere.

Moreover, the U.S. trade and exchange proposals arrived in Brazil barely a month after the Roosevelt government had come under intense criticism for backing out of a currency stabilization plan at the London economic conference. The purpose of the London meeting had been to find ways to shore up the sagging value of the U.S. dollar vis-à-vis European currencies still fixed to gold values. But in June, FDR rejected a European proposal to temporarily fix the dollar at $4 to the British pound. FDR also backed away from promising not to use unilateral

[178] American Council of Foreign Bondholders, November 21, 1933, in Official File 11a, box 2, FDRL.

powers to strengthen the dollar. Unable to resolve the currency stabilization dilemma, the conference fizzled in July.[179]

The inability of the industrialized countries to resolve the currency question bolstered the position of anti-liberal proponents in Brazil and the United States who argued the two countries should drop the free exchange system and play the barter game, as Germany did successfully. They pointed out that though global trade grew best during the days of the gold standard, when currency valuations and payments were fixed to a country's gold reserves to facilitate payment, the gold standard days were gone – and unlikely to be restored in the wake of the London fiasco. Given the payment imbalances and stockpiles of *milreis* in the hands of U.S. businesses in Brazil, efforts to lift currency restrictions were off to a bad start. "Merchants will not sell and bankers will not lend abroad unless they are sure that the return for their goods or their capital will not be diminished by constant changes in the rates of money exchange," wrote one U.S. economist. "We must reverse our tariff policies and accept goods and services in exchange for our debts and exports or . . . submit to cancellation of debts, loss of investments, sacrifice trade and lowering of the standard of living."[180]

The reciprocal treaty elicited criticism within the United States from labor unions, isolationists in the Republican Party, and agricultural groups opposed to opening U.S. markets to cheaper foreign manufactured goods and produce. W.L. Munro of the American Tariff League charged that higher production costs associated with National Recovery Administration-

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[179] Dallek, *Franklin D. Roosevelt and American Foreign Policy*, pp. 48-58.

[180] William Stone and Clark Eichelberger, *Peaceful Change: The Alternative to War* (New York: Foreign Policy Association, 1939), pp. 27-28.

mandated shorter hours and other New Deal measures to reduce industrial output already burdened U.S. industry. Munro complained about New Deal proposals requiring companies to provide unemployment and health insurance for workers. He said business could not "take hold of these programs with increased costs” while “another arm of government is engaged in taking away almost irrevocably the protection that is afforded the industries that are asked to increase costs." He and other businessmen, Munro claimed, were being wedged "between the upper and nether millstones."[181] Powerful isolationists in the Republican Party complained that reciprocity failed to open foreign markets to U.S. agricultural products. Wheat millers in Kansas, for example, feared that the “export flour trade will be completely lost unless our government takes very definite steps at an early date to aid millers in regaining the business that has gone to their competitors” whether in South America or elsewhere.[182]

A fair amount of dissent existed within the Roosevelt Administration itself. White House Trade Advisor George Peek seized on the exchange issue to sidetrack the Brazil treaty. Specifically, Peek wanted Brazil to immediately provide $23 million to cover exchange shortages. Peek insisted "the question of blocked exchanges with Brazil . . . should be covered either in the trade agreement or concurrently therewith.”[183] Peek’s views gained some support from analysts alleging that the exchange restrictions served to “discriminate against U.S. interests.” The opposition from Peek led Commerce Secretary Henry Wallace to admit, privately, in May 1935 that the prospects for reciprocity and freer markets abroad appear

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[181] *The New York Times,* March 2, 1935, p. 11.

[182] U.S. Senator Arthur Capper to FDR, April 12, 1935, in Welles Papers, box 4, FDRL.

[183] Peek to Marvin H. McIntyre, December 10, 1934, in Official File 11, box 8, FDRL.

encouraging.[184] The debate over economic and trade policies got louder and louder. The impatient editors at *The New York Times* blamed Peek for the "slow" progress of hemispheric trade talks, initiatives and global economic revival. "Such recovery as has been is only in very small degree due to the policy of reciprocity so hopeful espoused a year ago," the paper's editors lamented.[185] Another foreign correspondent wrote that in South America "the rise in world prices for raw materials has largely overcome conditions which originally led to the imposition of controls over foreign trade, but these have been continued as a means of permitting discriminations among various foreign suppliers."[186] The chances the U.S. could open its markets to Brazilian agricultural output – a possible concession to win over a reluctant Vargas – were a longshot.

The complaints from U.S. businesses in Brazil, however, soon overrode other considerations. The State Department used the treaty talks to press Brazil for exchange concessions – a demand that further complicated reciprocal treaty negotiations. In a memo to Brazilian diplomats, U.S. officials proposed safeguards to protect "the interests of the nationals and commerce of the two countries" against "any exchange control system."[187] According to the memo, this new requirement resulted from the long delays experienced by exporters as they waited to swap currencies – delays that ultimately threatened to thwart commerce between the two countries. The State Department memo, however, put a brake on the reciprocity talks. The

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[184] Wallace to Capper, May 7, 1935, in Welles Papers, box 4, FDRL.

[185] *The New York Times*, March 2, 1935, p. 5.

[186] *The New York Times*, Dec. 20, 1935, p. 7.

[187] Memo by Welles, circa October 1934, in Official File 11, box 8, FDRL.

Brazilian ambassador, Oswaldo Aranha, claimed his government needed to study the proposal since it was also negotiating a barter treaty with Germany.[188] Those negotiations, under the so-called German Schacht Plan, discussed expanding barter-based swaps of goods and commodities. "The adoption of an inflexible liberal policy as outlined in the treaty project will amount . . . to suspension of our commerce with countries that, like Germany, Italy and many others [that] . . . buy from Brazil only in order to sell," said Aranha to Welles.[189] Rio counter offered the United States a similar barter strategy, but Washington rejected the measure.

Brazil also resisted removing exchange restrictions because the government stood to lose control of import regulation. Although he wanted to increase commerce, Aranha feared that a flood of imported U.S. manufactured autos and consumer goods into Brazil would provoke serious opposition from the country's emerging industrialists. And Vargas also worried it could dry up an important source of its tax revenue.[190] "We should keep in mind how much this [pact] could submit us to that country," Aranha said, referring to concerns that Brazil might become even more dependent on U.S. trade, in a letter to Vargas.[191] Besides, if the United States embraced protectionism through New Deal policies then why should not Brazil, too? Still, Vargas and Brazil went along with the negotiations to buy time. "Either we follow the liberal line or [the U.S.] will apply an anti-liberal policy," Aranha warned Vargas, perhaps alluding to

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188 Memo of Conversation Sayre and Peek, November 23, 1934, in Official File 11, Box 8, FDRL.

189 Aranha to Welles, December 14, 1934, in Official File 11, box 1, FDRL.

190 Bandeira, *Presenca Dos Estados Unidos No Brasil*, p. 241.

191 Bandeira, *Presenca dos Estados Unidos No Brasil*, p. 245.

the coffee tax the U.S. Congress was mulling. So Vargas and Aranha continued attempts to soothe U.S. liberals. Brazil's central bank, U.S. officials quoted Brazilian diplomats as saying, would set aside available exchange funds to "pay all American commercial transactions promptly and in full" as long as the United States granted preferential treatment to Brazilian products "against those of other countries."[192] Hull rejected the stipulation, arguing that such a provision would raise problems in U.S.-European reciprocal talks. So Hull and the liberals were stuck again in a box, this time one drawn by the Brazilians.

To change minds in Rio, U.S. liberals employed a series of strategies that ranged from evangelizing to pleading to arm-twisting. Cuba immediately became the liberal's poster child. The State Department heralded the growth in trade with the island – from $7 million in the last three months of 1933 to $17 million in the last three months of 1934 – as a result of a reciprocity treaty with Havana.[193] In addition to reciprocity, dollar devaluation and renewal of purchasing power was fueling a trade renaissance in the hemisphere, said Henry Grady, the chief of the Department of State's tariff office. He noted that Latin Americans were purchasing $200 million more in U.S. goods in 1934 than they did in 1933.[194] On the other hand, countries that had not formalized a trade relationship with the United States saw a precipitous drop in commerce. Grady said sales to these countries fell from $2 billion in 1929 to $500 million in 1933. The pitch was clear: Reciprocity bolstered profitable trading relationships – and leaving

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[192] Comments on the Proposed Substitutes for the Original Foreign Exchange Section Proposed by the United States, January 7, 1935, Official File 11, box 101, FDRL.

[193] *The New York Times*, February 17, 1935, p. 3.

[194] *The New York Times*, May 4, 1935, p. 21.

the issue in limbo could prove costly.

U.S. officials also contemplated a new series of less controversial financial initiatives. Welles and Adolph Berle suggested that FDR or Hull propose the creation of “a joint commission” to “bring us closer together economically.” The committee, they said, could find ways to implement U.S. initiatives such as a minimum wage and a forty-hour workweek throughout Latin America. It also could work to remodel Pan American “financial systems and monetary policies so that they may fit more closely into ours.”[195] In addition, the U.S. offered incentives aimed at building the Inter-American highway from New York to Argentina. Other initiatives included funding an FDR pet project, upgrading transportation facilities, and modernizing communications systems within the hemisphere.

The stalemate on the reciprocity treaty broke when U.S. officials backed down and unilaterally de-coupled the thorny question of easing Brazilian exchange restrictions from the tariff and quota talks. Despite drawing the anger of U.S. commercial interests,[196] the maneuver proved practical. It ended the deadlock on tariff reform and, in February 1935, Brazil and the U.S. signed a reciprocity treaty. Some newspapers hailed it as a victory for Cordell Hull. One correspondent wrote that Hull "held his peace during all the New Deal experiments, even bided his time while Raymond Moley and George Peek had their hour in the sun. Peace and trade are his sole philosophy and at Buenos Aires his single track, so far as man can see, goes on to that horizon."[197]

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[195] Welles and Berle to FDR, November 20, 1936, Official File 200-JJ, box 111, FDRL.

[196] Hull memo, August 27, 1935, *FRUS 1935*, 5 (Washington: Government Printing Office, 1953), p. 314.

[197] “The Presidency,” *Time*, 28 (December 7, 1936), p. 11.

But the signing of the treaty was not broadly celebrated. Because it did not address exchange rules, some U.S. officials worried that commerce stood to suffer if Brazil gave preference in payments to other countries. State Department economic advisor Herbert Feis feared that Brazil might negotiate more favorable accords to repay debts to countries or insist that other trading partners buy Brazilian cotton in exchange for exports. “I remain impressed by the danger that the Brazilian mission while in Europe will sign special agreements,” Feis wrote.[198] Within months, the controversy over reciprocity with Brazil again erupted when the Brazilian congress delayed ratifying the pact. Then, U.S. officials protested a Brazilian-British commercial accord that presumably gave British merchants favorable treatment in exchanging pounds for the *milreis*. Sumner Welles insisted U.S. merchants must receive payment for their outstanding balances immediately from either the 35 percent currency reserve allotted to Americans or through other means Rio might devise. “I said it was clear that our American interests must at once and without further delay receive at least the same treatment which British holders of deferred balances would now enjoy,” Welles told Ambassador Aranha.[199]

Opposition to the treaty grew in Rio as well and the resistance caught U.S. officials by surprise. A high-ranking Brazilian lawmaker, Euvaldo Lodi, told Welles that Brazilian industry opposed the treaty because many manufacturers “would be seriously crippled if the treaty went into force in its present shape.” Lodi also said the two governments negotiated the treaty in secret, without input from lawmakers, and now the congress had to carefully review the

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[198] Feis to Welles, February 1, 1935, in Official File 11, box 103, FDRL.

[199] Memorandum of Conversation, Welles, March 29, 1935, in Welles Papers, box 168, FDRL.

document.[200] U.S. officials did not expect additional opposition to brew within Brazil and they stressed their impatience. Hull reiterated that the "advantages of the trade agreement "far outweigh" the "few criticisms" made by what he called special interests. He insisted the treaty "represents a real step forward in these days of economic confusion" and delays "might further encourage hostile tendencies with unpredictable results."[201]

As the months passed, FDR and Hull became more and more exasperated with the inability of the Vargas government to place the treaty in effect. The two liberals feared the delay might prompt the U.S. Congress to reconsider the measure as well. At the very least, the delay in Brazilian approval kept the debate over free trade versus protectionism alive. In addition, Hull and Phillips remained under pressure from U.S. merchants and exporters in Brazil. Phillips wrote that the stalling gave reciprocity foes in the U.S. time to place additional pressure on U.S. policy-makers and potentially jeopardized treaty talks with other nations.[202] Hull issued veiled threats, warning that failure to ratify the treaty, or at least continued delay, might force the U.S. government to take "such measures as might be necessary to secure special concessions from Brazil."[203] The secretary threatened that without "aggressive action" by U.S. and Brazilian lawmakers the reciprocal treaty would suffer death by inertia. He said the treaty's failure would amount to nothing less than a "great setback" to free trade.[204] The threats may have had an

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[200] Gordon to Hull, June 6, 1935, in *FRUS 1935*, 5:301.

[201] Hull to Gordon, U.S. charge in Brazil, May 28, 1935 in *FRUS 1935,* 5:300.

[202] Phillips to Gordon, July 24, 1935, *FRUS 1935*, 5:306.

[203] Hull to Gibson, *FRUS 1935*, 5:311.

[204] Hull to Brazilian Embassy, August 27, 1935, in *FRUS 1935*, 5:314.

impact. In late November 1935, the Brazilian lawmakers ratified the treaty. So the accord ultimately went into effect, but without an effective way to balance payments for commerce between the two countries.

Conclusion

The Brazilian reciprocal treaty, like the one signed with Cuba, was hailed as another success for Roosevelt free trade regime. In November 1936, Roosevelt arrived in Rio to meet Vargas. FDR was cheered by throngs of well-wishers and he lost no opportunity to herald the increasingly close relations between the Pan American countries and the United States. FDR spoke of possibilities for improving radio, air travel, collective bargaining, old age security, and improved sanitation. "Among nations, the principle of interdependence is paramount," Roosevelt said of the Brazilian economic pact. Vargas agreed saying that "we are linked by a community of economic and political interests and, still further, by sentiments of inter-American solidarity."[205]

Despite the speech-making, the reciprocal treaty did not remove the fundamental obstacles in U.S.-Brazilian economic relations. The exchange issue remained a contentious obstacle even after Brazilian lawmakers approved the treaty. An offer by the Brazilian treasury to allocate dollars for exchange with *milreis* held by U.S. merchants appeared to set a framework to end the currency exchange dispute. But disagreements over the amount the Brazilian finance ministry should pay U.S. enterprises led to further discord and protests.[206] The Brazilian

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[205] FDR Speech in Montevideo, Official File 200-JJ, box 30, FDRL.

[206] Gibson to Hull, June 11, 1936, in *FRUS, 1936*, 4 (Washington: Government Printing Office, 1954), pp. 295-98.

congress then passed a 2 percent Social Welfare Tax on the imported value of all goods entering Brazil. Hull denounced the tax as "contrary to the general policy of expanding trade through reduction of barriers" in the 1935 commercial treaty.[207] Later, another barter agreement with Germany, that included a swap of Brazilian cotton for German autos, gasoline, typewriters and sewing machines, again raised warnings from Gibson about the potential "dangers of destroying American import trade and good will."[208]

Throughout the balance of the 1930s, Aranha and Rio continued to stiff-arm U.S. pressure for exchange liberalization. Aranha called for a "transitional period" to permit Brazil to "aggressively" sell goods to European countries with bartered payment issued not by the government but through banks and internal credit operations. He conceded the idea might "appear anti-liberal." But he reminded his North American counterparts that while the United States economy was strong enough to survive in an open market his country's financial state was not so secure. "Brazil could not endure, as the latter has no reserves and is a debtor country," Aranha added. He concluded his note by lecturing that "liberal practices" do not depend "upon a treaty by two peoples" but are "achieved by patient effort and labor, using old or new materials, according to convenience or necessity."[209] Welles and Feis were dismayed by the offer, which they believed did not contain anything of "a practical nature."[210]

The Second World War subsequently masked the fissure over currencies and exchange rates

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[207] Hull to Gibson, May 13, 1936, in *FRUS, 1936*, 4:308.

[208] Gibson to Hull, April 20, 1936, in *FRUS 1936*, 4:248-49.

[209] Aranha to Welles, circa July 1936, in Official File 11a, box 5, FDRL.

[210] Feis to Welles, July 25, 1936, in Official File 11a, Box 5, FDRL.

as Brazil offered the U.S. military bases on its soil in return for U.S.-aid in building a much-coveted steel plant and promises of postwar investment and development initiatives. In 1941, the Roosevelt Administration funded the Export-Import Bank with $500 million that was used to ease exchange crunches and export manufactured goods from the U.S to Brazil and elsewhere in Latin America.[211] Vargas cooperated with the U.S. military by allowing the War Department to use its northeastern territory for air bases. The U.S. military sold the Brazilian navy the blueprints and materials for several 1,500-ton destroyers that Rio built in its shipyards. As part of the military cooperation program, the U.S. Navy also leased to Brazil a handful of destroyers for training purposes.

Prospects for a liberal commercial arrangement between the United States and Brazil appeared to surge after the war, only to collapse again. Brazilian protectionism ended in October 1945 when a coup ousted Vargas and a liberal, Eurico Dutra, was elected president two months later. Dutra condemned state intervention in the economy and began to dismantle the protectionist wall created by Vargas. Dutra calculated that Brazilian industry needed capital goods to modernize its factories and bolster manufacturing production. The Brazilian treasury's replenished stockpile of foreign currency, particularly U.S. dollars during the war, made Dutra's liberal buy-and-sell program with the United States affordable. In the following year, a flood of imports swamped Brazil and, faster than expected, wiped out Brazil's currency reserves. In response, the Dutra government created a system of import licensing that restricted foreign purchases to equipment, machinery, and fuel at the expense of consumer goods imports. The new system bolstered Brazilian industry. Between 1948 and 1950, the country's gross domestic

[211] Coordinator for Inter-American Affairs, 1941 Appropriations Report, in The Papers of Nelson Rockefeller, box 24, Rockefeller Archive Center, Tarrytown, N.Y.

product grew an average of 8 percent a year. But the restrictions again curtailed commerce with U.S. interests.

Thus, the faces and the times changed but the core financial and economic obstacles to balancing U.S.-Brazilian trade remained much the same. The two countries continued in their cycle of dollar gaps, created by the outflow of dollars as a country buys more from a country than it sells to it,[212] and free riding, when a country maintains protectionist barriers while capitalizing on another nation's openness.[213] U.S. economic policy toward the Brazil continued to insist on private business initiatives,[214] concessions on exchange rates, lower tariffs, and protections for investments.[215] But Brazil's weak currency and gold reserves continually limited the country's ability to commit to a liberal commercial pattern. Assessing prospects for U.S.-Brazilian commerce in the 1950s, Stanley Hollis, president of the American Foreign Credit Underwriters Corporation, simply stated: "Brazil will continue to buy from us, but in lower volume until they can accumulate more funds."[216] So, almost two decades after the reciprocal treaty, virtually the same impediments blocked the flow of goods and dollars.

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[212] Jeffrey Frankel, "International Capital Flows and Domestic Economic Policies," *The United States in the World Economy*, Martin Feldstein ed., (Chicago: The University of Chicago Press, 1988), p. 561.

[213] Rhodes, *Reciprocity, U.S. Trade Policy, and the GATT Regime*, p. 240.

[214] Elizabeth A. Cobbs, *The Rich Neighbor Policy: Rockefeller and Kaiser in Brazil* (New Haven: Yale University Press, 1992), p. 13. Cobbs' work shows how the United States modified its foreign economic policy in the early Cold War period to stress private development initiatives and investment efforts.

[215] Joan Raushenbush, *Look At Latin America* (New York: Foreign Policy Association, 1940), p. 42.

[216] Stanley Hollis, "What's Ahead in Latin America," *Miami Business* (August 1952), p. 13.

It is tempting to say that in the 1930s, the United States and Brazil missed an opportunity to resolve the outstanding issues in economic diplomacy. Tempting, yes, but incorrect. The truth is that there existed significant hurdles that could not be overcome in the 1930s, the 1940s, or the 1950s. George Peek, FDR's advisor on trade, pointed out that open trade was simply not possible as long as countries did not trade by the same rules.[217] "If the whole world had the same level of living standards, free trade might be possible and even desirable, but in that event it still would be limited by the obvious advantages derived from the growing and making of most things near the point of consumption," Peek later wrote.[218] Ultimately, the structural trade imbalances generated a persistent currency crisis. In Brazil, it seems Good Neighbor liberalism was simply doomed to stalemate.

[217] George Peek, *Why Quit Our Own* (New York: Nostrand Co., 1936), pp. 260-64.

[218] Peek, *Why Quit Our Own*, p. 160.

Chapter IV

Expropriation Stuns U.S. Liberalism in Mexico

Multinational corporations from the United States figured prominently in the Roosevelt Administration's liberal program for economic and political renewal across the hemisphere. U.S. policy-makers cast transnational companies as engines for development across the Americas. They said corporate investment in factories, refineries, and farms brought jobs, technology, and innovation to the "backward" world. U.S. government officials insisted this investment propagated the business and commercial "know-how" that was necessary to raise living standards and foster civic responsibility. From the standpoint of Roosevelt liberals, protecting foreign investment and safeguarding industrial and commercial possessions were as important as tariff reductions and free exchange rules.

Mexico's expropriation of the oil refineries near Tampico in March 1938 shook U.S. policy-makers' sense of security and tested their ability to defend U.S. investments abroad. The expropriation of the refineries followed two decades of wrangling over ownership of the properties between Mexican authorities and U.S. diplomats, an off-and-on series of confrontations that began after promulgation of Mexico's constitution in 1917. The seizure of the valuable petroleum was a significant defeat for liberal U.S. policy-makers who promoted cross-border investment as a catalyst for hemispheric economic growth. Mexico's expropriation without compensation, government officials and industry executives argued vociferously, tread over regulations and laws that secured private property rights in theory and practice. Worse, Mexican charges that foreign-control of the country's oil industry not only failed to help the country prosper but actually stunted its development amounted to an all-out attack on liberalism itself.

Whether Mexico gained much from the expropriation is debatable,[219] but the seizure handed U.S. liberals an unsettling setback. The Mexican labor organizations and the government officials prodding President Lazaro Cardenas into seizing the refineries and oil wells equated liberalism with foreign domination of Mexico's oil fields. They charged that foreign ownership of productive property relegated Mexico to a second-class, dependent state. The Cardenistas and their allies among labor syndicates accused the U.S. and British oil companies of profiting at the expense of impoverished Mexican workers. So, they demanded that the government expropriate the oil properties, effectively rejecting liberalism, and distribute profits directly to

[219] The literature on the Cardenista era is divided over the effectiveness of 1930s reform in Mexico. For skeptical analyses, see Robert F. Smith "Estados Unidos y la Revolucion Mexicana, 1921-1951" in *Mitos en las relaciones Mexico-Estados Unidos* (Mexico, D.F.: Fondo de Cultura Economicas, 1994); Mario Ojeda "El futuro de las relaciones entre Mexio y Estados Unidos" in *Las relaciones Mexico-Estados Unidos* (Mexico, D.F.: Fondo de la Cultura Economica, 1981); Alan Knight, "Cardenismo: Juggernaut or Jalopy?" in *Journal of Latin American Studies* 26 (February 1994), and Knight's "Mexico, *c*. 1930-46," in *The Cambridge History of Latin America*, 7 (Cambridge: Cambridge University Press, 1990), pp. 210-230; and Clayton R. Koppes, "The Good Neighbor Policy and the Nationalization of Mexican Oil: A reinterpretation," in *The Journal of American History*, 69 (June 1982). Some historians agree that the expropriation of the oil properties was a Cardenista triumph. These scholars say Cardenas bolstered the political influence of labor organizations, distributed agricultural lands to a wider spectrum of Mexicans and reduced the influence of both foreign and domestic monopolies. For examples of these works, see César Sepúlveda *Las relaciones entre Mexico y Estados Unidos en el Siglo XX* (Monterrey: Impresa Monterrey, 1953); Lorenzo Meyer *Mexico and the United States in the Oil Controversy, 1917-1942* (Austin: University of Texas Press); Josefina Zoraida Vázquez and Lorenzo Meyer *The United States and Mexico* (Chicago: University of Chicago Press, 1985); and Tzvi Medin, *Ideologia y praxis política de Lázaro Cardenas*, 15th edition (Mexico, D.F.: Siglo Veintiuno Editores, 1990).

the Mexican citizenry. Witnesses to this drama quickly surmised that there was more at stake than petroleum beneath the surface of the standoff. "This is something more than an oil war now," wrote Frank Kluckhorn, a reporter for *The New York Times*.[220]

Patient Liberalism in Mexico

While the Great Depression did not produce widespread poverty and desperation in Mexico, Hull, Welles, and other policy-makers believed that a liberal resurgence might still help Mexico prosper financially and develop politically, two goals that were high on the U.S. diplomatic wish list. Mexico shared a long border with the United States and both sides knew that instability and volatility to the south of the Rio Grande always risked drawing troops from the north. North American industry and businesses also possessed sizeable investment holdings in this nearest of neighbors whose 17 million people made it the second most populous country in Latin America.

The Roosevelt government believed that Mexico, like other Latin American republics, lacked the capital necessary to continue developing industry and expand its commercial operations. Sumner Welles noted that the United States possessed abundant sources of the much-needed investment money for machinery and other capital goods. He insisted that U.S. investment “added to the wealth of Mexico by tilling the soil, by installing irrigation works, by erecting processing plants, and by giving new employment to the agriculturists in the regions where their lands were situated."[221] Besides economic benefits, U.S. liberals predicted that U.S.

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[220] *The New York Times*, March 26, 1938.

[221] Memorandum of Conversation by Welles, December 14, 1937, in *Papers Relating to the Foreign Relations of the United States*[cited as *FRUS*] *1937,* 5 (Washington: Government Printing Office, 1954), pp. 639-42.

dollars and know-how would bolster Mexican political maturity, a desired outcome given the country's internecine political infighting in the 1920s and the 1928 assassination of political boss Miguel Obregon.

In the mid-1930s, U.S. officials could already forecast trouble ahead in commercial relations between the two countries. Two areas in particular drew concern. One was the increasingly heated and contentious negotiation between managers at U.S.-owned oil refineries in Mexico and the labor unions that represented the oil field workers. The other area was a Mexican government agrarian reform program that displaced U.S. farmers in the Yucatan peninsula. The confrontations were more than minor irritants. A basic corollary of the free trade program was that foreign investment capital needed protection and safeguarding. Now, in Mexico, U.S. citizens who owned farmlands complained that they lost those properties without immediate compensation. And the oil industry barons were in jeopardy of losing managerial control of their petroleum businesses.

The multinational companies that dominated the petroleum industry in Mexico were unhappy with the tone and direction the Cardenas government took in the mid-1930s. U.S. oil industry executives accused the Cardenistas of encouraging labor unions to increase wage demands. They also charged the government was inciting oil workers to strike. One group of oil company chieftains predicted the government's plan was to "eliminate the right of owners to manage" their enterprises. "It has been increasingly apparent that the objective of the Mexican Government is to take over the oil industry from the foreign companies," said a group of oil industry executives.[222]

[222] Letter from W.W. Wilkinson, California Standard Oil of Mexico, F.C. Randall, Penn-Mex Fuel Company, A.E. Watts, Mexican Sinclair Petroleum Corp., L.L. Anderson, Huasteca

The pressure building in Mexico divided FDR's diplomatic team. The top U.S. diplomat in Mexico, Ambassador Josephus Daniels, advised his superiors to keep their distance from the simmering disputes. Yes, oil company-labor relations were contentious, but Daniels, FDR's former boss at the U.S. Navy Department, insisted that both sides would ultimately settle their differences. Other key diplomatic figures harbored doubts. Hull, Welles, Berle and other Brains Trust advisors argued that, in the case of the land reform actions, expropriation without immediate compensation threatened to erode confidence in property ownership and investment and to undermine the liberal economic program in the hemisphere.

Daniels' approach took precedence at the outset. The ambassador, a North Carolina Baptist and a committed New Dealer, called for patience in economic diplomacy and he did not shy from making known his sympathy with Cardenas' reform program. Daniels called Cardenas' programs "a new and square deal" and consistently compared them to FDR's New Deal.[223] "At the bottom of the Mexican, as well as most other revolutions, is hunger," he wrote to FDR. "The only hope of Mexico is dividing the lands so that those who live on them will be safe in their cultivation of the soil."[224] In fact, the Mexican land program, Daniels advised FDR, "in some things, as for example, giving land to men who work the haciendas, Mexico is looking to do more for the forgotten man than you have been able to do."[225] Daniels also effusively praised

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Petroeum Co., and J.W. Balding, Mexican Gulf Co., to Hull, August 18, 1937, in *FRUS 1937*, 5:667-68.

[223] "Josephus Daniels," *Time*, 24 (December 3, 1934), p 21.

[224] Daniels to FDR, January 29, 1934, in President Secretary's File: Mexico, box 43, FDRL. Collection hereafter cited as PSF:Mexico.

[225] Daniels to FDR, August 18, 1933, in PSF:Mexico, box 43, FDRL.

the Mexican leadership. In toasting the country's policies, he gushed “that the social order now in the making in both countries will guarantee to all men equality, justice, liberty, and the full enjoyment of the fruits of their labor.”[226] In private, he cheered Cardenista reforms as well. He told the Mexican president that his policies were well-received in the United States because they “had many concurrent points with those followed by President Roosevelt and which tend to better conditions for workers.”[227]

By the same token, Daniels bore little sympathy for the oil industry, which he saw as arrogant and inflexible. “When industries seek a twilight zone of state control [where] such regulations mean no regulation,” he wrote, “advocacy of such [regulation] is as antiquated as the old contention of the right to carry slaves” into free territory.[228] “The truth is that the whole oil history here has not been one to cause Mexico to feel that the oil producers have treated the country justly,” he said. Daniels criticized the oil firms for taking advantage of the government's weak bargaining position and said he did not blame the government and labor for wanting to “get what they think is a fair share of the income from oil for their workers and for the Treasury, while production continues.”[229]

Hull initially followed Daniels’ lead and counseled patience. The consensus within the Administration’s foreign policy held that as long as the tension in Mexico was limited to farmer-labor-industry jostling over land and profits, they were more than happy to stay out of

[226] Daniels to FDR, April 26, 1933, in PSF:Mexico, box 43, FDRL.

[227] Lázaro Cárdenas, *Obras*, 1 (Mexico City: Nueva Blibioteca Mexicana, 1972), p. 324.

[228] Daniels to FDR, October 27, 1936, in PSF:Mexico, box 44, FDRL.

[229] Daniels to FDR, September 14, 1938, PSF:Mexico, box 44, FDRL.

harm's way. "We had no sympathy with people from other countries going into Mexico and fleecing the Mexican people by any sort of method," Hull said emphatically.[230] FDR adviser Raymond Moley also defended the Mexican reforms against charges that they were communistic. Moley insisted that Cardenas' government is "a regulating force rather than a paternalistic owner, directing and partially controlling capitalistic enterprise."[231] Those views would soon change.

Mexico's Reforms Take Aim at U.S. Investors

U.S. policy-makers did not grasp the deep level of Mexican disenchantment with its foreign-dominated agricultural sector and oil industry. A quarter century after the unprecedented 1910 revolution, Mexico was still mired in economic stagnation. The nationalist revolution that ousted Porfirio Díaz pledged land reform for peasants and promised to improve living standards for the average Mexican worker. A generation later, neither vow yielded born much fruit. A 1930 survey revealed that only a fraction more than 6 percent of the land in Mexico was owned and cultivated by peasants.[232] Patience with the status quo grew thin in the Mexican press. A Mexican newspaper editor wrote in 1933 that "so long as the Capitalistic State persists and endures as a system" it will "continue to be a secular and fundamental barrier" to social, political and economic progress. The editor concluded that "without a socialized economy of general methods excluding monopolistic minorities the last battle will not have been fought."[233]

[230] Memorandum of Conversation by Hull, April 20, 1937, in *FRUS 1937*, 5:605.

[231] "Mexico: A New and Square Deal," *Time*, 24 (December 3, 1934), p. 22.

[232] Fondo de Cultura Económica, *México: Cincuenta Años de Revolución*, 1 (Mexico City: Fondo de Cultura Economica, 1960) p. 115.

[233] *El Universal*, June 13, 1933.

The tools to place these words in action existed in the form of Mexico's 1917 constitution – if the government could completely implement that document. Article 27 of the constitution provided for extensive land redistribution and granted the state rights to subsoil oil and mining reserves. Article 27 also gave the government power to impose limitations on property rights when those restrictions were in the public interest. Another provision, Article 123, limited the workday to eight hours, guaranteed workers the right to form trade unions, and to strike. But the constitution held more promise than reality. The federal government born out of the Mexican revolution and the constitution was a weak state with just enough power to govern domestically but certainly not to enforce its will on foreign commercial interests.

A succession of presidents, from Venustiano Caranza to Alvaro Obregon to Plutarco Elias Calles in the 1920s and early 1930s, enacted decrees to increase taxes on petroleum revenues with minor results. Most importantly, though, the Mexican government failed to achieve highest public policy goal – to apply the provisions of Article 27 retroactively to the oil properties. Essentially, the Mexican state wished to declare that Article 27 gave it ownership of reserves granted to the companies prior to the 1917 constitution. But Mexican officials lacked the will to do so and consistently retreated from aggressive stances under pressure from U.S. diplomats and industry executives. After nearly two decades of successfully staving off the Mexican government and its constitution, U.S. industry and government officials believed their fortunes would not change when Lazaro Cardenas was sworn in as Mexico's president in 1934.

Yet, soon after taking office, Cardenas unveiled a comprehensive six-year program, called *el plan sexenal.* The program promised to grant Mexicans greater control of the country's agricultural and industrial production. In agriculture, the Cardenista program targeted the large landholdings – owned by Mexicans and foreigners alike – for expropriation by the government. The government would then divide the land among landless peasants through collective *ejidos*. The six-year program also pledged to expand public works projects, improve irrigation to turn fallow lands into productive ones, and boost production in arable territory.[234] By the time of Cardenas's exit from power in 1940, over $10 million worth of land had been expropriated dating back to 1927. More significantly, the Cardenista program almost quadrupled the percentage of parcels owned by *ejidos* from 6 percent to 22 percent.[235] All well and good, but the biggest prize of all lay in the country's oil fields.

Cardenas insisted the dispute over productive means was more than a struggle to reclaim land and property ownership – and more than a business deal that was negotiated with dollars. "The distribution of land," Cardenas wrote, "is indispensable for the development of the country's economy and, in addition, it is made necessary by the violent situation that exists in the countryside between peasants and landowners."[236] The Cardenistas not only rejected U.S. landowner proposals, they also reduced the amount of land that the law allowed U.S. citizens to keep by decreasing the maximum limit by two-thirds to 100 hectares. That move placed a total of 18,000-hectares of fertile land in the hands of *ejidos* and, as Cardenas saw it, improved the prospects for peace and prosperity.

The principal territorial focus of the sexenal's agricultural reforms was the Yacqui Valley, a

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[234] Cárdenas inaugural speech, in Miguel V. Casasola, ed., *Historia Gráfica de la Revolución*, (Mexico City: Archivo Casasola, circa 1939), pp. 119-121.

[235] Fondo de Cultura Ecónomica, *Cincuenta Años de Revolución*, 1:115.

[236] Cárdenas, *Obras*, 1:325.

fertile zone in the Yucatan Peninsula that was the domain of hundreds of U.S. farmers who cultivated wheat, corn and other crops. The Cardenas team announced plans in early 1936 to apply the agrarian code, which guided the expropriation policy on farmlands, in the valley. To quell internal domestic opposition to land reform from large Mexican landowners, the Cardenas agrarian code set limits on land ownership at 300 hectares, 100 more hectares than allowed by the "radical" Constitution of 1917. But the code's guidelines placed U.S.-owned properties owned by individuals and companies such as the Colorado River Land Company in danger of losing significant chunks of land. To spare themselves a financial disaster, U.S. citizens in the Yacqui Valley offered a counterproposal. The owners suggested that they would pool a selection of their properties and then turn these over to the peasants as an *ejido* district where locals could grow their crops under U.S. tutelage. An amendment to that proposal offered to establish a fund for compensation over several years. The fund could then be tapped by the *ejidos* to pay for cultivation of government-owned lands already at their disposal.

Daniels sympathized with – and defended – U.S. landowners in the Yacqui Valley dispute. After the Cardenistas reduced the number of hectares that U.S. citizens would be able to keep – down to 100 hectares – Daniels insisted that the existing Yacqui Valley landowners needed to be grandfathered in at a higher amount. The ambassador also demanded that U.S. farmers needed reimbursement for the improvements, such as canals and other irrigation facilities, they built on the properties. And he called for a delay in the seizures until the farmers had been able to plant the entire wheat crop so that they and the *ejidos* would be able to reap some profits from the next harvest. But as long as the government offered some recompense, or promise to pay for the lands, Daniels still believed the expropriation dispute might still go away.

Further frustrating Mexican aspirations were the meager results of the two principal developmental engines, oil drilling and precious metals mining, despite the know-how, technological wizardry, and dollars that foreign ownership pledged to generate for Mexico's treasury. Production of gold fell from 23,500 kilograms to 19,800 kilograms between 1917 and 1933. The output of silver and lead plummeted, too, between 1930 and 1935.[237] Petroleum production fared better. From 1932 to 1937, the number of 159-liter barrels produced rose by 6 million to almost 47 million.[238] To be sure, it was a lucrative 47 million barrels for all – except for the Mexican state. Mexican treasury economist Jesus Silva Herzog claimed that the oil companies' profits "borders on the fantastic." But as "fantastic" as they were, Herzog Silva noted, they had little impact on the country or the living standard of workers in Tampico, and the other petroleum drilling centers, because Mexicans received little benefit from the profits of their oil.

Herzog Silva and other officials accused the oil firms of using a series of financial schemes to evade income taxes and to avoid paying Mexican oil workers higher wages. A favorite oil industry ploy, Silva Herzog said, worked by having the Mexican subsidiary sell oil at a "notoriously low price" to a sister subsidiary in the same conglomerate. The sister firm was usually located in Canada or the United States, the senior Mexican treasury official claimed, and when the subsidiary resold the oil at a higher price it allowed the Mexican company to avert taxes by devaluing the price of the oil sold through "a transfer of profits." At the same time, the maneuver offered the foreign oil companies a second advantage: The trick permitted the Mexican subsidiaries to report lower operating profits, which would help them argue against

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[237] Fondo de Cultura Económica, *México: Cincuenta Años de Revolución*, 1:52-53.

[238] Fondo de Cultura Económica, *México: Cincuenta Años de Revolución*, 1:321.

demands for wage increases by the petroleum oil worker unions.[239] Cardenas apparently agreed with Herzog Silva's assessment. "There are countries that have been able to recapture their natural resources for their own development," he wrote in his diary prior to expropriation. "But [in other countries] the indecision of their leaders and the compromises that weaken them, maintain their nations in a backward state in their economies and in their political independence."[240]

The Cardenista strategy toward the oil industry first relied on allowing labor organizations to muscle Mexican workers into managerial positions. In February 1936, Cardenas, who was being pressured by union leaders to adopt stronger stances toward foreign firms, brazenly told a group of industrialists in Monterrey that they had to acquiesce to labor's demands. The president scolded the industrialists by saying the "sale of your products are not the result of your having established factories, but that your installations obey the market's demand for products that you already knew existed in the country and internationally." Locking out workers and shutting down the industry, Cardenas reasoned, was more costly than higher operating costs. "So it behooves you to abandon your attitude," he concluded. And then he issued a thinly veiled threat: "Those businessmen that feel fatigued by the social struggle may turn their industries over to the workers or to the government."[241]

Whether Cardenas could do more than cajole industrialists was unclear – so he let the unions

[239] Jesus Silva Herzog, "Mexico's Case in the Oil Controversy," in *Mexico and the United States* (Dallas: Southern Methodist University, 1938), p. 68.

[240] Cárdenas, *Obras*, 1:38.

[241] Cárdenas, *Obras*, 1:342-43.

lead the battle. While Article 27 of Mexico's 1917 constitution gave the Mexican state control over subsoil rights, a 1927 agreement between Plutarco Calles and U.S. Ambassador Dwight Morrow guaranteed unlimited foreign ownership of all subsoil concessions that existed prior to the constitution. This agreement effectively gave the foreign oil and mining concerns perpetual rights over the fields and mines acquired before the 1910 revolution. So Cardenas focused his efforts on labor and management roughhousing. While his predecessors had pressured Mexican labor to accede to industry demands, Cardenas took a more neutral stance. Capitalizing on the government's tacit pro-labor stance, the oil unions in the petroleum industry merged into one all-encompassing umbrella organization, the *Sindicato de Trabajadores Petroleros de la Republica de Mexico,* or STPRM. The stronger union coalition immediately fired off a list of demands including wage increases and benefits that totaled 65 million pesos per year. The companies countered by offering a much more modest package totaling about 14 million pesos, which the STPRM rejected. The standoff resulted in a May 1937 strike.[242]

Rather than intervene in the strike, Cardenas instructed his labor ministry to organize a committee of experts to probe the corporate financial statements to calculate a fair contract for the union. In August 1937, the committee issued a series of findings that backed up the union's position. The committee charged that the foreign petroleum companies had reduced the average wages of workers by 16 percent against the cost of living – below that of miners and railway laborers – even as the companies increased prices charged for oil products in Mexico to exorbitant levels in comparison to other countries. The low operating costs and the high retail prices in Mexico, the experts claimed, allowed the companies in Mexico to reap windfall profits

[242] Josefina Zoraida Vázquez and Lorenzo Meyer, *The United States and Mexico* (Chicago: University of Chicago Press, 1985) pp. 147-48.

of 79 million pesos from 1934 to 1937, a 34 percent return on capital investment. The committee concluded the oil firms were “so extraordinarily prosperous” they could afford to raise worker wages by 26 million pesos in 1938. In addition, the board said the companies should be required to provide housing for workers, immediate employment of Mexican trainees for every foreigner working on site, medical facilities, life insurance, and pensions. And, most importantly, the commission suggested that the entire industry should be placed under the control of a governing board composed of representatives from the industry, labor union, and government.

Predictably, the petroleum companies rejected the report’s conclusions. An executive at the Standard Oil Co. of New Jersey, F.C. Pannill, immediately charged that the committee's conclusions were "not true findings but are clearly arbitrary and distorted without regard to facts." Then, in a measure of foreboding, Pannill predicted that if the Cardenas government granted STPRM the slate of concessions offered by the committee there would be no way that the "oil industry in Mexico, as today constituted, could continue to exist."[243] Worrisome for the oil industry, too, was that in early 1937 Cardenas joined Herzog Silva in blaming the country’s stagnant economic woes on flight capital. Mexico charged oil industry officials and other anxious foreign investors were moving funds out of the country and storing it in foreign havens. That was one charge that the oil companies, curiously, did not deny.[244] By September 1937, the Comptroller of the Treasury revealed that the ministry was "hard pressed to meet extraordinary

[243] F.C. Pannill, Standard Oil Company of New Jersey to Laurence Duggan, August 11, 1937, in *FRUS 1937*, 5:662-63.

[244] Daniels to FDR, March 22, 1938, PSF:Mexico 1938, box 77, FDRL.

expenditures which have been pledged by [Cardenas's] social program," costs that forced the government to borrow 8 million pesos from the central bank.[245]

With the growing financial crisis, and the role of foreign capital in fueling it, Cardenas became even more skeptical of the elusive promise of economic liberalism. Among a series of initiatives considered to reinvigorate the sexenal, Cardenas privately proposed to his cabinet in May 1937, was “the exact application of Article 27 as it refers to subsoil rights, lands and waters, particularly those in the hands of foreigners.”[246]

Expropriation, Confrontation, Negotiation

On the morning of March 19, 1938, Ambassador Daniels awoke to bad news. Just after midnight the following evening, he was informed, Cardenas had inked a decree that effectively expropriated some $400 million worth of U.S. oil industry properties, including lands, subsoil rights, drilling equipment, and refineries. Up to then, the expropriation was the largest and costliest ever for U.S. industry – and immediately became the obstacle to the Pan American goal of a hemisphere peacefully united by commerce. "The seizure of properties belonging to the nationals of the good neighbor," wrote the *Christian Science Monitor*, "is hardly the sort of treatment that could be described as reciprocal."[247] In one stroke of the pen, the promotion of economic liberalism in Mexico was redefined as a battle to preserve private property rights. Expropriation without compensation, thus, had the same chilling effect on global commerce and production as trade barriers, exchange controls and other economic nationalist programs. Warned the editors at the *Wall Street Journal*: “Capital, particularly foreign capital, must

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[245] Pierre L. Boal to Hull, August 30, 1937, *FRUS 1937*, 5:672.

[246] Cárdenas, *Obras*, 1:368.

[247] “Oil in Mexico,” *Christian Science Monitor*, March 20, 1938.

henceforth be extremely [wary] about further and deeper investment, which involves exploitation of natural resources."[248]

Conversely, the decree sparked jubilation in Mexico City. On March 23, less than a week after the seizure of the oil properties, a million workers were said to have marched throughout the country carrying slogans such as "Huerta freed us politically, Cardenas freed us economically!" and "Cardenas against Capital." In Mexico City, Cardenas told an estimated 200,000 marchers that "we are acting on a high legal and moral ground in order to make our country great and respected."[249] The hype and furor continued with a national drive to collect funds to "to pay for the expropriation." Wealthy women, ready to turn in jewelry, stood in line along with peasant women willing to donate chickens. Picking up donations was no less a figure than the country's first lady, Amalia Cardenas.[250]

The State Department initially attempted to persuade Cardenas to rescind the expropriation decree. Hull and Welles pointed to international law obligations requiring prompt repayment for the expropriated refineries and farmlands. The taking of property was legal only if Mexico made "adequate and effective compensation to these companies for their properties expropriated."[251] Hull noted that the United States, like Mexico, was pursuing a program of social betterment to improve the housing, prospects for farmers, security against old age and the

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[248] *The Wall Street Journal*, March 21, 1938.

[249] *The New York Times*, March 24, 1938.

[250] "Mexico: The Women," *Time*, 31 (April 25, 1938), p. 20; Miguel V. Casasola, ed., *Historia Gráfica de la Revolución, 1900-1946* (Mexico City: Archivo Casasola, circa 1939), p. 270.

[251] Welles to Mexican Ambassador Francisco Castillo Najera, May 9, 1938, in *FRUS 1938,* 5 (Washington: Government Printing Office, 1956), pp. 749-52.

wider use of electricity. To accomplish this, the United States, too, had "expropriated from foreigners as well as its citizens properties of various kinds" to retire farmlands, build public works projects such as dams, and to clear slums.[252] But, the difference was that the U.S. government had paid for the lands at the time of seizure, Washington couseled.

Hull continued the lecture by warning that Mexico's actions could potentially undermine the confidence in the world economic system. The expropriation, the secretary said, was "alien to the history, the spirit and the ideals of democracy." The rules of a civilized society and of common justice, he added, required that properties seized be paid for. Only by meeting the law could Mexico satisfy business requirements and bolster confidence in the country as an investment safe haven. If expropriation is permitted without compensation, Hull charged, "safeguards" and the "fundamental laws of most countries and established international law" that protect private property "would be utterly worthless." Hull ended his speechmaking concluding that the free world could ill afford to see financial rights eroded "at a time when the world is on fire, when lawlessness is steadily expanding in so many regions . . . and when this Government is pushing its call for law and order."[253]

The taking of such lucrative investments, Welles continued, would surely cause other foreign capitalists to reconsider Mexico as a place to do business. The Good Neighbor program, Welles added, was based on a Pan American "community" of investment and trade founded "on a common plane of mutual confidence and fair dealing." In this regard, Welles said the expropriation was "bound to have the most serious repercussions [on Mexico's] commercial

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[252] Hull to Castillo Najera, July 21, 1938, *FRUS 1938*, 5:674.

[253] Hull to Castillo Najera, August 22, 1938, in *FRUS 1938*, 5:686-87, 742.

and financial relations." The expropriation degree, Welles concluded, was a "suicidal" mistake.[254] Without compensation, Welles sharply told Mexcian ambassador Francisco Castillo Najera, "I could not conceive how one penny of additional foreign capital could be invested in Mexico except by persons residing in a lunatic asylum."[255] The only solution, Welles advised, was for the properties to be returned so that a compromise could be worked out between the Cardenas Administration and the oil companies.

Cardenas believed the issue was just as critical for Mexico – and if his predecessors had been docile and accommodating in the past it was not to be like that this time. Though he cloaked the expropriation in the language of nationalism and self-respect, the president from the rural state of Michoacan also based his refusal to offer immediate cash payment on monetary reasons. The Cardenistas knew full well that Mexico's federal treasury was running a deficit. If Mexico waited until it had enough cash or precious metal in reserve to buy out the oil companies or the U.S. farmers, the day of "economic emancipation" would never arrive.

Besides, the Mexican government did not regard the expropriation as simply a business deal or a buyout. Cardenas implored his countrymen to support the measure. He said the expropriation recaptured "the dignity of Mexico that foreigners have scoffed while reaping riches from the abuse of our natural resources and while ignoring the problems in the country."[256] He repeatedly insisted he was committed to "developing the country with our own modest resources, and free from the dangers to the Nation represented by the imperialist

[254] Welles, Memorandum of Conversation, March 31, 1938, in *FRUS 1938*, 5:731.

[255] Welles, Memorandum of Conversation, March 31, 1938, in *FRUS 1938*, 5:738.

[256] Cárdenas, *Obras*, 1:391.

capitalism and its presence in our national economy."[257] The president countered U.S. protests by offering a few programs offering restitution over a period of ten years. But beyond that, the Cardenistas were not prepared to offer much in the way of accommodation.

The Cardenistas also rebuffed U.S. threats of sanctions and allegations that they had violated international law. Foreign Minister Eduardo Hay insisted that, with all apologies to liberal economic dogma, the "political, social and economic stability, and the peace of Mexico, depended on the land being placed anew in the hands" of Mexicans. "A transformation of the country," Hay said, "could not be halted by the impossibility of paying immediately the value of the properties." First, he pointed out that only a small number of foreigners were affected. The foreign minister added that it was "unjust" for a foreign investor to "aspire to a privileged position safe from any risk, but availing himself of the effort of the nationals which must be to the benefit of the collectivity."[258]

This point was the fulcrum of Hay's defense – the country had decided to place the rights of a "collective" society over the safeguards afforded to individuals. The foreign ministry insisted that the "rights of society are in this case beyond doubt, and the social necessity is so urgent that its satisfaction cannot be subordinated" to the U.S. interpretations of international law and demands for compensation. "In view of the fact that the aspirations of the collectivity must prevail over individual interests," Hay continued, "Mexico cannot refrain from carrying out" the agricultural and industrial expropriation policies." Then Hay concluded the note, and the argument, by saying that the "continuation of this discussion would benefit only the interested

[257] Cárdenas, *Obras*, 1:392.

[258] Hay to Daniels, August 3, 1938, in *FRUS 1938*, 5:678-79.

and traditional enemies" of Mexico and terminated the exchange of notes.[259]

Although the State Department and the oil industry were facing a *fait accompli*, they did have leverage. The Mexican government did not own tankers to transport oil. And the petroleum companies possessed the contracts for the sale of Mexican oil outside the country. Thus, Mexico was deprived of transportation for its oil as well as a distribution network in foreign markets. Without oil revenues, the emerging economic crisis in the country was about to get worse. Cardenas knew the State Department was pressuring U.S. Treasury officials to stop purchasing Mexican silver, a move that would exacerbate the country's financial woes. And Cardenas feared, too, that "vigorous" anti-Mexican press coverage in the United States, fueled by the companies, might push the Roosevelt government to take more forceful measures especially as its concern over Nazism increased.

Cardenas also worried about a challenge from within Mexico. Even with the nationalist and xenophobic rhetoric and program, the *sexenal* initially received opposition from domestic political rivals. Though Cardenas had won the presidency, Plutarco Calles, the party boss, remained a powerful force in the country. Throughout his first years in power, he feared that Calles, a much more conservative figure, was working to undermine the *sexenal* and his authority as president. In fact, Calles was dissatisfied with his anointed successor. After all, it was the former president who had ironed out the accord with Dwight Morrow in the 1920s that provided guarantees for the same foreign interests that Cardenas targeted and criticized. When Cardenas initially considered a proposal to reopen the subsoil dispute that Calles settled in 1927, it led to a bitter break between the two. Meanwhile, Cardenas also worried that the

[259] Hay to Daniels, August 3, 1938, in *FRUS 1938*, 5:680.

industrial interests, especially the oil concerns, were bankrolling the opposition.[260] The confrontation with Washington, Cardenas ultimately feared, might embolden Calles and other opposition figures to challenge his hold on power. Still, Cardenas believed Mexico had to act now. “Mexico has to take advantage of these favorable moments when so-called ‘democratic’ governments are declaring before international public opinion their intention to respect the sovereignty of nations,” Cardenas wrote.[261] The solution, he claimed, lay in negotiating a compromise that would satisfy the State Department’s compensation requirement before the 1940 U.S. presidential elections.

Daniels, Hull and Welles also stood in a policy tar pit that limited their options. After all, the petroleum companies were not exactly viewed as white knights on either side of the Rio Grande. "Having made big money on absurdly low wages . . . all oil producers oppose any change in tax and wages, and resent it if their Governments do not take their point of view," Daniels complained.[262] And as the threat of war loomed in Europe, the United States could not press Mexico too hard. A break with Mexico, with which the U.S. shared a 2,000-mile border, could damage hemispheric harmony that FDR and Hull felt they needed as a strategic bulwark. For these reasons, Welles said, the spring of 1938 held the "promise of being the most critical moment in the relations of between the people" situated on either side of the Rio Grande.[263]

The stalemate led to a series of negotiations, the first ones conducted by Donald Richberg, a New York lawyer who represented the oil companies. The ensuing talks produced the so-called

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[260] Cárdenas, *Obras*, 1:316-17.

[261] Cárdenas, *Obras*, 1:407.

[262] Daniels to FDR, September 14, 1937, PSF:Mexico, box 43, FDRL.

[263] Welles, Memo of Conversation, March 21, 1938, in *FRUS 1938*, 5:729.

Richberg Plan, which would allow the Mexican government to keep the refineries and equipment without immediate repayment. However, under the compromise, the oil companies' management teams would run the facilities "free from restrictions, claims or obligations" not written into the contract. In addition, the proposed management contract contained provisions for "fixed taxes and similar payments" for the duration of the deal as well as for "appropriate measures and means of reimbursement" for the original nationalization of the properties. The oil companies argued that the success of the plan lay in the retention of company management because in Mexico "the only possibility of an efficient management was company management and not Mexican management or joint management."[264] The Cardenistas, however, would not agree to any resolution that did not place operations in the control of Mexicans. "There can be no resolution if the companies insist on wanting renewed control of operations," Cardenas wrote. "For Mexico, the only solution is for [the U.S.] to recognize the expropriation and to focus on working out a payment arrangement." Cardenas suggested that the companies reconsider marketing Mexican oil abroad and take a cut of the profits as compensation.[265]

A second attempt to resolve the impasse took place in the fall of 1939. In October, the oil firms sent Nelson Rockefeller, the youthful son of John D. Rockefeller, to negotiate a resolution. Possessing an appreciation for Mexican arts, Rockefeller at one time commissioned a painting by the famed Mexican artist Diego Rivera. However, in an embarrassing turn-about, Rockefeller ordered the mural at the family’s Manhattan headquarters covered because its

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[264] Memo by the petroleum firms, July 17, 1939, in Nelson A. Rockefeller Papers, box 52, folder 437, at the Rockefeller Archive Center, Tarrytwon, N.Y.

[265] Cárdenas, *Obras*, 1:406-07.

theme was too anti-capitalist.[266] Rockefeller arrived in Mexico with high hopes. He started by arguing the official line – that without foreign technology and experienced hands, the industry faced a "complete breakdown." Cardenas remained unconvinced. Then Rockefeller made a new offer: The Mexican government and the oil companies would form one large conglomerate in Mexico and share the earnings fifty-fifty. Cardenas was interested – but only if the government owned a 51 percent stake in the new company. He reiterated his conviction that as long as ownership was in the hands of foreigners "the whole thing would have no meaning and was impossible from the point of view of the Mexican people." The only way to make it happen, the general said, would be to give the government 51 percent. Rockefeller balked, arguing that then "you have the responsibility for management in the hands of the Government and even if they started out by saying the foreign companies would have the management, sooner or later Government control would creep into the operation because of their majority holding of the stock."[267] Thus, the stalemate continued and the Rockefeller mission, like the Richberg Plan, ended up in the diplomatic scrap heap.

The stalemate would drag on for two more years before it was "resolved." A turning point was the departure of Cardenas from office and his replacement by Manuel Avila Camacho. The new president was more conservative than Cardenas – and a little more disposed to settle the dispute. The war in Europe made clear to him that Mexico's fate was better tied to the United States than to a European continent at war with itself. Soon after his election, Avila Camacho

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[266] Cary Reich, *The Life of Nelson A. Rockefeller: Worlds to Conquer, 1908-1958* (New York: Doubleday Dell Publishing Group, 1996), p. 109.

[267] Rockefeller memo, January 13, 1950, in Rockefeller Papers, box 20, folder 125, RAC; Cárdenas, *Obras,* 1:429-30.

made overtures to the United States. He told the newspaper *La Prensa* that he was not a "socialist" and that he felt it "necessary to create confidence for the investor, first for the Mexican investor and then for the foreign investor."[268] Sensing a chance to end the deadlock, Daniels endorsed the new president. He told FDR that Avila Camacho did not elicit the rancor and bitterness from oil company officials that "call him everything from a Communist down."[269]

The White House, too, was eager to end the standoff. FDR's aides advised the U.S. president that Avila Camacho's election offered an opportunity to improve economic diplomacy and settle the oil dispute.[270] FDR's personal representative at Avila Camacho's inaugural predicted "a swing to the right" by the incoming Mexican president. The shift would not be enough to restore the pre-expropriation status quo, but it bolstered hope for an end the U.S. boycott of Mexican oil and paved the way for new investment in other areas such as railroads and steel production.[271] The assessment was on target. Though Avila Camacho did not rescind the expropriation, he was eager to accommodate the United States and strike a face-saving resolution. In November 1941, the two countries agreed to form a commission, known as the Cooke-Zevada committee, with two representatives from each side. The committee's task was to agree on a figure for compensating the oil firms and establishing a payment schedule.

The oil firms were not satisfied. Their demand was nothing short than a return to active and

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[268] *La Prensa*, Mexico City, September 19, 1940.

[269] Daniels to FDR, June 28, 1940, PSF:Mexico, box 44, FDRL.

[270] Lauchlin Currie to FDR, September 16, 1940, in PSF:Mexico, box 44, FDRL.

[271] Norman Littel to Franklin Roosevelt, Jr., December 16, 1940, in PSF:Mexico, box 44, FDRL.

full management of the industry. "Mexican management of the oil industry would not restore that confidence in Mexico which foreign investors and domestic investors require," Farish insisted. "There is said to be at present a large amount of idle capital which awaits merely a return to business of confidence in foreign investment in Mexican industries."[272]

But Avila Camacho would not relent – and the Roosevelt government desperately wanted the issue resolved. In the fall of 1941, the Cooke-Zevada commission proposed a price and payment schedule sounded like the right deal to a U.S. officials now worried more about war in Europe than the oil industry in Mexico. The face-saving measure permitted cordial, if not superficial, cooperation through military exchanges between the Mexican and U.S. armed forces. When U.S. military personnel arrived in Mexico to discuss hemispheric defense plans in September 1942, Avila Camacho pledged that the talks would be characterized by "a sense of reciprocity, appreciation and real cooperation that would be extremely useful in coordinating military efforts between Mexico and the United States."[273] Avila Camacho allowed the U.S. armed forces to use Mexican airfields for military purposes and he did not object to the drafting of Mexicans in the living in the U.S. Some 250,000 Mexicans in U.S. military uniforms died in World War II combat.[274]

Commercial relations improved during World War II as well. In 1943, Avila Camacho's government seized control of a series of alleged German chemical and pharmaceutical investments in Mexico. The taking of the properties coincided with the finalization of a contract

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[272] Farish to Hull, August 27, 1941, Rockefeller Papers, box 136, folder 1509, RAC.

[273] Manuel Avila Camacho to FDR, September 17, 1942, PSF:Mexico, box 44, FDRL.

[274] Lars Schoultz, *Beneath the United States: A History of U.S. Policy Toward Latin America* (Cambridge, Mass.: Harvard University Press, 1998), p. 313.

to hand over operations of the German facilities to a U.S. firm, the American Cyanamid Company. The contract allowed American Cyanide to manage the seized properties, which totaled thirty-three companies controlling about half the Mexican market, for six years, with an automatic option to renew the contract for three-year installments thereafter. A senior U.S. official lauded the contract, which he said removed a key industry that was "the basis of the German commercial power in Latin America" and replaced its supervision with American ownership.[275] Soon after the expropriation, U.S. officials gleefully reported that the Mexican government agreed to permit U.S. corporations to invest and help manage all the chemical and pharmaceutical companies that Mexico seized from Germans in their country.[276]

FDR was certainly pleased. In a letter to Avila Camacho, Roosevelt hailed the seizure and endorsed the American Cyanide contract, saying the nationalization provided a "splendid opportunity" to "apply the principles of friendly cooperation which we discussed during our meeting at Monterrey." To mark the cooperation between the two nations, Avila Camacho sent FDR a shipment of Mexican wines. FDR took samples with him to the Casablanca conference with Churchill, and then ordered the remaining bottles be served in the White House.[277]

Conclusion

Though the Cooke-Zevada arrangement quieted the dispute over the Tampico refineries, it failed to reestablish the liberal agenda or restate the primacy of property rights and investment

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[275] Attorney General Francis Biddle to FDR, May 26, 1943, box 44, PSF:Mexico 1943, FDRL.

[276] Leo Crowley, Alien Property Custodian, to FDR, September 3, 1943, in PSF:Mexico, box 43, FDRL.

[277] FDR to Avila Camacho, December 29, 1943, in PSF:Mexico, box 43, FDRL.

safe harbor in Mexico. For the next fifteen years, U.S. officials gritted their teeth over Mexican protective tariffs and limitations on foreign investment in the country. To the disappointment of U.S. officials, Mexico chose not to renew a weak, seven-year-old reciprocal treaty in 1950. “Inordinate nationalism appears to be innate in the Mexican national character,” claimed one State Department analysis in 1955. “It is evident in Mexico’s attitude toward foreign investments and in its trade policies.”[278]

Still angry about the 1938 expropriation, U.S. oil companies continued to oppose the normalization of economic relations with Mexico. A good example was a late 1940s proposal by a U.S. firm that wanted to conduct oil exploration in Mexico. Though it seemed like an innocuous offer, U.S. diplomats and oil industry executives ganged up to defeat the plan. Harry Truman’s Point IV program promised to make U.S. scientific and technical know-how and machinery available to Latin American countries and one company hoped to strike a deal with Mexico. The virtually unknown Wheland Company in Texas figured Point IV offered a chance to boost sales by selling drilling equipment to *Petroleros Mexicanos, S.A.*, the nationalized firm that succeeded the foreign oil conglomerates after the expropriation. To pay for the equipment, the government of Miguel Aleman, which succeeded Avila Camacho, resurrected a five-year old request for an Export-Import Bank loan.

The State Department immediately opposed the measure. Willard Thorp, the economic advisor, argued for rejection of the loan because U.S. policy was clear: "Exploration, development, and production activities in the oil industry are best conducted on a competitive,

[278] Ruth Mason Hughes to Henry F. Holland, Assistant Secretary of Inter-American Affairs, March 25, 1955, in *FRUS 1955-1957*, 6 (Washington: Government Printing Office, 1987), pp. 650-51.

non-nationalized basis." The loan, Thorp said, constituted nothing short of violating a sacred precept of U.S. foreign economic policy by financing government meddling in an area best left to free enterprise. As such, Thorp concluded, U.S. government "assistance" was out of the question until U.S. companies could again invest in “the exploration, and production of Mexican oil.”[279] Implicit in the U.S. rejection of the loan was an attempt to teach Pemex a lesson. "We know that Mexican oil development will not reach substantial proportions until Mexico will allow private enterprise to tackle the job," said E.B. Swanson of Interior's Oil and Gas Division. "We know this, but Mexico has yet to learn it. Mexico will only learn this from experience."[280]

The U.S. government position was clear: The project would be approved only if U.S. companies conducted the drilling. Gordon Duke of Southeastern de Mexico, the company that partnered with Wheland to sell the equipment, old Pemex director general Antonio Bermudez that his only option was to “pursue negotiations” with U.S. oil firms willing to “undertake drilling operations” in Mexico. Otherwise, Mexico could expect a line-of-credit of no more than $100 million that could not be used for the drilling equipment that it wanted.[281] Mexico balked, withdrew the oil loan and settled for a $150 million Export Import Bank credit for irrigation and road-building materials. The withdrawal satisfied U.S. officials. Assistant Secretary Edward Miller called the compromise "a great relief to all of us since we had bogged down into a

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[279] Thorp to Steelman, August 29, 1949, in President’s Secretary’s File: General File Mexico, box 130, Harry S. Truman Library, Independence, Missouri.

[280] Swanson to Max Ball, November 8, 1948, PSF: General File:Mexico, box 130, HSTL.

[281] Memorandum of Conversation between Duke and Bermudez, May 13, 1949, PSF: General File:Mexico, box 130, HSTL.

complete impasse over the oil loan."[282]

This episode demonstrated that fully a decade after the expropriation clash, the liberal-nationalist dialectic still figured prominently. The Cooke-Zevada pact may have ended the oil expropriation dispute, but it did nothing to cover the unbridgeable gap between liberalism and nationalism. Wartime diplomatic conveniences had prompted Cooke-Zevada. Once World War II ended, old resentments returned. Try as they might, U.S. and Mexican negotiators were unable to resolve issues over ownership and control and for this reason the expropriation, the Cooke-Zevada agreement and the stalemate that lingered were long-lasting setbacks for the policy of economic liberalism. The agreement's U.S. author, attorney Morris Cooke, acknowledged the deep disagreements between U.S. liberals and Mexican nationalism. "There is involved in the matter at issue the major problem of harnessing two great social forces," he said about the settlement in 1942. "One is the force represented by Mexico, the other force represented by Anglo-Saxon traditions, institutions and laws. Settlement of the problem of indemnification for expropriated oil properties is a joint experience on the part of two peoples in harmonizing these historic forces."[283]

Perhaps, a more telling pair of appraisals of the liberal-nationalist standoff came from Cardenas and Nelson Rockefeller, and the lessons each said they learned in their negotiations. Rockefeller said he learned in his talks with Cardenas that, for Mexico, the issue of property control was paramount. "Little by little I came to understand the true significance [of the

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282 Miller to Malvin Hoffman, December 4, 1950, PSF: General File:Mexico, box 131, HSTL.

283 Morris L. Cooke, "Settlement of the Mexican Oil Controversy," June 18, 1942, in Sumner Pike Papers, box 23, HSTL.

expropriation],” he wrote in his journal. “It had been the turning point for the basis of relations for the petroleum industry in the foreign field.”[284] Cardenas arrived at different conclusion. Upon leaving the presidency, he jotted down a note for his predecessor: “As long as there is not a declaration from the U.S. government to recognize the [sovereignty] of other countries, there should not be acceptance of new investments here.”[285]

These realizations were evidently clear to others in the United States and Mexico. After the expropriation, U.S. transnational companies understood that economic nationalists in the Americas could do more than temporarily fracture commerce. It could actually seize commerce by capturing the means of production. And the treaties, agreements and contracts that once protected business were no longer sure-fire safeguards. The founding of Pemex set a precedent for subsequent nationalization of industry in other countries, from Cuba to Peru to Venezuela, using similar arguments.[286] U.S. policy-makers in government and industry knew that they would now have to resort to heavy-handed means if they were to safeguard property and interests.

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[284] Rockefeller Memo, January 13, 1950, Rockefeller Papers, box 21, RAC.

[285] Cárdenas, *Obras*, 1:441-42.

[286] Daniel Yergin, *The Prize: The Epic Quest for Oil, Money & Power* (New York: Simon & Schuster, 1992), pp. 278-79; George M. Ingram, *Expropriation of U.S. Property in South America* (New York: Praeger, 1974), pp. 29-33; and Adalberto Pinelo, *The Multinational Corporation as a Force in Latin American Politics* (New York: Praeger Publishers, 1973), pp. 42-51.

CHAPTER V

Truman's Liberals Confront the Peronist Corporate State

Geographically speaking, the United States and Argentina are nearly polar opposites in the Western Hemisphere. In the spring of 1945, the ideological divide between the governments of the two countries was a wide one as well. As the Axis empire crumbled in Europe and the Pacific, the Truman Administration, backed by the executives of the country's top transnational companies, laid plans for a resumption of post-war liberal commerce in the Pan American backyard. Out of war and depression, U.S. policy-makers renewed their call for open markets and unimpeded foreign investment. Yet the Argentine junta, led in name by Edelmiro Farrell and in practice by Juan Peron, rejected the Truman Administration's liberal lead. Instead, the Peronist junta planned to reorganize Argentina's political, economic, and social structure. This model incorporated strict state regulation that gave the government broad powers to act as an arbitrator in the country's economic life.[287] The Peronistas dubbed their model the "corporate state." This approach to economic policy-making lay at the heart of the post-war Argentine-U.S. standoff.

Though U.S. ambassador to Argentina Spruille Braden held a grudge against Peron,[288] the

[287] Colin Winston, "Between Rosas and Sarmiento: Notes on Nationalism in Peronist Thought," *Americas*, 39 (1983); and David Rock, *Authoritarian Argentina: The Nationalist Movement, Its History and Its Thought* (Berkeley: University of California Press, 1993).

[288] Historians generally accept that a primary cause of the friction were the personal vendettas between Braden and Peron. For analysis of the Braden-Peron face-off, see Randall Bennet Woods, *The Roosevelt Foreign Policy Establishment and the "Good Neighbor: The United*

issue was deeper than personality. Braden feared that the Peron-led junta advocated an anti-liberal corporate state. U.S. policy-makers argued that a post-war surge of U.S.-style democracy and free enterprise could not take root in the Pan American hemisphere as long as rival ideologies and agendas offered competition, much as occurred previously in Cuba, Brazil, and Mexico. They charged the junta's policies, which called for an intrusive state in a broad spectrum of economic affairs, were antithetical to the Four Freedoms that so many U.S. soldiers fought to defend in the war against totalitarianism. Ultimately, the Truman Administration's concern in the Southern Cone had less to do with supposed sympathy between the Peronists in Buenos Aires and Nazi Germany *during* World War II.[289] The principal irritant was the Argentine junta's desire to pursue its own blueprint for political, social, and economic organization *after* the war. A dispute that started off with substantive economic issues did turn into a personal feud. But personalities aside, profound economic issues lay at the heart of the confrontation.

Post-War Economic Liberalism

States and Argentina, 1941-1945 (Lawrence: The Regents Press of Kansas, 1979); Joseph S. Tulchin, *Argentina and the United States: A Conflicted Relationship* (Boston: Twayne Publishers, 1990); Callum MacDonald, "The Braden Campaign and the Anglo-American Relations in Argentina, 1945-6," in Guido di Tella and D. Cameron Watt, eds., *Argentina Between the Great Powers, 1939-1946* (Pittsburgh: University of Pittsburgh Press, 1990), pp. 137-57; and Mario Rapoport, "Foreign and Domestic Policy in Argentina During the Second World War: The Traditional Political Parties and the Military Regime," in in di Tella and Watts, eds., *Argentina Between the Great Powers*, pp. 77-105.

[289] For readings that tackle the alleged collaboration between Peron, Argentine fascism and Nazi Germany, see Ronald Newton, *The "Nazi Menace" in Argentina, 1937-1947* (Stanford: Stanford University Press, 1992); Paul H. Lewis, "Was Peron a Fascist? An Inquiry into the Nature of Fascism," in *Journal of Politics*, 42 (1980), pp. 242-56; and Roberto Aizcorbe, *Argentina: The Peronist Myth* (New York: Exposition Press, 1975).

The new U.S. president, Harry Truman, interpreted the Allied victory in Europe as convincing proof that the best way to deter conflict was to bind the world's nation-states in an interdependent liberal network led by the United States. Truman, who was given to boasting that "We are the economic giant of the world," believed even stronger in the virtues of economic liberalism than FDR. Anything other than liberalism, Truman said, was "not the American way," and "not the way to peace."[290] Privately, Truman was just as leery of the Argentine junta as his ambassador in the River Plate. "I've no faith in any totalitarian state be it Russian, German, Spanish, Argentinean," Truman confided in his diary the very day Braden arrived at his post. "They all start with the wrong premise [that] the end justifies the means."[291] Truman's diplomatic team followed his lead. They championed pre-World War II policies favoring liberal trade and investment initiatives. They embraced a 1942 inter-American pact that promised a "new order of peace . . . supported by economic principles that insure equitable and lasting international trade."[292] After all, one U.S. official crowed in early 1945, the United States was "the greatest production machine the world has ever seen."[293] Pan American diplomacy, from the standpoint of U.S. diplomats, rested on one constant, central assumption:

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[290] Quoted from an address by Truman at Baylor University, March 6, 1947, in *Public Papers of the Presidents: Harry S. Truman* cited hereafter as *Public Papers: Truman*], 1947 (Government Printing Office, Washington: 1963) p. 168.

[291] Truman diary entry, May 23, 1945, in *President Harry S. Truman's Office Files, 1945-1953* (Bethesda, Md.: University Publications of America, n.d.), reel 3.

[292] "Final Act of the Third Meeting of Foreign Ministers" in *Department of State Bulletin*, 6 (February 1942), pp. 117-42. *Bulletin* cited hereafter as *DSB.*

[293] Remarks by William L. Clayton, Assistant Secretary of State for Economic Policy, in transcript of "Building the Peace: World Trade and World Peace," which aired on the National Broadcast Company on March 10, 1945. The transcript is found in *DSB*, 12 (March 11, 1945), p. 402.

The belief that Latin Americans were a people locked in a cycle of poverty and political instability that only U.S. corporations and trade could break.

Truman's liberals argued U.S. capital offered the true option to building much-needed infrastructure such as roads and sewer systems as well as incubating industry with technological advances. U.S. direct investment, they said, provided factory jobs and paychecks for the large numbers of unemployed and unskilled laborers. Unfettered hemispheric trade and investment could not fail, declared one top State Department economist, because it was the brainchild of none other than Benjamin Franklin, John Adams and "the founders of this Nation."[294] If it was good enough for the founding fathers, it was good enough for the needy republics of Pan America.

The diplomats decried the intervention of the state in economic affairs as, ultimately, an assault on freedom. Perhaps, they said, such government management was necessary during the Great Depression. But, in the post-war era, those policies only substituted “the will of the state for the freedom of choice of individuals,” said Rockefeller. “Economic dictation – and this is the very essence of central planning – involves political dictation. If government is to tell men what they may not produce it soon comes to tell them what they may produce. This means the end of personal freedom."[295] The free market model that Uncle Sam was restoring at home, Rockefeller and others reasoned, was the only viable alternative for the Americas, too.

U.S. industrialists who hoped to dominate the Latin American marketplace re-enforced these

[294] Speech by Winthorp G. Brown, Director of the Office of International Trade Policy, titled "Economic Factors in U.S. Foreign Policy," in *DSB*, 19 (August 14, 1948), p. 8.

[295] Rockefeller memo, July 19, 1940, in Nelson A. Rockefeller Papers, Washington DC files, box 1, Rockefeller Archive Center, Tarrytown, N.Y.

views. Harvey Firestone, president of the tire company bearing his name, claimed "most foreign ideologies were conceived by theorists who sought to better the lot of what they refer to as the common man [but] they have merely succeeded in reducing the standard of living" in practice. “It does not occur to them,” he added, “that the blueprints and formulas for their own salvation and prosperity are all clearly recorded in the pages of American history.”[296] Other corporate groups sounded similar themes. “In America, we have adhered to the principles of free enterprise and individual opportunity under capitalism,” wrote the Committee for Economic Development, an influential post-war economic advisory group in the United States. “It has given us the highest living standards in the world.”[297]

Few people in or out of government articulated the case for post-war economic liberalism better than Spruille Braden, Sumner Welles replacement as Pan American strategist. In part, Braden’s ability to explain the nexus between liberalism, prosperity, and peace drew from his family's roots within Latin America's export economy. Braden's father, William, was a founder of the Braden Copper Company. Spruille Braden's pre-diplomatic experiences centered, largely, on negotiating business deals in Chile and other Latin republics.[298] An outspoken, blunt, and

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[296] Firestone speech at Drake University, October 6, 1947, in Rockefeller Papers, Washington, D.C. files, box 4, RAC.

[297] Commerce Secretary Averill Harriman to George Marshall, August 1, 1947, in Harriman Papers, box 234, in Library of Congress, Washington, D.C.. The members of the Committee possessed significant weight. In addition to the *Studebaker Corp.'s* Paul Hoffman, the CED included Marion Folsom, from *Kodak*, W. Clement of the *Pennsylvania Railroad*, John Collyer from *B.F. Goodrich* and R.R. Durpree, the president of *Proctor & Gamble*. The blue-chip committee also possessed important links to the Truman Administration, Assistant Secretary for Economic Affairs Willard Clayton served on the CED. Harriman said the group was the "most enlightened of all business organizations."

[298] Braden, *Diplomats and Demagogues,* pp. 212-28.

uninhibited believer in civil democracy and free enterprise, Braden saw himself as a lightning rod for the post-war, U.S.-led government and economic development in the region.

A devout believer in Wilsonian internationalism, Braden recalled the mistaken retrenchment toward isolation that followed the Versailles peace treaty. He believed that it was his mission to prevent a repeat of the post-World War I mistakes. The opportunity to establish U.S.-style democracy and economy across the globe, Braden said, was at hand in the closing months of World War II. The victory in Europe and the impending triumph in the Pacific, he insisted, offered a second chance to get it right. The post-war era, Braden argued, would be dominated by a "collision of philosophies . . . more fundamental than the collision of armies."[299] So Braden and others seized an opportunity in the waning months of World War II to spread the U.S. political and economic model.

U.S. intelligence reports on the Argentine junta's economic maneuvers troubled Braden and other U.S. intelligence officers. The State Department's Office of Strategic Services alleged that Farrell planned to develop "a self-sufficient industrial economy equipped to support aggressive war."[300] The regime's plans to incorporate the *Union Industrial Argentina*, a manufacturing federation, into the "state-controlled corporate assembly" smacked of National Socialism.[301] The Farrell-Peron government, U.S. intelligence officials would later charge, manifested its "Nazi-Fascist character" in numerous acts including suppressing "individual liberties" and

[299] Braden, draft article for *Saturday Evening Post*, Records of the U.S. Department of State, RG 59, Braden file, box 101, NARA.

[300] OSS, "Growth of Argentine Power in 1944," June 1, 1945, in *OSS Reports*, reel 6.

[301] OSS, "Colonel Peron and the Industrial Union," March 16, 1945, in *OSS Reports*, reel 6.

establishing "a 'corporate' labor organization subservient to the government."[302]

Braden watched anxiously as the Argentine government tapped the remnants of Germany's investment interest in the country. The ambassador claimed German businesses in Argentina included "powerful, commercial and financial institutions."[303] The economic link between Argentine and German industry was a key irritant for both U.S. policy-makers and corporate chieftains. The junta's relationship with a series of German multinational companies and their subsidiaries angered U.S. multinationals. "Bayer of Argentina did more business last year than it ever did before in its history," groused Victor Folsom head of the Chilean-based operations of the U.S. pharmaceutical firm Winthorp. "The efforts of U.S. drug houses to replace German interests in Argentina have been anything but successful. It is a fact that as long as Bayer is allowed to live Winthorp's task is going to remain extremely difficult."[304]

Competing in Argentina, stated other U.S. executives, would be especially difficult given the financial subsidies offered to Argentine enterprises by their government. Between 1943 and July 1944, U.S. officials claimed, the Argentine junta permitted some 42 million pesos worth of contracts to fall into the hands of German companies such as Siemens Bauunion and Wayss &

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[302] See Department of State, *Consultation Among the American Republics With Respect to the Argentine Situation* (Washington: Government Printing Office, 1946), p. 67. The publication is commonly referred to as the "Blue Book." For a reference to the Blue Book as a weapon, see Charge d'Affaires John Moors Cabot to Secretary of State James F. Byrnes, February 8, 1946, in U.S. Department of State, *Papers Relating to the Foreign Relations of the United States* [*FRUS*], *1946*, 9 (Washington: Government Printing Office, 1969), p. 201.

[303] Braden, draft of article for publication in the *Saturday Evening Post*, undated and untitled, Records of the U.S. Department of State Records, Record Group 59, file named "111.12 Braden, Spruille," box 101, U.S. National Archives and Records Administration, Washington, D.C. Collection cited hereafter cited as "Braden File." The article is not dated but an attached note by Dean Acheson, who reviewed the pieces, is dated November 8, 1945.

[304] Folsom to James Hill, Schering Drug Co., March 21, 1945, in U.S. Department of State Records, RG 59, "740" File Argentina, box 8, NARA.

Freytag – even as Allied armies were still waging war against their Nazi parent companies and Hitler's armies. After the war, U.S. officials charged Argentines did little to curtail the influence of these powerful firms. "In Argentina, the Germans have constructed a complete duplicate of the economic structure for war which they had in Germany," U.S. officials charged. "They possess today in Argentina the economic organization – industrial, commercial and agricultural – which they need to provide a base for the reconstitution of German aggressive power during the period when the homeland is still occupied."[305] Building a liberal economic order led by U.S. industry was impossible as long as that was the case. The only solution, U.S. policy-makers concluded, was to remove Colonel Peron.

The Peronista Corporate State

Argentina's financial backbone snapped with the outbreak of World War II, and that break set the country on a path to a post-war confrontation with the United States. In the late 1930s, Argentina, a nation of 14 million people, was a rising power in the global marketplace. But Argentina was in a precarious position. Its commercial lifeline ran through Western Europe, a volatile region marching toward the most destructive war in human history. Buenos Aires attempted to wean Argentine commerce off its European dependency by widening its economic nexus with the United States, its one hope to avoid a wartime collapse. But those trade and commercial negotiations repeatedly failed to produce meaningful results. Following a June 1943 coup, the country's leadership turned to more inward strategies that, after the war, ran counter to U.S. hemispheric and global visions.

Before Germany's invasion of Poland, few analysts, certainly not many in Argentina, predicted the sudden demise of the South American country. Argentina's recovery from the

[305] Department of State, Blue Book, p. 57.

Depression had been impressively quick. By 1937, the rich soils of its pampa prairies permitted the country to become the second-largest exporter of grain in the world. Its expanding manufacturing sector saw payrolls swell from about 80,000 workers to nearly one million in 1940. Argentine factories produced enough textile products to reduce imports of these materials by the early 1940s. Migration into Buenos Aires, the country's capital and largest city, sparked a construction boom as the population doubled between the world wars. Argentina even lured more corporate investment.[306]

The outbreak of the European war halted this progress and triggered a downward slide that cut deeper than the Depression. Argentina, which sold roughly 40 percent of its exports to Western Europe in 1938, saw that share shrink to 6 percent after 1941. Argentina's total exports were cut by 20 percent in 1940, and further declines followed in the next two years. Argentine grain sales fell from 17 million tons exported in 1937 to just 6 million tons in 1942. International sales of Argentine maize plummeted from 6 million tons in 1941 to 400,000 tons in later years. Argentine industry lost access to access to imported coal and oil reserves needed to fuel railroads, factories and utilities.[307]

Having lost its major trading partners, Argentina again turned to the United States. For more than a decade, the two countries had attempted to negotiate a series of trade agreements to no success. First the Smoot-Hawley Tariff in the early 1930s shut the door on most Argentine products. Then New Deal agricultural subsidies blocked imports of Argentine produce that undersold U.S. farm production. Then, late 1930s U.S. health and safety rules to safeguard

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[306] David Rock, "Argentina, 1930-1946," in *The Cambridge History of Latin America* 8 (Cambridge: Cambridge University Press, 1991), pp. 24-30.

[307] David Rock, "Argentina, 1930-1946," *The Cambridge History of Latin America* 8:35-39.

against cattle foot-and-mouth disease kept Argentine meat products from U.S. markets. In 1941, Argentine Finance Minister Federico Pinedo attempted to knock on U.S. commercial doors one last time. After a round of frustrating talks, the Argentines came away with little to show for his efforts. Under the new accord, the only new Argentine products admitted into the U.S. included some minerals and dairy products. The trade pact barely lowered tariffs on Argentine linseed and tallow, and did little to open doors for meat or grain.[308]

The economic malaise resulting from the war, and the failure of previous U.S.-Argentine commercial efforts, impacted Argentina's political and diplomatic landscape. The financial woes led to political destabilization and a succession of military juntas in Buenos Aires for the balance of the war. In addition, the perceived snub by the powerful neighbor to the north raised anti-U.S. sentiment in the country, and emboldened an emerging political force in Argentina, the nationalists. Nationalist sentiment insisted that Argentina had received a raw deal from its global partners and now needed to look inward for solutions. Argentine nationalism called for domestic industrialization and expropriation of foreign-owned utilities. In the international field, nationalism eschewed formal alignments with any of the European belligerents. Instead, nationalist thinkers and proponents insisted Argentina should seek alliances that benefited their country first.

A career soldier from a lower middle-class background, Colonel Juan Peron readily rebuffed the U.S. liberal call for various reasons. First, he harbored a well-honed distrust of the United States. His dissatisfaction with Argentina's corrupt, democratic experiment – which lasted from 1916 to 1930 - also cooled Peron to Washington's post-World War II calls for electoral and

[308] David Rock, "Argentina, 1930-1946," 8:39-51.

democratic governance. His military training patterned after the German officer corps, distanced Peron from the Allies during World War II. So did the considerable concessions of money and national dignity, extracted under some coercion, to British buyers of Argentine meat and grain. Peron resented the coziness of Argentina's upper classes and their foreign business partners. Liberalism allowed foreign businessmen and the oligarchies to grow richer, Peron surmised, but the slums and urban poor in Buenos Aires simply grew. After the Farrell government took power in a June 1943 coup, Peron envisioned a different route where the state heavily regulated commerce and labor relations. His political machine-building skills, including force and co-opting, complemented Peron's hopeful promises of a "New Argentina" founded on vague notions of economic self-sufficiency, social justice and political reform.

Peron's goal was to fashion a financially independent Argentine state. "The fruits of our soil should be cultivated by our industry," he proposed. The idea was a simple precursor of 1950s import substitution utopia: raw materials produced on Argentine soil should be processed by Argentine industry to manufacture goods that Argentines could use. Ironically, the stated goal was to achieve U.S.-like self-sufficiency, where Peron claimed "70 to 90 percent of its production is consumed" with a minimal surplus for export.[309] Moreover, Peron envisioned ambitious goals for his industrialization program, particularly investment in high-technology capital goods such as high-speed aircraft. The country's "great expanse, covering thousands of kilometers of frontier" necessitated the modernization of transportation and communication, he

[309] Peron, "Exposición del Coronel Peron ante de los dirigentes de las agrupaciones que auspician su candidatura," December 12, 1945, p. 15, in Joseph Criscentim ed., *Peron Era Pamphlets and Monographs* (Bethesda, Md.: Congressional Information Service, 1988). This microfilm collection is hereafter cited as *Peron Era Pamphlets.*

said.[310]

Economic autonomy paved the way for social justice, a vaguely defined but desirable goal of the Peronist program. Social justice meant, in broad terms, equality of opportunity and improved distribution of per capita income. Among the great failures of previous governments, Peron often charged, was "their distance from the ranks of the workers." Those governments' concern for the working class materialized only when "fear of disorder in the streets obligated it to come descend from its ivory tower." As Labor Secretary, Peron embarked on land division programs, construction of affordable housing, savings incentives, wage increases, worker holidays, and a labor code that he said provided workers with respect.

To accomplish this task, Peron promised to dismember "the Creole economic oligarchy." Nebulously defined, the enemy constituted various factions that owned industry, large land estates and the major export houses. But Peronista foes also included the bourgeois professional classes, such as attorneys, merchants, university professors and accountants. Peron charged that these middle class stalwarts fed off the export-oriented oligarchy and tacitly embraced Argentina's subservient role in the global economic and political hierarchy. The new economic order, he stated, "should change the worship of money with the concept that money in itself is not wealth, but an instrument" for development.[311] To push his agenda, Peron alternated between paternal lectures and heavy-handed repression and bullying. In his relations with social

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[310] Peron, "Al cuadro de jefes y oficiales, alumnos, técnicos, y obreros de la fabríca militar de aviones, May 20, 1944, "*El pueblo quiere saber de que se trata*" (Buenos Aires: n.p., 1944), p. 57, in *Peron Era Pamphlets*.

[311] Grupo de Oficiales Unidos, "Por la 'Legión de Mayo" para el movimiento político revolucionario,' in Robert Potash, ed., *Peron y El G.O.U.: Los Documentos de una Logia Secreta* (Buenos Aires: Editorial Sudamericana, 1984), p. 211.

groups in Argentina, and the press, Peron first attempted persuasion, saying that his approach ultimately led to social peace by forestalling communist penetration. When rebuffed, Peron made clear he "was not a man of half-measures" and threatened to confront his "social enemies with frankness and valor given to us by our convictions."[312] Peron also turned to chauvinistic bravado and bluster. "I have no fear of civil war," he reportedly told Cuban publisher Pedro Cue. "I have an army of 100,000 [soldiers] … and 4,000,000 workers armed with clubs."[313]

Peron's plans went beyond redistribution of land, wage, and price controls. Indeed, the colonel accepted that government needed to assume the role of the tough talking and, sometimes, the arm-twisting mediator in labor-capital disputes. If the state deemed labor to act irrationally, or against "the healthy rules of human coexistence," government would side with capital. Workers, on the other hand, were guaranteed that decrees and codes in their favor would "be enforced with the highest amount of zeal." This balancing act, at least in theory, was the essence of the corporate state – the use of power and force by the state to govern Argentine society based on a subjective Peronista balancing act of values, interests, and priorities. "Social progress," he felt, "allows civilized nations to soften the clash of interests and to convert in permanent codes of justice relations, which often altered with different circumstances, provoking conflict between capital and labor."[314] Only government could guarantee this result, he said. "The state should assure a just recompense and an equitable redistribution of the profits to each of the elements that participate, without jeopardizing the consumer," Peron told one

[312] Peron, "El pueblo quiere saber de que se trata," p. 60 in *Peron Era Pamphlets.*

[313] "Argentina: Report on Terror," *Time*, 45 (June 11, 1945), p. 40.

[314] Peron, "El pueblo quiere saber de que se trata," p. 31, in *Peron Era Pamphlets.*

audience. "This is possible by creating equilibrium and coordination of the factors that interplay in the problem, adjusting the costs and salaries."[315]

The third stage of Peronista national reconstruction was the realignment of the political party system. Like many of his nationalist supporters, Peron felt disdain toward the old style of partisan politics in the country. "What have the [traditional, old-league] parties done since the third of June?" he asked rhetorically in one broadcast speech, "to purify themselves of the factions that implemented fraud and violence . . . or did they benefit in silence from their residue?" But Peron did not entirely reject electoral politics, stating only that Argentine citizens must place national interests ahead of personal pursuits. He said that was the problem with previous experiments with democracy: Electoral banter became little more than a rush to claim patronage jobs by civil servants who “understood little or nothing of the function they were to execute.”[316]

The Peronista ideological platform found soul mates within Argentina’s nationalist quarters. “German political ideas may not interest us,” wrote one writer. “But German commercial interests do interest us and half the nations of the Americas.”[317] Argentine writers viewed Washington's insistence on state deregulation, foreign investment, and agro-export as pillars of post-war commerce with more than a modicum of suspicion and contempt. "Since commerce is

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[315] Peron speech, "Aspiramos a una sociedad sin división de clases," August 12, 1944, in Abel del Rio, ed., *El pensamiento político de Peron* (Buenos Aires: Editorial Kikiyon, 1972), p. 22, in *Peron Era Pamphlets*.

[316] Peron, "Exposición del Coronel Peron ante de los dirigentes de las agrupaciones que auspician su candidatura," p. 20, in *Peron Era Pamphlets.*

[317] Teótimo Otero Oliva, ?*Cómo podrá salvarse America Latina?: orientaciones, políticas y economías de la post-guerra* (Buenos Aires: Imprex, 1945), p. 40 in *Peron Era Pamphlets*.

to an immense degree in the hands of foreigners, so are its profits," wrote Rodolfo Irazusta, a contemporary nationalist author. "The foreigner dominates us with our own means. The inhuman structure consists of freedom for the foreigner and submission of the Creole."[318] Washington's trumpeting of representative government did not convince everyone, either. Another nationalist theorist warned that Argentina needed to rearrange its “society along the basis of equity” without advice or intrusion from the United States. “This task of organization and fortification is a task that cannot be delegated to another country,” said the writer.[319] Others reminded the Argentine citizenry that pre-1930 experiment in representative government – led by Peronist rivals like the Radical Party – was rife with fraud, patronage and corruption. "The echoes of one unprecedented scandal had barely grown faint when another, and then another, would surge," wrote Otero. Rather than emphasizing individual choice and personal property rights, Argentine dissenters claimed they sought a "genuine democracy . . . guided by the larger interests of the community."[320] Latin America, the nationalists insisted, should form its own block, its own sphere with Argentina in the lead role. “Argentina, because of its untainted history, has the right to morally guide South America.”[321]

In the international arena, Peron articulated a vague but clearly self-centered "Third

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[318] Rodolfo and Julio Irazusta, *La Argentina y el imperialismo Británico; los calabones de una cadena, 1806-1833* (Buenos Aires: Editorial Tor, 1934), pp. 195-96, in *Peron Era Pamphlets.*

[319] Segundo L. Moreno, *La Argentina, futura gran potencia mundial* (Buenos Aires: n.p., 1937), pp. 93-95, 136, in *Peron Era Pamphlets.*

[320] Constantino Fernández, *La revolución del 4 de junio; ?porqué se hizo?*(Buenos Aires: Talleres Geográficos Optimos, 1944), pp. 24-27, in *Peron Era Pamphlets.*

[321] Otero Oliva, ?*Cómo podra salvarse America Latina?*, p. 16, in *Peron Era Pamphlets*.

Position." In essence, Peronist foreign policy sought to guarantee Argentine neutrality in non-South American conflicts. Buenos Aires desired trade and amicable political, cultural, and social exchanges with the former World War II belligerents. In part, the country's geographical positioning fostered feelings of distance. But Argentina's demographics also made Buenos Aires' aloofness toward the Allies a matter of practicality. Argentina, like the United States during World War I, harbored large Italian and German immigrant communities whose sentiments had to be balanced against the country's extensive commercial relationship with Great Britain. Furthermore, Buenos Aires felt its political, economic and social potential made it a pivot in South America. "In Hispanic-America, Argentina should be the one that marks paths," Peronist platform claimed.[322]

Face-Off in Buenos Aires

Convinced of the need to break the burgeoning Buenos Aires-Axis commercial fiefdom, Braden went on the attack. On his third day in the embassy, the ambassador convened a press conference. When asked if the U.S. cuddled Farrell and Peron because it found it easier to work with dictators, Braden fumed. "We are fighting throughout the world for the cause of democracy," he retorted, "and when we say democracy we mean just that." The statement shot through Buenos Aires like a rush of adrenaline. The influential opposition party-affiliated daily newspaper *La Prensa*, a Conservative Party ally and a Peronista foe, quoted the ambassador's comments, a brazen move for a paper previously muzzled by censors.[323] Days later, the newspaper's editors chastised the regime and exhorted its silent countrymen to speak up. They

[322] Potash, *Peron y el G.O.U.*, pp. 241-242.

[323] *La Prensa*, May 27, 1945, p. 5.

wrote: "It is not possible to defend the fatherland with the patriotism of some, instead it requires that of all . . . and when the exercise of citizenship is abandoned, the liberties, rights and guarantees that seemed garnered can be withdrawn from nations."[324] Business and industrialists published a manifesto criticizing government economic policies saying that artificial price controls would "lead to bankruptcy."[325]

Believing Peron was unpopular – and thus vulnerable – the ambassador's strategy was to wrest enough civil freedoms for the Argentine populace hoping they, in turn, might rise against Peron. If newspapers, political parties, and mass assembly were permitted to run their course, the overwhelming sentiment against Peron would run the colonel and his wife, Eva, out of the *Casa Rosada* – or so Braden strategized. In a series of public speeches and writings the ambassador continued his caustic, hyperbolic attacks. He accused the Farrell government of giving "any swaggering officer license to beat citizens who refuse to hail the 'leader'" and "licenses mounted policemen armed with sabers to ride down men, women and children as in the bloody days of the Czar."[326]

Influential organizations and citizens in the United States publicly supported Braden's crusade in Buenos Aires. The Congress of Industrial Organizations' Committee on Inter-American Affairs alleged the Peron "imprisoned and tortured the flower of Argentina's labor movement and has used Nazi files, advice and methods to break up bona-fide trade

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[324] *La Prensa*, June 5, 1945, p. 4.

[325] "Manifesto del Comercio y la Industria," June 12, 1945, text published in *La Prensa*, June 13, 1945.

[326] Braden, draft article for *The Saturday Evening Post*, Records of the U.S. Department of State, RG 59, box 101, NARA.

unionism."[327] The National Committee to Combat Anti-Semitism applauded Braden's actions and urged him to break relations with the Farrell government and impose sanctions.[328] These groups and other influential observers found the presence of the Peronists galling, if not dangerous. "After the enemies of democracy have utterly [been] defeated and are on trial for their lives in Nuremberg or Tokyo," wrote Samuel Guy Inman, "they openly flaunt themselves in Buenos Aires."[329]

Within weeks of assuming his role as Argentine opposition organizer, Braden had become a lightning rod. When he arrived to speak at the University of the Littoral, thousands of Argentines reportedly packed the railway station to greet him. Once on campus, his exclamatory attacks on the Peron government drew ovations. His appearances at other gatherings, such as those given at the "swank, Goya-lined" Jockey Club[330] and the trendy Plaza Hotel, also drew rave reviews as did his talks at black-tie social events, official luncheons, operas and a ball.[331] At the gatherings, the ambassador delivered passionate speeches defending democracy and castigating the junta. "Your words at the banquet," wrote an Argentine attorney after listening to a Braden speech, "have served to stimulate the battle against the Nazi barbarity that threatens

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[327] CIO-CIAA, *Latin America Bulletin*, 6 (November-December 1945) p. 2.

[328] Leonard E. Goldsmith to Braden, June 22, 1945, U.S. Department of State Records, RG 59, Braden file, box 32, NARA.

[329] Inman to Braden, December 17, 1945, U.S. Department of State Records, RG 59, Braden File, box 47, NARA.

[330] “Argentina,” *Time*, 47 (January 14, 1946), p. 34.

[331] Braden, *Demagogues and Diplomats*, p. 324.

our hearth."[332] An opposition lawmaker implored Braden to continue pressuring the regime, predicting that the "imposition of Peron would lead to war in South America."[333] An American living in Argentina gushed it was "absolutely wonderful the way you handled the situation here."[334] The Peronists fired back with a series of leaflets calling Braden a "cowboy" ambassador and the "Al Capone" of diplomats.[335] When an accident left dozens of Chilean miners dead, flyers accused Braden of owning the mining company and placed responsibility for the casualties on him. These tactics offended Braden – and he responded. Until Argentine fascists were deposed, Braden warned, "none of us can sleep soundly at night."[336]

By July, Braden appeared to have reinvigorated the Argentine opposition to Peron, and events seemed to vindicate his interventionist tactics. Protesting students shut down universities. Lawyers in Buenos Aires demanded the release of political prisoners. The surrender of the Japanese in early September set off jubilant celebrations and sparked anti-Peron rallies. Resignations by key Argentine government figures fueled rumors that pro-democratic officers in the army stood ready to oust the junta. Under the intense pressure, the Farrell government appeared to cave. The junta lifted press restrictions and set a timetable for

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[332] Blanca A. Cassagne Serres to Braden, October 28, 1945, U.S. Department of State Records, RG 59, Braden file, box 292, NARA.

[333] Augusto Ramírez Moreno to Braden, October 25, 1945, U.S. Department of State Records, RG 59, Braden file, box 292, document number 10-2545, U.S. National Archives.

[334] Gloria K. Dawson to Braden, October 13, 1945, U.S. Department of State Records, RG 59, Braden file, box 46, NARA.

[335] Félix Luna, *El 45: Crónica de un año decisivo* (Buenos Aires: Editorial Jorge Alvarez, S.A., 1969), pp. 194-95.

[336] Braden, draft article *The Saturday Evening Post*, U.S. Department of State Records, RG 59, Braden file, box 101, NARA.

presidential elections the next year. The news bolstered the once demoralized opposition political parties. Dissident factions within the centrist, middle-class Radical Party, ended flirtations with Peron's machine and returned to the opposition fold. The Conservative Party, which had bickered with the Radicals for thirty years, pledged to support their erstwhile foes. In early September, Braden was handed a ringing endorsement from Washington. Secretary James F. Byrnes, who succeeded Stettinius, promoted Braden to Assistant Secretary in charge of Latin America, replacing Rockefeller, whose earlier, softer approach now stood discredited.[337] "My policies here," Braden wrote, "have so gained the confidence of the Argentine people that I am regarded as a symbol of hope by them for their liberation from Peron fascist military regime which have so long protected our enemies."[338]

The tension in Argentina reached its climax in mid-October 1945 with the fall and rise of Juan Peron. Under pressure from military commanders Peron resigned his government post as labor minister and then was sequestered at a naval prison camp. For a moment, the October revolt in Buenos Aires appeared to justify Braden's tactics. However, Peron’s defeat was no more than a brief setback for the colonel. Pro-Peron demonstrations, largely marshaled by Evita Peron and union leaders, erupted and the pressure they brought forced the coup leaders to back

[337] See Rockefeller speech to the Pan American Society, August 24, 1945, in *Department of State Bulletin* (August 26, 1945), p. 287. Confronted by Braden's apparent success, Rockefeller professed to "admire" Braden's handling of the crisis in the pampas and confirmed that his charge "accurately reflected . . . the attitude and point of view of the United States." Unfortunately, interpretations of the speech claimed that Rockefeller had "indirectly confessed the failure of his Argentine policy" and the following day was forced out. See *Newsweek*, 26 (September 3, 1945), p. 50.

[338] Braden to Byrnes, August 21, 1945, in U.S. Department of State Records, RG 59, Braden file, box 45, NARA.

down. They freed Peron and he emerged as the most dominant political figure in the country. The stunning turnaround occurred partly because Peron's rivals failed to fill the leadership void, underestimated his appeal within the Argentine army and misjudged the surprising ability of the *Peronistas* in the labor unions to organize behind Peron.[339] On October 17, Peron reappeared at the Casa Rosada, and soaked the adulation that made him the most celebrated political figure in the country.[340]

In Washington, Braden's frustration over the stunning and humiliating turn of events was evident. He blamed U.S. senators, specifically Thomas Connally and Arthur S. Vandenburg, who first delayed his confirmation hearing and then ardently questioned his methods. Their hindrance, he surmised, emboldened the tyrant. He wondered whether the best opportunity to rid the Americas of its last vestige of fascism had been lost. Braden wrote a discouraged note to his British colleague in Buenos Aires, British ambassador Sir David Kelly blaming "opposition elements" for not acting "decisively when the opportunity presented itself."[341] U.S. voices began to doubt Braden as well. "So far the Braden doctrine and the Braden way," wrote *Time* in a cover story on the new Latin American policy chief, "have failed in their most conspicuous, most important test – in Argentina."[342]

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[339] For treatment of the October crisis, see Luna, *El 45: Crónica de un año decisivo* (Buenos Aires: Editorial Jorge Alvarez, S.A., 1969), p. 271; Daniel James, "October 17th and 18th, 1945: Mass Protest, Peronism and the Argentine Working Class," *Journal of Social History*, 22 (1988), pp. 441-61; and Joseph Page, *Peron: A Biography* (New York: Random House, 1983), pp. 112-26.

[340] Luna, *El 45*, pp. 342-98.

[341] Braden to Kelly, November 17, 1945, U.S. Department of State Records, RG 59, Braden file, box 46, NARA.

[342] "Spruille Braden: Democracy's Pit Bull," *Time*, 46 (November 5, 1945), p. 45.

Some of Braden's foot soldiers also lost faith in the heavy-handed policy to push liberalism in Argentina in the aftermath of the October 17 debacle. The most significant defection was Charge d'Affaires John Moors Cabot, the Boston Brahmin who served as *de facto* ambassador after Braden's departure. Cabot had loyally continued the zealous hounding of Peron. On the eve of Peron's resignation and arrest, he eagerly reported that "the bonfire under Peron is blazing merrily" and "our role is to feed the flames with maximum efficiency."[343] Throughout the next few days, Cabot watched the spectacle unfold from his window in the embassy. Peron's startling comeback, the Harvard-educated U.S. envoy came to realize, was a signal that it was time to rethink approaches and assumptions about Peron and Argentina. Cabot was impressed by the way the colonel rallied his legions of urban poor and organized labor. "Argentina," Cabot concluded, "is badly in need of social reforms . . . Naturally I don't care for [Peron's] methods and I doubt the wisdom of his measures, but at least he is doing something about it." Cabot worried that "our crackdown policy [may be carried] to such extremes that it becomes *contraproducente*."[344] Privately, Cabot voiced sharper differences. "It seems to me that our Argentina policy may collapse in a grand smash," he wrote, "burying its principal authors [and] also the Good Neighbor Policy may be torn to ribbons."[345]

[343] Cabot to Byrnes, October 6, 1945, U.S. Department of State Records, RG 59, box 292, NARA.

[344] Cabot to Ellis Briggs, director of the Office of American Republic Affairs, November 17, 1945, in *FRUS 1945*, 9 (Washington: Government Printing Office, 1967), pp. 430-31.

[345] Cabot to William P. Cochran, December 14, 1945, in *The Diplomatic Papers of John Moors Cabot: A Collection at the Edwin Gwinn Library, The Fletcher School of Law, Tufts University*, Part 1 (Frederick, Md.: University Publications of America, 1984). Source cited hereafter as *Cabot Papers*.

Soon after the tumultuous events of October, the Farrell government set an election date: February 24, 1946. General Farrell withdrew his name from the list of candidates. Peron, however, accepted the challenge and declared his candidacy. Braden figured the election offered another shot at dislodging the strongman. An electoral defeat for the colonel would convincingly prove his unpopularity, fascism's death knell, and the long-coveted opportunity to push economic liberalism. All this would be possible if the fractious Argentine opposition parties could unite, and if the government would actually allow for a fair and unfettered election, or so Braden believed. Figuring the vote was too important to U.S. interests and the cause of Argentine and hemispheric democracy, Braden and his subordinates debated ways to bolster the opposition's chances. The capture of German government war documents presented an opportunity. By culling the Berlin-Buenos Aires paper trail, Braden hoped to produce a convincing record of Axis-Peronist complicity and duplicity during the war. Once made public, Braden and others concluded, Argentina, the Pan American republics and, the world, would feel such disgust that the disgraced colonel would surely face overwhelming rejection at the polls.

Braden’s plan found opposition within the U.S. diplomatic corps. Cabot warned that unless Peron "stole" the election, the opposition had a clear shot at victory. Unleashing the "bomb," as the Argentine-Nazi report was dubbed, however, might create such a sensation that its impact would be difficult to predict. In essence, Cabot felt better about the opposition's odds without the publication of such a report. Still, Braden insisted that Peron would cheat his way into the presidency without publication of damaging evidence.[346] On February 12, the U.S. released the

[346] Gary Frank, *Juan Peron vs. Spruille Braden: The Story Behind the Blue Book* (Lanham, Md.: University Press of America, 1980), pp. 104-05.

Blue Book to the international public. For the most part, the booklet provided details, from German government documents, purportedly substantiating U.S. charges of Argentine complicity during the war.[347]

Peron immediately seized on the U.S. intrusion, charging that it joined a litany of alleged abuse by Braden of his ambassadorial post. According to Peron, Braden had "inspired, created, organized and served as the true chief of the *Union Democratica."* The purpose of Braden's "aggressions against the revolutionary government," Peron repeated in speeches following the Blue Book release, was to "implant in our country his own government, a puppet government." His counterattack rested in the *Libro Azul y Blanco*,[348] a thirty-page refutation of the original U.S. pamphlet. The cursory rebuttal sought not to engage "in detail the ambassador's violent campaign" but to reestablish that "the [opposition] party created by Mr. Braden . . . has resulted in a heterogeneous conglomerate at the service of the forces of privilege, which in our country are the traditional anti-democrats."[349]

In late February, Peron posted a convincing electoral victory that left U.S. policy-makers chagrined and humiliated. *Time* reported that the "swash-buckling, 50-year-old glamour boy had more to him than the demagogical charm that caused a group of swooning women to cry, "We want sons by Peron!"[350] U.S. diplomats, such as Cabot, and their links with losing

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[347] Arthur Whittaker, "Blue Book Blues," *Current History* 10 (April 1946), pp. 294-96. Whittaker and contemporary analysts claimed the publication added little new revelations but merely provided some hard documentation to support general suspicions.

[348] The Argentine response was titled the *Blue and White Book*, a title that alludes to the colors of the Argentine flag.

[349] Peron, *Libro Azul y Blanco* (Buenos Aires: Editorial Freeland, 1973), p. 12.

[350] "Argentina: A Damp Firecracker," *Time*, 47 (March 4, 1946), p. 34.

Argentine candidate Jose Tamborini, became fodder for barbs circulating the Plaza de Mayo in Buenos Aires. One example:

"Here's to old Argentina/
the land of beef and good sod/
Where Tamborini speaks only to Cabot/
and Cabot speaks only to God.[351]

Conclusion

The aftermath of defeat in Argentina left White House officials, State Department diplomats, and think-tank experts bickering over who was to blame for the diplomatic disaster. Truman pointed a finger at Braden, saying the ambassador was "crazy" for having meddled in the election. "He mixed in politics which he shouldn't have done," the retired president recalled. "Spruille Braden was fundamentally the cause of the election of Peron and he contributed to the ill feeling of the Argentine[s] toward us," the president later said.[352] The Council on Foreign Relations succinctly summed up the failure of Braden's mission noting that "the democratic people of Argentina, on whom we have relied, seemed to have disproved an axiom of our political thinking, that a people will choose democracy over fascism if given a free choice."[353]

To start repairing the damage, the third U.S. secretary of state in two years, George Marshall, sent George Messerschmidt to Buenos Aires in 1946. Messerschmidt, a career diplomat, refrained from public jousting with Peron in deference to more discreet negotiation. "We must endeavor to get the Argentine to turn her eyes away from Europe, to which they have always

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[351] *The New York Herald-Tribune*, March 19, 1946.

[352] Truman transcript, p. 8, HSTL.

[353] John C. Campbell, ed., *The United States in World Affairs, 1945-1947* (New York: Harper and Brothers, 1947), p. 209.

been directed in practically every field, and to turn them to this hemisphere," the new ambassador wrote.[354] Though the public verbiage changed, the mission Messerschmidt was handed was much the same. His first challenge was to dissuade Peron from pursuing the ardent economic nationalist strategy contained in the 1946 five-year plan proposal.[355] But Messerschmidt encountered little success in promoting the liberal cause in Buenos Aires.

Soul-searching fired debate within Argentine society as well. Was there a path to political, economic and social development different from Washington's model? Could a country seek a different route in the very face of the *norteamericanos*? The answer in Argentina was mixed. Yes, Peron thwarted Braden and domestic rivals in the election, and thereby reasserted Argentine political autonomy. But establishing the economic autonomy the Peronists sought – and the “New Argentina” corporate state they envisioned – proved to be a much more difficult task. The dispute with Washington led to Argentina’s continued ostracism from the world economy. The U.S. government’s Marshall Plan virtually locked Argentina out of its European markets. Without its export revenues, the country’s financial health weakened precipitously in the next decade. This outcome was accepted. Buenos Aires had already decided to mortgage its future on inward-looking import substitution and industrialization strategies that, in the long run, also failed to result in sustainable prosperity and economic development.

At the core of the diplomatic and political chasm between Braden and Peron lay larger, more profound questions about the post-war U.S. role in the hemisphere. The issues related to alternative modes of economic and political evolution in the hemisphere were present in earlier

[354] Messerschmidt to Byrnes, June 15, 1946, in PSF:Argentina, box 167, HSTL.

[355] Messerschmidt to Byrnes, October 30, 1946, in PSF:Argentina, box 167, HSTL.

confrontations, and arose again in later U.S.-Latin American showdowns. These contentious points dominated the 1945-1946 debacle in Argentina, and again sabotaged the liberal dream of a fully integrated, economically secure hemisphere. One prominent Blue Book author said the defeat of U.S. liberalism in Argentina was due to hubris. "We were really at the pinnacle of power and . . . the idea prevalent among liberals was that we [had] a responsibility to use this great power in a way that would benefit mankind," recalled Thomas Mann, a State Department Latin American specialist.[356] Cabot, one of the few officials actually in Argentina during the crisis, also admitted that his colleagues and superiors pursued an impractical objective. U.S. officials, he said, continue to believe that "the peace of the world can be maintained only by the practice of democracy throughout the world" was a flawed one. However, he concluded, "we have tried the same ideas before and they have worked out in the exact reverse of the way" they were supposed to work.[357]

This frustrating outcome was hardly the one Roosevelt liberals envisioned in the early 1930s. The United States deeply desired to lure Argentina into the liberal neighborhood. At the 1933 Montevideo Conference, Hull ardently wooed Argentine foreign minister Carlos Saavedra Lamas – and even pushed his candidacy for the Nobel Prize after the Chaco peace treaty. In 1936, FDR traveled to Buenos Aires – and the two nations considered widening a reciprocal trade treaty to get beyond a late 1930s controversy over hoof-and-mouth disease damaging Argentine beef. Washington believed this southernmost – and most distant – neighbor stood on the brink of first-nation status. It sought to bond with Argentina's

[356] Mann oral history transcript, OH-271, p. 42, HSTL.

[357] Cabot, draft of speech, April 1, 1946, in *Cabot Papers*, Part 1.

economic potential and worried about its military potential. But after twenty years of carrots and sticks, U.S. diplomats and business leaders were no closer to forging an alliance with Buenos Aires than they were at the very start.

CHAPTER VI

From the Ashes of Liberalism: Post-Bogotazo Containment

As the last chapter in the Argentine electoral debacle played out, U.S. policy-makers shifted their focus in Latin American diplomacy from economic treaty negotiations to security pacts. In January 1947, President Truman appointed General George C. Marshall as secretary of state.[358] Marshall immediately fired Spruille Braden after castigating the feisty diplomat and his Argentine policy for delaying an inter-American conference on defense issues. When that meeting took place in Rio de Janeiro the following August, Marshall presided over the signing of an inter-hemispheric pact that permitted the U.S. military to again intervene in national and regional squabbles. The Rio Treaty, as the Inter-American Treaty of Reciprocal Assistance it is often referred to, became a model for other regional alliances such as the North Atlantic Treaty Organization.[359]

The military pact, however, left Latin American diplomats virtually empty-handed at Rio.

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[358] The appointment of Marshall was only one action that denoted the shift in foreign policy. For general discussions on early security concerns and general Cold War containment policy, see John Lewis Gaddis, *The United States and the Origins of the Cold War, 1941-1947* (New York: Columbia University Press, 1972); Melvyn Leffler, *A Preponderance of Power: National Security, the Truman Administration and the Cold War* (Stanford: Stanford University Press, 1992); Randall B. Woods and Howard Jones, *The Dawning of the Cold War: The United States' Quest for Order*, (Athens: University of Georgia Press, 1991); and Michael J. Hogan, *The Marshall Plan: America, Britain, and the Reconstruction of Europe, 1947-1952* (Cambridge: Cambridge University Press, 1987).

[359] Roger R. Trask "The Impact of the Cold War on U.S.-Latin American Relations, 1945-49," *Diplomatic History* (Summer 1977), pp. 167-189.

The aftermath of World War II found many of the region's economies struggling to adjust economically.[360] As U.S. industry cutback on its purchases of Latin American tin, rubber, and other raw materials, revenues fell precipitously for exporting countries. War-torn Western Europe, a principal antebellum buyer of Latin American primary materials, lacked the financial wherewithal to resume commerce with the Americas. As a result, many of the commercial dysfunctions that cyclically plagued inter-American commerce before the war – drops in demand for export products and falling currency reserves – again dogged the region during the early postwar years.

At various postwar planning conferences and diplomatic meetings, diplomats from Mexico, Cuba, and Brazil pressed for financial assistance. At the Rio gathering, the Latin American diplomats prodded U.S. policy-makers for a comprehensive credits and currency assistance to shore up their balance of payments, and their industries. Their calls for a Latin American "Marshall Plan" briefly threatened to sidetrack the defense treaty negotiations.[361] But U.S. diplomats still mustered together enough support for the Rio security pledge by offering vague promises to address economic concerns at the next hemispheric conference set for Bogota.

That meeting, the Ninth International Conference of American States, convened in April 1948 in a climate of high expectations and high tensions. Latin American delegates anxiously sought a long-awaited, comprehensive hemispheric commercial initiative. U.S. policy-makers,

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[360] Rosemary Thorpe, "The Latin American Economies, 1939-c. 1950," in Leslie Bethell, ed., *Latin America: Economy and Society Since 1930* (Cambridge: Cambridge University Press, 1998), pp. 127-32.

[361] Stephen G. Rabe, "The Elusive Conference: United States Economic Relations with Latin America, 1945-1952," *Diplomatic History* (Summer 1978), pp. 279-304.

distracted by a Cold War stand-off in Berlin, plus civil wars in Greece and China, prepared to talk hemispheric security, allegiance and unity – again. And, in Colombia, where civil strife mounted almost on a daily basis, officials and the citizenry simply prayed that the hemispheric gathering would adjourn without incident. The tinderbox in Bogota, however, ignited on April 9 when a popular Colombian politician, Jorge Elicier Gaitan, was murdered on a city sidewalk. The shooting sparked days of rioting[362] and demands for resolute action from all sides. In response, Marshall and the U.S. delegation pressed for an anticommunist resolution and gained even more security agreements. The Latin delegates, again disappointed by seemingly U.S. inattentiveness to their economic plight, walked away discouraged, and convinced their countries were on their own. Ultimately, the Bogota Conference witnessed the last gasp of Good Neighbor liberalism, a policy overwhelmed by yet another European-based conflict that shoved inter-American aspirations onto the priority boondocks. The Bogota conference proved not to redirect policy from security to economics, but instead to codify the era of Cold War containment in the Americas.[363] However, as this chapter will posit, containment in Latin

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[362] See Herbert Braun's *The Assassination of Gaitan: Public Life and Urban Violence in Colombia* (University of Wisconsin Press: Madison, 1985) pp. 132-72; Richard E. Sharpless' *Gaitan of Colombia: A Political Biography* (University of Pittsburgh Press: Pittsburgh, 1978) pp. 177-82; Vernon Lee Fluharty's *Dance of the Millions: Military Rule and the Social Revolution in Colombia, 1930-1956* (University of Pittsburgh Press: Pittsburgh, 1957), pp. 99-107; "Bloody Riots Upset Bogota Meeting," *LIFE*, April 26, 1948, pp. 23-9; *El Tiempo*, Bogota, April 16, 1948; and *The New York Times*, April 17, 1948.

[363] Several readings cite the Bogota uprising as a pivotal, alte 1940s event in the transition toward Cold War containment. See David Green, *The Containment of Latin America* (Chicago: Quadrangle Books, 1971), pp. 201-05; Walter LaFeber *Inevitable Revolutions: The United States in Central America* (New York: W.W. Norton & Co., 1983), pp. 92-98; and Leslie Bethell and Ian Roxborough, "Latin America between the Second World War and the Cold War: Some Reflections on the 1945-8 Conjuncture," in *Journal of Latin American Studies*, 1 (1988), pp. 168-69.

America was more an effort to replace the Good Neighbor Policy, which proved ineffective against nationalist, internal hemispheric challenges, than to inoculate the Americas from external threats.

Gaitan, Nationalism and the Bogotazo

In the spring of 1948, Colombia rated as a success when measured by Good Neighbor benchmarks, but as a failure when assessing the country's political friction and faltering economic indicators. Despite a reciprocal trade treaty signed in 1935, and significant investment by companies like the Standard Oil Company and the United Fruit Company in previous decades, the country found itself mired in a low-intensity civil war.[364] One scholar described the strife spreading through rural Colombia as a conflict that "touched every institution from the family to the Church" and was "so widespread and pervasive that the most appropriate term Colombians found for it was generic: the Violence."[365] All told, the estimates of deaths from the civil strife are said to have reached 200,000 between 1946 and 1962.[366] Alluding to repeated calls for the army to step in to stop the bloodshed, a contemporary Colombian poet wrote: "In Colombia . . . the soldiers bring peace and the civilians make war."[367]

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[364] The consensus among scholars is that the Bogota uprising was born from the social and political violence conflict across Colombia in the 1940s. The strife had both economic and political motivations. For a general discussion, see Gonzalo Sánchez, "The Violence: An Interpretive Synthesis," in Charles Bergquist, ed., *Violence in Colombia* (Wilmington, De.: Scholarly Resources, 1992), pp. 75-124.

[365] Richard Weinhert, "Violence in Pre-Modern Societies: Rural Colombia," *American Political Science Review* (June 1966), p. 170.

[366] Germán Guzmán Campos, *La Violencia en Colombia* (Bogota: Ediciones Tercer Mundo, 1962), p. 292.

[367] Gregorio Sánchez Gómez, *Sociología Política Colombiana* (Cali, Colombia: Sanchez Gomez Hmnos, no date) p. 44.

The return to liberal economic policies in Colombia during the mid-1940s accentuated the anger and frustration that fostered this violence. On one hand, the volatile nature of the commercial and trade patterns between Colombia and the United States fueled alternating economic cycles of growth and contraction. The twists and turns fueled periods plenty and scarcity, and contributed to significant increases in the cost of living, that left the Colombian citizenry dazed by abrupt reversals of fortune. Conversely, efforts by wartime and postwar Colombian governments to phase out state intervention in the economy, and government backing for labor groups, sparked widespread resentment. The rollback of state-funded welfare protections left Colombians even more vulnerable to whims of the liberal economy, deepening popular disenchantment and discontent.

Initially, the rise in wartime trade and economic growth in Colombia suggested the Bolivarian nation had found a path to financial stability and prosperity. At the outbreak of World War II in Europe, Colombian exports to the United States, including precious metals and oil, but excluding coffee, grew nearly 50 percent to a value of 131.4 million Colombian pesos in 1941. Coffee sales to the United States also rose by more than 40 percent to 154 million pesos in 1942. Bolstered by the commercial boom, the U.S. Export-Import Bank extended $33.4 million in loans to Colombia for construction of highways, agricultural projects and a hydroelectric power plant.[368] All told, the Colombian economy posted stellar economic growth. Between 1945 and 1949, the nation's gross domestic product grew by an annual average of 6.2 percent.[369] In the process, Colombia amassed more than a five-fold increase in its foreign

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[368] Stephen J. Randall, *Colombia and the United States: Hegemony and Interdependence* (Athens: University of Georgia Press, 1992), p. 176.

[369] Robert H. Dix, *Colombia: The Political Dimensions of Change* (New Haven: Yale

exchange reserve.[370]

The seemingly impressive results hid significant financial fault lines. Though profits materialized from the sale of coffee and other raw materials to U.S. industry, Colombians had limited access to goods and other products to buy from the United States. With too few pesos chasing too few goods, prices rose precipitously. From 1939 to 1950, the cost of living rose by almost 93 percent. Wages and buying power failed to keep pace with inflation. Per capita GDP appreciated just 1.8 percent per year from 1945 to 1950.[371] Unemployment remained high, as did marginal employment. The end of the war also brought a severe readjustment to the Colombian economy, as it did for other Latin American countries, as hyper demand for raw materials in the United States eased. With the exception of demand for Venezuelan oil and Cuban sugar, which propped up those nations, Colombian exports, like those from other regional trade sectors, saw a shortfall of capital inflows and trade after the war.

The economic ups and downs coincided with another important development, the dismantling of the Colombian interventionist state built during the Depression. The mid-1930s presidential administration of Alfonso Lopez opened doors to more a aggressive regulatory state. A pragmatic leader educated in England and the United States, Lopez pursued a more even distribution of the nation’s wealth. His administration authorized the creation of a government-owned oil refinery, which competed with the foreign-owned facilities, in an effort to lower gasoline prices in the country. The Lopez government also negotiated wage increases

University Press, 1967), p. 32.

[370] Thorp, “The Latin economies,” *The Cambridge History of Latin America*, 7:124.

[371] Thorp, “The Latin economies,” *The Cambridge History of Latin America*, 7:137.

on behalf of Colombians working for the foreign banana plantations.[372] The Lopez government promoted rewrites of the national constitution to give the state a role in economic development, a move that broadened avenues for the government to protect domestic industry and consumers. Lopez also pursued a graduated income tax and an excess profits tax, also to distribute wealth.[373] However, beginning in 1945, a predecessor government led by Alberto Lleras Camargo worked diligently to reduce the public sector's role in the economy and to back off state efforts on behalf of organized labor. Strikes were outlawed, workers' protests were repressed and the government promoted the growth of rival and less militant labor groups in an effort to weaken the more powerful unions.[374]

Labor, political and social organizations protested the new government strategies. Between 1945 and 1948, Colombia witnessed no fewer than 20 strikes per year. Those work stoppages and demonstrations often ended in tragedy. In 1947, scholars estimate that 13,968 Colombians died as a result of repressive actions by the government.[375] The economic volatility and the bloodshed bolstered political groups and leaders that embraced alternatives to the liberal export-oriented development and investment model, including strict labor and taxation codes as well as import-substitution strategies.

Gaitan, an attorney and former mayor of Bogota, figured prominently in anti-establishment

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[372] Randall, *Colombia and the United States*, pp. 149-59.

[373] Dix, *Colombia*, p. 87.

[374] Medofilo Medina, "Violence and Economic Development: 1945-1950 and 1985-1988," in Sanchez, ed., *Violence in Colombia*, 156-58.

[375] Medina, "Violence and Economic Development," p. 159.

and anti-liberal circles, not to mention ultimately in the spark that unleashed the Bogota bloodshed. Gaitan, who grew up in Bogota as the son of bourgeois parents, tied his political fortunes to the country's urban middling classes and working poor. Part of the affiliation drew from personal identity: His darker skin invited the derogatory nickname *El negro* (the dark one) and occasional derision and discrimination that molded his own class and identity politics.[376] In the 1946 election, Gaitan ran for president as a Liberal Party candidate on what he termed a progressive platform but that was deemed radical in comparison to Liberal government and political standards. The Gaitanista platform not only criticized the rival Conservative Party candidate, but also the Liberal's standard bearer, Gabriel Turbay. Gaitan's candidacy split the Liberal vote – Colombian leftists and the Communist Party endorsed Turbay. The Liberal split permitted the Conservative candidate to win. The outcome of the election unleashed a wave of violence as Conservatives punished their Liberal adversaries, who then retaliated in kind.

In the midst of the post-election strife, Gaitan reorganized his political machine. The Gaitanista movement reached out to a coalition of middle class groups worried about post-war inflation and deteriorating living standards. Gaitan's rhetoric also played to the so-called "victims" of urbanization – the rural migrants who migrated to cities and settled in impoverished slums. From 1925 to 1945, the distribution of city dwellers grew from 23 percent of the population to over one-third.[377] "Today's concern, we want to shout to those impostors [in power] is the life of our hearth, our dwelling, our food, our bread, our milk, our meat, our children," he called out to marchers in a 1947 protest demonstration. "*Pueblo*, for the defense of

[376] Sharpless, *Gaitan of Colombia*, pp. 29-30.

[377] Sharpless, *Gaitan of Colombia*, p. 15.

threatened unions, march! *Pueblo*, for the economic transformation of the republic, march! *Pueblo*, for the recapture of power, march!"[378] In doing so, Gaitan continued to broaden his bloc, his views, and to challenge his own party's leadership.

As he did, Gaitan vociferously attacked the same commercial accords and export-fueled growth strategies that U.S. free traders and private investors sought, such as the 1935 reciprocal trade pact. Instead, Gaitan advocated a different development model for Colombia that resembled previous protectionist reforms in Cuba, Brazil, Mexico, and Argentina – all which brought those government's into diplomatic conflict with Washington. Gaitan's program relied on nationalizing industry, increasing taxes on foreign companies and using government to wrest better wages from transnational companies. These formed views that he had long espoused, to varying degrees and in different forums. For example, he articulated some of these proposals in his 1926 law school thesis, *Socialist Ideas in Colombia*. In the thesis, Gaitan argued that the state needed to assume a direct role in resolving conflict between capital and labor to "ensure just distribution of materials and means to the individual."[379]

Neither was Gaitan a newcomer to populist, rural labor or working class causes. In the late 1920s and early 1930s, Gaitan aided laborers who bitterly, and violently, struck against the U.S.-owned United Fruit Company's operations in the country's banana growing district. Gaitan, then a member of the Colombian congress, used the banana zone strikes and their repression by the country's military as a catapult to national political prominence. During a ten-day tour of the

[378] Jorge Elicier Gaitan, speech entitled "La Sede de Una Política Nueva," delivered September 25, 1947 in Barranquilla, Colombia, in Jorge Villaveces, ed., *Los Mejores Discursos de Gaitan,* (Editorial Jorvi: Bogota, 1968), pp. 492-501.

[379] Quoted in Sharpless, *Gaitan of Colombia*, pp. 45-46.

region, Gaitan led "mass interrogations," interviews with those involved in the attack, and spoke to large crowds. After returning to the capital, Gaitan starred in a sensational parliamentary debate that scrutinized the use of armed force by the government in the labor standoff.[380] Later on, Gaitan continued his overtures to labor, which continued to mushroom as a political force in Colombia, bolstered in part by immigration and urban migration. After World War II, immigrants, displaced peasants accounted for the bulk of the population growth in Bogota and other Colombians cities.[381] The increasingly larger, powerful, and militant trade unions recruited these new urban workers into their fold in larger and larger numbers. From 1935 to 1947, the number of unionized workers in Colombia nearly quadrupled from 42,678 to 165,595.[382] Bolstered by the swelling ranks, key unions such as the Confederation of Colombian Workers and the National Federation of Petroleum Workers struck against their employers in 1947 and early 1948, particularly foreign corporations such as the Standard Oil Company of New Jersey, in an effort to force better wages.

Party leaders and masses alike speculated Gaitan, described as the "leader of the left-wing of the Liberal party,"[383] was the early odds-on candidate to win the country's next presidential election in 1950. Gaitan did little to dissuade those expectations. He positioned himself for the

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[380] Manuel Urrutia, *The Development of the Colombian Labor Movement* (New Haven: Yale University Press, 1969), p. 106-7.

[381] Sharpless, *Gaitan of Colombia*, p. 6. Sharpless draws his analysis from James Petras, *Politics and Social Structure in Latin America*, (New York: Monthly Review Press, 1970), pp. 18-20.

[382] Urrutia, *The Development of the Colombian Labor Movement*, p. 184.

[383] Council on Foreign Relations, *The United States in World Affairs* (New York: Harper Brothers, 1948), p. 356.

campaign by refining and reiterating his previous stances. The enemy, again, was the domestic oligarchy as represented by both Liberal and Conservative Party *caudillos* and their benefactors in foreign transnational companies, from United Fruit to Standard Oil. Like other economic nationalists surveyed in this dissertation, Gaitan believed Colombia's underdevelopment was rooted in the country's disadvantageous trade, investment, and commercial relations with the United States – as well as the other industrial powers. As long as Colombia depended on chief development engines in coffee plantations, banana fields, and other low profit margin export commodities, the country would remain at the mercy of the global agricultural markets and their unpredictable price fluctuations. And as long as Colombia's sources of manufactured and capital goods lay in foreign markets, Gaitan insisted the nation's balance of payments deficit – and the crippling dual cycles of inflation and scarcity – would never be ameliorated.

Gaitan argued that the only solution to Colombia's cyclical disruptions rested in replacing the Liberal Party government, and liberal policies, with one that promulgated protectionist and other inward-looking policies. Gaitan preferred public policy measures such as earmarking foreign corporate profits toward an industrialization program to create jobs and empower the land-less citizenry. This was the substance of Gaitan's "revolution," he said. "Revolution . . . is nothing less than a new order replacing the (existing) stiff one . . . with different concepts and different men, but over all with distinct notions about the rights and duties of human labor," he told audiences.[384]

In Bogota, and across the country, Colombians faced a much less utopian reality in the

[384] Jorge Elicier Gaitan, "La Sede de Una Política Nueva," speech delivered September 25, 1947 in Barranquilla, Colombia, in Jorge Villaveces, ed., *Los Mejores Discursos de Gaitan* (Editorial Jorvi: Bogota, 1968), p. 497.

spring of 1948. Political friction between Colombian Conservative and Liberal caudillos only intensified in the early months of that year. On April 5, days ahead of the hemispheric conference in Bogota, Minister of Government Eduardo Zuleta Angel spoke on radio, pleading with his countrymen to cease the hostilities. “Neither the maintenance of power nor the recapture [of power] can justify or excuse the death of a single Colombian,” he said.[385] Four days later, Gaitan lay murdered on a sidewalk while Bogota burned.

From Civil War to Cold War

Mayhem engulfed Bogota, and members of the U.S. delegation at the Bogota Conference aimed blame for the *bogotazo* and its massive destruction and killing on communists doing the work of the Kremlin. Talking to journalists, Secretary Marshall declared that “revolutionary movements [in Bogota] were not confined to Colombia but had world-wide implications.” Marshall and other U.S. diplomats claimed rioters sought nothing less than to "sabotage the conference, affect the European Reconstruction Plan and disrupt the Italian election."[386] According to Assistant Secretary of State Norman Armour, "the reality of international communism's opposition to all the American states stand for was thrust forcibly upon the consciousness of the delegates at Bogota.”[387] Thus, the U.S. diplomatic line interpreted the explosion of unrest within Colombia, quickly and opportunistically, within the confines of the

385 Text of radio speech by Zuleta Angel in *El Tiempo*, April 6, 1948.

386 Marshall to Robert A. Lovett, April 10, 1948, in U.S. Department of State, *Foreign Relations of the United States* [hereafter cited as *FRUS*] *1948*, 9 (Washington: Government Printing Office, 1972), p. 40; Beaulac to Lovett, April 12, 1948, *FRUS 1948*, 9:43.

387 Text of radio address by Norman Armour, May 12, 1948, U.S. Department of State Records, Record Group 59, Ninth International Conference of American States (cited as DSR/NICAS), box 10, U.S. National Archives and Records Administration, Washington, D.C.

international struggle between democracy and communism.

Speedy, definite conclusions were drawn in part because the U.S. delegation arrived in Bogota predisposed to press its case against Colombian “communism.” Prior to the *bogotazo*, U.S. Foreign Service officers closely watched Gaitan’s overtures to Colombia’s leftist political quarters. They warned of Gaitan's alliance with the national communist party, the *Partido Comunista Colombiano*, and his empathy for their agenda. The Office of Strategic Services, a Central Intelligence Agency predecessor, said Gaitan's overtures to radicals in the NFPW, his talk of “revolution” and a “new order” threatened U.S. interests. U.S. analysts warned that his calls for expropriation of properties and an end to commercial agreements such as the reciprocity treaty meant more trouble ahead.[388] Gaitan's political machine further unnerved policy-makers as well because of its inclusion of communist elements and his alleged ties to Colombia’s communist party.

Other intelligence gathering agencies collected similar testimonials. Intelligence reports sent from Colombia to the State Department’s Office of American Republic Affairs warned in January 1948 that Marxists and labor groups planned to disrupt the Bogota Conference. One alert landed at the desk of Roy Rubottom, a delegation member. It advised that a recent "Communist-controlled labor congress [had] approved manifestations against and disturbances of the Conference." These protests sought to discredit "'Yankee Imperialism' and its servant, the [Colombian] Conservative Government." During the demonstration, the report predicted,

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[388] "Communist Party Line in Colombia," in Lockett to Marshall, January 1, 1947, DSR/NICAS, NARA, box 195. Lockett predicted Gaitan would join with Communist leaders in forging a coalition of labor and working class forces. See also Carlos J. Warner to Marshall, "Communists Ready to Support Gaitan in Opposition to Government," December 1, 1947, DSR/NICAS, box 195, NARA.

communists and their labor allies would attempt to loot food stores to show their anger at the expenditure of "public funds on luxurious accommodations and displays for the visiting delegates from other American nations" instead of on Bogota's poor.[389] The source of the quotes was an unidentified speaker at the gathering. Other cryptic reports were sent to CIA director R.K. Hillinkoetter. They claimed that a series of Colombian communist party officials – identified only as "Mr. X," "Mr. G," and "Mr. S" – conspired to disrupt the conference. The gist of the effort by "Communist inspired agitators [was] to humiliate the Secretary of State and other members of the U.S. delegation to Pan American conference, arriving in Bogota, by manifestation and possibly personal molestation."[390]

Once the rioting began, the bloody street clashes and vitriolic radio broadcasts gave U.S. policy-makers all the evidence they needed to prove their charges of "communist-directed" upheaval. Following encounters with rioters on Bogota's boulevards, foreign service officer Cecil B. Lyons concluded the "drunken hoodlums" and others toting machetes and chanting "Down with the Americans" and "Down with imperialism" were communists and "that, all in all, this was no ordinary South American revolution."[391] Meanwhile, Ambassador Willard Beaulac recalled tuning to one station and listening in shock as "communists" gave "lessons on

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[389] Memorandum by Roy Rubottom, May 22, 1958, in U.S. Department of State, Record Group 59, lot file 60 D 553, box 5, NARA.

[390] Statement of Rear Admiral R.K. Hillinkoetter, Director of the Central Intelligence Agency, Records of the National Security Council, CIA file, box 3, Harry S. Truman Library, Independence, Missouri.

[391] Cecil B. Lyons, "Bogota, April 9," in *The American Foreign Service Journal*, 25 (May 1948), p. 22.

how to prepare Molotov cocktails."[392] For his part, Marshall rode out the uprising barricaded in the U.S. official residence, the Puyana House, and monitored local radio broadcasts for developments. Among the personalities that appeared on radio was Gilberto Vieira White, secretary general of the Colombian Communist Party. A number of these broadcasts appeared to confirm fears of a pact between Gaitanista nationalists and communist organizations. U.S. analysts quoted communist leaders such as White who urged "Communists to support the Liberal revolution."[393] The communists' presence, and their support for the rioting, helped Marshall and his translators argue that communists provided leadership and rank-and-file for this atypical South American "revolution."[394]

The violence in Bogota initially caught the Truman Administration off guard. A defensive Truman admitted there had been warnings of communist agitation in America’s back yard "but nobody had any idea somebody was going to get shot and cause a riot such as the one in Bogota."[395] The tone of public comment reflected impatience with an Administration perceived as disconnected with world events. *Newsweek* declared "the revolt has had a damaging blow to the prestige of the inter-American system and Washington is braced for Cominform attempts to exploit it as a popular protest against United States 'Imperialism.'"[396] One of Truman's GOP

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[392] Statement by Beaulac in Alape's *El Bogotazo*, p. 327.

[393] "Communist Involvement in the Colombian Riots of April 9, 1948," State Department Office of Intelligence Research, October 10, 1948, in Paul Kesaris, ed., *OSS/State Department Intelligence and Research Reports: Latin America, 1941-1961*, (University Press of America: Washington), reel 8, pp. 18-19.

[394] Vernon Walters, *Silent Missions* (Doubleday: Garden City, N.Y., 1978) p. 210.

[395] *Public Papers: Truman*, Press Conference, April 13, 1948, p. 215.

[396] “Bogota Berserk,” *Newsweek*, 31 (April 19, 1948), p. 49.

rivals in the 1948 presidential election, Gov. Thomas Dewey, charged that because of the "dreadful incompetence of our present government we had apparently no idea what was going on in a country just two hours bomber time from the Panama Canal."[397] The Council on Foreign Relations noted "the violence in Bogota was no isolated phenomenon but . . . part of an international pattern of Communist action directed from Moscow."[398]

The criticism generated calls for Marshall's return to Washington, but Marshall was one step ahead of the critics. Lovett advised him that talk of communism in Central and South America in Congress and the press led to "queries" in the Administration as to "whether delegates should not be home 'doing something about it.'"[399] But Marshall was already at work on a response. During a conference planning session, secretary suggested a discussion on communism but few delegations showed interest.[400] The *bogotazo's* red hues brought communism back to the forefront of the conference agenda and the U.S. delegates found little trouble rounding up unanimous agreement on an anti-communism resolution titled "The Preservation and Defense of Democracy in America." The two-page document, sponsored by the United States, Chile, Brazil and Peru, garnered the immediate endorsement of eleven other countries including Argentina, Mexico, Colombia, and Uruguay. The signatory countries promised to prevent "agents at the service of international communism" from subjugating the hemisphere. Each

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[397] *The New York Times*, April 13, 1948, p. 11.

[398] Council on Foreign Relations, *The United States in World Affairs, 1948* (Chicago: Harper and Row, 1949), pp. 36-37.

[399] Lovett to Marshall, April 22, 1948, in *FRUS 1948*, 9:56.

[400] Marshall to Lovett, DSR/NICAS, box 23, NARA.

country pledged to "eradicate and prevent" the activities of any organization construed to be a subversive influence. To do so, the member republics promised to share intelligence with the other inter-American countries.[401] A confident Marshall departed for Washington following the resolution's approval.

The passage of the anticommunist resolution demonstrated, to the satisfaction of some U.S. officials, business leaders and public commentators, that the Truman government remained capable of quickly responding to international crises in its home hemisphere. Despite the chaos, the U.S. delegation claimed that it not only took a lead role in the resumption of the conference, but also regrouped and rallied its regional friends behind the anticommunist banner. By late spring, the U.S. press reassured readers with reports of crackdowns against communists across the hemisphere. In May, *Time* reported that "Washington [has] shaken off the Red Jitters born of the Columbian [sic] uprising" and "many a Latin American government now has the Reds on the run."[402] More measures would be forthcoming.

The Containment Line in Colombia and Venezuela

The violence that engulfed Colombia after Gaitan's murder gave U.S. diplomats an opportunity to redefine the mayhem and to tailor their response to economic nationalism along the southern end of the Caribbean Sea. The members of the U.S. delegation at the Bogota Conference claimed the rioting on the streets of Bogota was proof positive that the Cold War needed to be fought in the American backyard. To be sure, they admitted that the violence at Bogota was more anarchy than organized revolution. Still, they insisted militant labor

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[401] "The Preservation and Defense of Democracy in America," in *FRUS 1948*, 9:195-197.

[402] “Colombia: Reds on the Run?” *Time* 51 (May 3, 1948), p. 33.

organizations, leftist politicians and communists fused together in opposition to the United States and its allies in the Americas. In Colombia, U.S. diplomats said, the murder of Gaitan opened the door to a communist-style revolt and raised worries that economic nationalists posed a much more serious challenge U.S. interests. The political front against nationalism, as assembled in Bogota, was also applied to the oil industry in neighboring Venezuela.

In the spring of 1948, the energy needs of European reconstruction, skyrocketing demand for oil by U.S. civilians and the military threatened to sap reserves. By the end of 1947, one U.S. oil industry official claimed spiraling demand was placing the industry in a "range where supply and demand almost exactly equal."[403] As increased demand erased the comfort zone provided by excess capacity, the United States became more dependent on reliable imported oil. "Venezuela's petroleum production," U.S. Army planners concluded, "[amounts] to one-fifth of the daily production in the U.S., [and] is of special importance to this country."[404] Through 1950, 99 percent of the oil consumed in the United States – but produced elsewhere – came from Latin America, specifically Venezuela's reserves.[405] "Today we import more oil than we export and virtually all our imports must come from oil fields in Latin America," said

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[403] Testimony of Howard W. Page, representing the Standard Oil Co. of New Jersey, at the Oil and Coal Shortage Hearings before a Subcommittee of the Committee on Interstate and Foreign Commerce of the United States Senate, 80th Congress, Dec. 9, 1947, (Washington, D.C.: Government Printing Office, 1948), pp. 10-13.

[404] National Security Council, "Security of Strategically Important Industrial Operations in Foreign Countries," August 26, 1948, in *Declassified Documents*, 77 (42C), p. 2.

[405] Lars Schoultz, *National Security and United States Policy Toward Latin America*, (Princeton: Princeton University Press, 1987). Schoultz cites an American Petroleum Institute chart as a source.

commerce secretary Averill Harriman in March 1948.[406]

Venezuelans also viewed their domestic “oil factory”[407] as a vital resource, but for different reasons. Beginning in the early 1940s, a succession of regimes attempted to harness the profitability of the crude that lay, in such abundant stockpiles, below their very feet. In 1942, the government of President Isaias Medina Angarita promulgated an income tax to tap the wealth generated by petroleum, the first of its kind in the nation’s history. The tax affected only very large earners, ostensibly just the oil companies, and raised $6 million in revenue for the government. The amount was a relatively minor sum, but it opened the doors for the Venezuelan government to further tap the business of extracting and selling its most significant resource. Medina then sought an increase in the royalties foreign-owned oil conglomerates paid the government, roughly a dime a barrel. When the companies balked, Medina threatened to not renew their concessions, and suggested the government might demand payment for back taxes on understated market prices. The companies relented, and a 1943 oil profits law doubled the royalties owed the government to 16.66 percent of the value per barrel. Buoyed by the royalty hike, and for the increased demand for his country’s crude during the war, Medina granted the companies concessions to more than 12 million hectares of drilling territory, two times the amount of land available prior to 1943. The Venezuelan state profited from the ensuing increase in production. By 1945, the government’s take from oil revenues grew eight-fold to 614 million

[406] Harriman statement before the Senate Small Business Committee, March 17, 1948, The Papers of Averill Harriman, box 252, Library of Congress, Washington, D.C.

[407] Romulo Betancourt, “Politicia y petroleo, pp. 79-83. Betancourt is credited with having coined the phrase, which was popular in the 1940s and 1950s.

bolivars.[408]

Medina's successor, Romulo Betancourt and his *Accion Democratica* Party, eagerly pressed for an even greater share of oil profits. Whereas the Medina regime simply sought a larger share of oil revenues, Betancourt and the reform-minded *Accion Democratica* planned to roll out an expensive program of social reforms. *Accion Democratica* immediately pressed the oil conglomerates. In a series of decrees between 1945 and 1947, the government instituted a number of taxes that, when totaled, added to a 50 percent share of oil revenues. These taxes were later replaced by an early 1948 law ordering a fifty-fifty profit split between the government and the companies.[409] The oil companies protested that one, too, but as in previous disputes, they ultimately relented to the government's demand for more money in exchange for permission to expand exploration, refining, and sales of the lucrative crude.

The aggressive stance by the *Accion Democratica* government, and the post-Bogota demands by Colombian labor groups, did not sit well with U.S. officials in Bolivarian republics. Diplomats such as Walter Donnelly in Caracas and Willard Beaulac in Bogota criticized the hikes in oil taxes, additional regulations on drilling of new wells, and tougher rules affecting labor relations in 1947 and 1948. They chafed when Venezuelan leaders floated the idea of expropriating refineries and drilling stations, as Mexico had in 1938. In Colombia, two lengthy, violent strikes ended with the imposition of compulsory arbitration programs subordinating the oil company executives to decisions by local judges and labor-management committees. Labor

[408] Edwin Lieuwen, "The Politics of Energy in Venezuela," in Lieuwen ed., *Oil in Latin America* (New York: Preager Publishers, 1977), pp. 197-98.

[409] Lieuwen, "The Politics of Energy in Venezuela," pp. 201-03.

leaders, charged one industry executive, only sought "a way to make the union the true administrator of company business."[410] The ambassadors said such aggressive actions served as evidence that the unions and their leaders were "communistic." They worried that these industries would ultimately face nationalization in Venezuela.[411] Ambassador Donnelly often noted in messages to Washington, Gallegos' party, *Accion Democratica*, owed political capital to "communistic" unions. "The pattern of *Accion Democratica* rule," ARA concluded, "does not warrant in assuming that it had abandoned its socialistic aims; on the contrary, it furnishes good ground for concluding that it wished to socialize the Venezuelan economy as fast as it could be done efficiently."[412]

The communist mayhem that followed Gaitan's shooting gave U.S. officials and business interests a pretext for redefining the nature of the struggle for Venezuelan oil profits. In Bogota, the CIA confided in a May 1948 report to Truman that communists "may have discovered a

[410] Lionel Weidey, manager of Standard Oil Company's Colombian affiliate, Tropical Oil Co., to Colombian congressman Argemiro Martínez Vega, August 14, 1948, in DSR/RG 59, box 5265, NARA.

[411] "Memorandum on the Possibilities of Eliminating Private Oil Companies in Venezuela by Nationalization or other Effective Means," Department of State, American Republic Affairs Files, box 7, NARA. The report pointed out that the oil companies contributed about 63 percent of the total Venezuelan Government revenue and about 95 percent of the country's foreign exchange. This dependency, the authors said, “injures Venezuelan pride." They also added that: "The prevalent Latin American Theory that the 'industrial' nations hold others in a kind of economic servitude (the catch-words are 'economic freedom,' 'colonialism,' and 'imperialism') has a particularly strong appeal in Venezuela.” The reason was obvious: Venezuela’s national economy is “so dependent on that of the United States and where the two major industries, oil and iron ore, are owned and managed by foreigners.

[412] “The Possibilities of Eliminating Private Oil Companies in Venezuela by Nationalization or Other effective Means,” 1951, Department of State Records, RG 59, American Republic Files, box 7, NARA.

technique which might be employed deliberately and with greater effect on other occasions."[413] U.S. officials insisted communists quickly mobilized strikes, protests and general anarchy at Bogota, because they efficiently penetrated Colombian labor groups.[414] At Bogota, they said, communists utilized "their position in organized labor . . . to execute plans which had been formulated to sabotage the conference."[415] An even more distressing allegation concerned communist attempts to "sabotage the Colombian oil industry." Near one facility, seventeen suspected party members were arrested and quantities of explosives were confiscated.[416] Meanwhile, the National Federation of Petroleum Workers, run by an "independent communist" named Diego Montana Cuellar, called a strike to halt production of oil.

Within days of the Gaitan murder and ensuing violence, the Pentagon acted to safeguard refineries and other important installations in Venezuela. Defense Secretary James Forrestal worried that in light of the "world situation [and] recent developments in Colombia" it is "prudent" to minimize the danger to installations in Venezuela. With the coordination of the State Department, the military implemented a joint U.S.-Venezuelan security arrangement to

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[413] CIA, "Review of the World Situation as it Relates to the Security of the United States," May 12, 1948, in *The Declassified Documents Reference Service* (Wilmington: Carrollton Press Inc., 1977), 77 (179D), pp. 9-10.

[414] "Communist Involvement in the Colombian Riots of April 9, 1948," *OSS/State Department Records, 1941-1961*, p. 18. According to this report, communists allegedly controlled almost one-third of the top posts in the country's largest labor union, the *Confederacion de Trabajadores Colombianos* (CTC).

[415] "Communist Involvement in the Colombian Riots of April 9," *OSS/State Department Records, 1941-1961*, p. 26.

[416] OIR, "Communist Involvement in the Colombian Riots of April 9," *OSS/State Department Records, 1941-1961*, p. 23.

protect Venezuelan oil fields against communist sabotage. The squad sent to study security precautions mapped out logistics and a defensive system for the refineries deemed "extremely vulnerable to sabotage."

The team also suggested the "oil companies temporarily employ United States experts in counter-sabotage," with the participation of the Venezuelan government.[417] In August 1948, the State Department, the Pentagon and the NSC agreed to "take the initiative" and called on the CIA to "keep under surveillance the threat to especially important industrial operations" in South and Central America. In essence, these decisions empowered the CIA to spy on labor groups and take any measures necessary to thwart attempts to disrupt the oil flow whether through sabotage or strikes.[418] In early 1949, National Security Council analysts again warned that "international communism" will attempt to "interfere with the production and movement of [oil and other strategic materials] as required by the United States" through "public disorder, work stoppage, slowdowns or sabotage" as a fundamental component of U.S. hemispheric military planning.[419]

The pressure to establish security zones around installations and quell militancy among labor syndicates culminated in more U.S. government support for military and authoritarian governments at the expense of championing civilian-led, popularly elected governments. After

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[417] OIR, "Possible Communist Sabotage of Venezuelan Oil Installations," dated April 15, 1948, in Department of State Records, RG 59, box 412, pp. 2-3, NARA.

[418] NSC memo, "Security of Strategically Important Industrial Operations in Foreign Countries," in *Declassified Documents Service*, 77 (42C), pp. 1-4. Among the participants in this discussion were Secretary of State Marshall, Secretary of Defense Louis Johnson, and the Secretaries of the Army, Air Force and Navy.

[419] National Security Council, “Basic U.S. Security Assumptions,” in *FRUS* 1949, 1 (Washington, D.D.: U.S. Government Printing Office,), p. 343.

a November coup displaced Venezuelan Betancourt's successor, President Romulo Gallegos, U.S. diplomats said they faced a clear-cut choice: Support the anticommunist officers led by his successor, Lt. Col. Marcos Perez Jimenez, or back the return of exiled populist Gallegos. U.S. officials initially considered rejecting the junta's request for diplomatic recognition fearing that acknowledging them as the legitimate rulers in Caracas might send the wrong message, meaning that coup and instability were acceptable ways to pursue political change.[420] Yet, in the early stages of Cold War containment, the emerging consensus agreed that stopping communism was the top priority. At the Bogota conference, the United States had championed the anticommunist resolution. Now, just seven months later, the Venezuelan officers that toppled Gallegos claimed they acted to squelch communist influence, as had been agreed to in Bogota. After issuing a mild rebuke of military overthrows,[421] the State Department quietly extended recognition to the new Venezuelan government in early January 1949.

The decision to recognize Perez Jimenez and his government proved successful, at least in the short-term. In return for U.S. acknowledgement, Perez Jimenez rewarded U.S. oil companies by lowering taxes on corporate profits and easing regulations on drilling new wells. Petroleum production, on the decrease during Gallegos' short presidency, more than doubled during Perez Jimenez's tenure. In January 1952, the State Department boasted that its cooperative arrangement with the military junta paid dividends. Some $2.5 billion worth of new capital found its way into the country and, partly as a result, Venezuela "pushed its oil production up steadily upward until it ranks second in the world, and has proved reserves

[420] Donnelly to Marshall, December 12, 1948, *FRUS 1948*, 9:141.

[421] "U.S. Concerned at Overthrow of Governments in Certain American republics," *Department of State Bulletin*, 20 (January 2, 1949), p. 30.

representing more than 10 percent of the Free World total." The study concluded that "Venezuela and the investing corporations have worked together to develop a climate that assures mutual benefits, a sound working basis for operations, and a resulting incentive for additional foreign capital to make its contribution to the development of the country."[422] Exiled in Havana, Gallegos criticized the Truman Administration. He said his erstwhile friends in Washington turned back on a "free government that had been the object of admiration of democratic America."[423] Years later, Truman reflected on the coup. He recalled that Gallegos "was a grand fellow and it's too bad they didn't allow him to finish out his term. But he was too [nationalistic] and the oil companies didn't like him."[424]

Conclusion

During the Good Neighbor era, the United States preached a "non-intervention" policy backed by peace and prosperity through open trade and unrestricted foreign investment. But in the spring of 1948, the benefits liberalism promised – stable democratic government in the Americas – appeared unattainable. To U.S. diplomats, Latin America seemed only poorer and more volatile. In the aftermath of the Bogota uprising, U.S. government officials and industry executives judged economic liberalism too ineffective to inoculate the hemisphere against communist penetration. The United States then shifted its policy focus to seek stability through military security – based on covert and direct military action – instead of pursuing liberal

[422] "Venezuela's National Progress Through Materials Development," January 16, 1952, in White House Official Official File, box 1381, in HSTL.

[423] "Golpe en Venezuela," *Bohemia*, January 31, 1949, p. 23.

[424] Truman, transcript of dictation, October 6, 1953, White House Official File, box 1381, HSTL.

economic development.

U.S. Cold War containment policies served different purposes in different parts of the globe, but in Latin America they were a response to economic nationalism. The communist label was slapped on economic nationalism and populism in Latin America not only because it struck the right chord with the public in America, but because it served commercial and political interests. Communism conjured visions of Bolshevik conspirators, radicals, and un-American activity. The Red Army may have posed a threat in Europe and the so-called Red Chinese may have been a menace in Asia. But the root of the trouble in the Americas was the unbridgeable gulf between liberals and nationalists. By 1950, the consensus among U.S. policy-makers was that economic nationalists did not make for Good Neighbors. Thomas Mann, one of the State Department's authorities on Latin America, concluded in late 1951 that populists like Juan Peron in Argentina, Lazaro Cardenas in Mexico, Jorge Gaitan in Colombia, Romulo Betancourt in Venezuela and Ramon Grau San Martin in Cuba had been too ineffective to justify U.S. support. As for the future, populist, nationalist movements promised to strain relations between government and foreign businesses. Mann wrote: "These forces represent the great majority of the people and will not always fail. As they succeed they will, at least temporarily, increase the problem of political instability and will demand increasingly larger participation through the taxes in the profits of foreign and local investments."[425]

Mann’s views matched widely-held fears within the State Department. In early 1952, the department circulated its “Latin America and U.S. Policy” blueprint for hemispheric relations. The document reasserted that the region was passing through an intense period of social

[425] Mann to Miller, November 14, 1951, Department of State Records, American Republic Affairs files, RG 59, box 6, NARA.

dislocation and class readjustment fueling volatility. This shake-up held ramifications for U.S. policy, the document stated. “One of the consequences of these internal adjustments,” the paper said, “is political instability which is itself enfeebling. Another is the weakening of respect for property rights; agrarian and similar ‘reform’ laws designed to break up the power of the ‘oligarchs’ are applied without distinction to national and foreign owners and with inadequate regard for compensating” those who lost property. In addition, the paper noted that “revolutionary movements” are “controlled by immature and impractical idealists” who are “unprepared to conduct government business efficiently but [also] lack the disposition to combat extremists within their ranks, including communists, since they consider themselves revolutionaries."[426]

Some voices in the United States accused the U.S. government of overreacting. Critics of U.S. policy insisted that neither Colombia nor Latin America would go the way of Eastern Europe, even after the *bogotazo* scare. Dismayed by the red baiting, Samuel Inman, an advisor to the U.S. delegation at Bogota, turned critical of U.S. policies. “It seems to me we used precisely the same tactics that play into the enemy's hand,” he said. “[We] team up with the extreme right, condone dictators, ignore justice and poverty; and then, when the people rise in anger and destroy their oppressors, pass resolutions blaming all on the extreme left.”[427] Another *bogotazo* survivor omitted the communists in projecting the post-riot political landscape. “What will happen next in Colombia,” writer Olive Holmes said, “depends ultimately on whether leaders of the various factions within the [Conservative and Liberal] parties can satisfy the

[426] Mann to Miller, "Latin America and U.S. Policy," November 14, 1951, in Department of State Records, American Republic Affairs, RG 59, box 6, NARA.

[427] Samuel Guy Inman, “What Went Wrong at Bogota,” *The Nation*, 63 (June 5, 1948), p. 19.

popular sentiment for reform that the *Gaitanista* movement had unleashed."[428]

Precisely. The call for reform unleashed in the *bogotazo* – as well as in Cuba 1933, Mexico 1938 and Argentina 1945 – was the common denominator in each confrontation. Such reform was simply incompatible with the liberal economic blueprint advocated by U.S. officials. Truman's diplomats recognized full well that threats to U.S. interests arose from within, not from abroad. The Good Neighbor program hoped to reassert the pre-1930 liberal order – but instead may have only opened the door to nationalist challenges. The resistance against the U.S. liberal blueprint manifested the desire for greater political and economic experimentation in Latin America. An editorial published in an Argentine newspaper after FDR's 1936 tour of Buenos Aires points to the duality of hope and skepticism that greeted FDR in Latin America. The editorial congratulated FDR for "raising the morale of discouraged people" in the United States. But the editorial then proclaimed the New Deal as "the beginning of a fight against the commercial monopolies and the financial consortiums that had brought [the United States] to that dreadful Depression."[429] This statement reveals the ambiguity that surrounded and eventually unraveled Good Neighbor liberalism. While Latin American politicians and public commentators were quick to embrace the idealistic goals of the New Deal, they were just as quick to disdain the corporations and multinational businesses that were to carry out FDR's Good Neighbor on their block.

[428] See Olive Holmes, "Party Cleavages Background for Bogota Revolt," *Foreign Policy Bulletin* (April 16, 1948), p. 18.

[429] *El Mundo*, January 20, 1937.

Epilogue

A dissertation that focuses on the failures of liberalism in inter-American political and economic diplomacy seems oddly timed in the face of the ongoing liberal renaissance. The rollback of protectionism since 1990, and of forty years of nationalism in the process, has been remarkable. Foreign direct investment in Latin America has averaged well over $100 billion a year in the past decade as multinational corporations from the United States, Asia, and Europe purchased telephone companies, power plants, banks, and a slate of other properties at discount prices. The number of state-owned enterprises in the region has shrunk. And those corporate entities that remain under government control are forced to compete against a broad array of private sector rivals.

Nevertheless, the Pan American liberal-nationalist dialectic and the synthesis that marked the earliest years of Cold War in Latin America remains a relevant topic even in the current *Pax Liberal* era. The path back toward liberalism from 1950 to 2000 is one marked by fits and starts, steps forward and back, achievements and setbacks. Even though free traders appear to enjoy a policy and ideological monopoly, the region has seen enough fissures and challenges to raise questions about the longevity of today's lurch toward liberalism.

Cold War inter-American diplomatic history was largely an unhappy experience. In at least three well-recorded occasions, the U.S. government sent troops into Caribbean and Central American countries, first to root out communists in the Dominican Republic and Grenada, then to squelch the drug-dealing regime of Manuel Noriega. In Cuba and Nicaragua, the U.S. trained and armed mercenaries waged war on governments that Washington despised. There have also been numerous covert operations in which U.S. policy-makers were involved to varying capacities, in Guatemala, Guyana, and Chile. In other places, the United States sent military advisors and aid to bolster friendly governments engaged in hot wars with revolutionaries and militias. Interspersed with these efforts have been numerous financial carrots, from Truman's Point IV program to John Kennedy's Alliance for Progress to Ronald Reagan's Caribbean Basin Initiative.

The result of all this is a half century of deepening poverty, war, and migration. During the first half of the twentieth century, hemispheric migration patterns centered on the movement of people from Europe to the hemisphere. This pattern shifted during the Cold War as migration patterns centered on intra-hemispheric movement. No country in the hemisphere, seemingly, has not at one time or another seen people and capital take flight due to either political instability or economic disruption. The preferred destination for émigrés has been the United States. Legal migration to the U.S. alone was calculated at about 600,000 people a year in the 1980s, double the average rate in the 1960s. By most accounts, illegal migration into the U.S. increased at a rapid pace as well. The latest census figures show that Hispanics are the fastest growing demographic group in the United States. A significant factor in these struggles and trends was, and remains, the liberal-nationalist dialectic.

U.S. Liberalism to 2000

In the closing months of World War II, U.S. and Allied officials wrote the liberal rulebook that has, more or less, governed international economics in the past half century. Meeting at Bretton Woods in the summer of 1944, U.S. and British officials mapped a global financial system that pegged the dollar to a gold standard that simplified payment systems.

Governments also lowered tariffs during a separate set of discussions, the General Agreement on Tariffs and Trade. The GATT talks and the Bretton Woods summit created a framework to regulate global commerce along a liberal path. To be sure, the pace of progress often lagged and sometimes stalled. But the direction has nearly always been pointed toward an open door program.

Bolstered by fixed exchanges and lower tariffs, the post-war industrial marketplace boomed in a commercial "golden age." Between 1950 and 1973, the industrial nations witnessed average growth in gross domestic product of 4.8 percent.[430] The volume of cross-border trade, which rose at just a 4 percent annual rate between 1845 and 1945, grew at an annual rate of 7 percent from 1946 to 1973. During the 1950s and 1960s, global commerce increased by a factor of five.[431] U.S. companies accounted for 13 percent of international trade by 1970, up from 9 percent twenty years before. In 1970, some 3,500 U.S. multinationals possessed direct investments in over ten thousand foreign enterprises. Those investments accounted for 8 percent of the U.S. gross domestic product, more than double the sum in 1946.[432]

The marketplace richly rewarded the U.S. multinationals that dominated the landscape. By 1965, International Business Machines World Trade Division topped the $1.1 billion mark in sales, almost 50 percent of the company's total revenues. In 1950, U.S. factories built almost

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[430] Ricardo Ffrench-Davis, Oscar Munoz, and Jose Gabriel Palma, "The Latin American economies, 1950-1990," in Leslie Bethell, ed., *Latin America: Economy and Society Since 1930* (Cambridge: Cambridge University Press, 1998), p. 152.

[431] Mansel G. Blackford and K. Austin, *Business Enterprise in American History* (Boston: Houghton Mifflin Co., 1994), p. 294.

[432] Blackford and Kerr, *Business Enterprise*, p. 302.

80 percent of the automobiles produced across the world. In 1973, some eighty-nine U.S. companies employed at least forty thousand people around the world. Great Britain, which listed only thirty companies with that many workers, ranked second in this category.[433]

North American liberalism did struggle through crises, particularly at times when the economic cycle sank into recession. The reduction in tariffs opened channels for foreign competition at various points, creating competition and dislocating industries and workers unable to adjust. The revitalization of Western Europe and Japan, combined with lower U.S. industrial productivity, has over time weakened the U.S. grip on the global marketplace. In the late 1950s, Volkswagen attempted to compete against General Motors and Ford by introducing its smaller, lighter weight Beetle. GM responded with a line of smaller vehicles and Ford produced the Mustang, and those autos stemmed the challenge from Germany. The 1970s oil shock produced a more serious and lasting challenge. Skyrocketing petroleum costs in the fall of 1973 sapped U.S. manufactures and zapped consumers. The 1974-1975 recession was arguably the worst decline in post-war America. The resulting stagflation, an unprecedented mix of relatively flat economic growth with inflation, left the North American economy in an anemic state for nearly 10 years.

At the same time, U.S. liberals accommodated the need for some protective rules within their own borders. The regulations, most of which were created during the Depression, buffered the country's labor force against the very type of downturn witnessed in the 1930s. Labor laws, state-funded social safety net programs, and agricultural subsidies increased government budgets as well as personal and corporate taxes. The Interstate Commerce Commission and the Civil Aviation Board kept close watch over the country's highways and

[433] Blackford and Kerr, *Business Enterprise*, p. 306.

airways. The Securities and Exchange Commission regulated capital markets. U.S. political leaders, and the electorate that supported them, continued to accept that the state had a role in economic regulation despite their advocacy of a free marketplace.

But, over the past quarter century, the liberal marketplace gradually won more elbowroom. In the 1980s, major industries, from airlines to banking, were deregulated. In addition, social "safety net" programs, such as the Civilian Employment and Training Act, which created government-funded jobs in the public and private sector, and the so-called Assistance to Families with Dependent Children program for impoverished single-parent homes were phased out. In their place, taxes have been reduced and Americans have placed a greater share of their earnings than ever before in the largest and most capitalist instrument of all, the country's stock markets.

Most importantly, government has consistently stepped away from protectionist policies. In the 1970s, political and economic leaders did little to stop the importation of smaller and more fuel-efficient Japanese autos at the expense of U.S. Big Three automobile makers. In the 1980s, the U.S. policy-makers pushed for open markets in China and the Pacific Rim. When the Soviet Bloc unraveled, liberals capitalized on opportunities in the emerging former Iron Curtain countries as well as in European Union markets. In 1994, the North American Free Trade Agreement opened the borders with Mexico and Canada. NAFTA extended trade and investment in the Americas even further than a previous free trade initiative, the Caribbean Basin Initiative that reduced tariffs and quotas on textiles and other products a decade earlier.

The U.S. public initially greeted these efforts with a measure of skepticism, but soon embraced them. Understandably, U.S. labor organizations, and their rank-and-file, worried these agreements would lead to the transfer of productive capacity and the loss of jobs. They were right. But in return, workers who lost jobs in "restructuring" programs found work in other sectors. To be sure, many displaced workers have found new jobs in less skilled workplaces and in service industries that do not pay as well as manufacturing. But some of these losses have been offset, at least in theory, by the accessibility of inexpensive consumer goods from abroad. Younger workers, too, are not as interested in Old Economy manufacturing positions but instead are lured by positions in high technology and financial services, arguably the best-paying industries in the world.

Of course, U.S. political leaders and their constituents may accept liberalism only as long as macroeconomic results bring individual good fortune. The U.S. polity today enjoys record low unemployment. Stock market valuations have appreciated consistently for the past eight years. New technologies facilitate communications, entertainment and leisure. The boom, dubbed the New Economy, has done little to disappoint voters and consumers. And they continue to signal that they see little reason to change political and or economic policies.

Latin America: From Nationalism to Liberalism

By contrast, Latin American political economy continued its shift from a liberal to a protected marketplace in the post-World War II era. Governments set tariffs to protect nascent industry against foreign competition. Raw materials previously earmarked for export were directed at internal production. Extractive industries, such as mining, and large service companies, including electric and telephone utilities, were nationalized or purchased from foreign owners. The goal was to produce locally for domestic consumption, even if to the detriment of the export economy.[434] Of course, this process began in the early decades of the twentieth century and prior to government policies and think tank research papers that ultimately provided the introverted program with a name, import-substitution industrialization.[435] But with the weight of economic theory and political consensus behind it, nationalism dominated the public policy arena in the following generation.

A landmark moment for Latin America protectionism, and import substitution, in particular, occurred in 1947. In that year, the Economic Commission for Latin America was established in Santiago, Chile, under the auspices of the United Nations. Under the leadership of economist Raúl Prebisch, ECLA assembled a team of economists and sociologists charged with designing solutions to cure the ailments hurting the hemisphere's economies. The ideas and strategies developed by ECLA altered the political discourse in Latin America for the next two decades.[436] Pre-ECLA economic nationalism had begun the transition away from liberalism, but it was ECLA that gave anti-liberalism a theoretical underpinning, and legitimacy, by producing coherent and consistent import-substitution models for the region to follow.

Prebisch and ECLA converted the political, anti-Yankee language of nationalism into a

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[434] Ffrench-Davis et al, *Latin America: Economy and Society Since 1930*, p. 156.

[435] Joseph Love, "Economic Ideas and Ideologies in Latin America Since 1930," in Leslie Bethell, ed., *The Cambridge History of Latin America* 6 (Cambridge: Cambridge University Press, 1994), p. 395.

[436] Cristobal Kay, *Latin American Theories of Development and Underdevelopment* (London: Routledge, 1989), p. 20-26. Kay writes that ECLA can claim to be the "first genuine Third World development school." He also said Prebisch was "the first and most original of the Latin American structuralist writers" who "courageously challenged neoclassical theory, attacked the prevailing pattern of international trade, and boldly proposed a theory of peripheral capitalism."

theory of underdevelopment and a blueprint for progress. The ECLA-fashioned "structural" theory explained Latin American economics in terms of a center-periphery relationship between the region and the industrial powers. This center-periphery model, ECLA surmised, was the source of development and underdevelopment in the world economy. The center countries, possessing industry and technology, held the advantage in terms of trade and capital accumulation. By contrast, the peripheral societies faced a technological gap in comparison to the advances in the industrial core. The technological deficiency figured prominently in the productivity and levels of the export-oriented and subsistence sectors (generally agriculture and mining). Compounding those problems, the peripheral countries also faced a surge in surplus labor that kept wages low and stunted the per capita buying power needed to obtain capital goods, consumer products and technology.

Prebisch and ECLA agreed that increasing the volume of trade with the center would not break this cycle. They argued that the deficiencies were the *result* of the international trade system that coalesced in the late nineteenth century. Structuralists claimed the Industrial Revolution transformed the center countries into industrial powers and relegated the peripheral nations to producers of primary products. The rise and fall in the fortunes of the peripheral nations simply depended on the ability of these countries to produce the raw materials demanded by industry in the center.

To ameliorate these ills, ECLA's economists devised import-substitution programs. This industrial policy aimed at lessening the dependency on imported manufactured goods by producing those products in domestic industry. ECLA believed import-substitution offered two positive results. First, industrialization allowed developing countries to spend less on consumption, thus promoting savings and shoring up their financial position. And by producing their own capital and consumer goods, countries buffered themselves against periodic shortages and inflationary bouts. Prodded by ECLA's promise of an ISI utopia, the region turned toward import-reducing industrialization as the guidepost economic policy in the 1950s.

The ISI model produced significant achievements at the outset. Throughout the 1950s and 1960s, gross domestic product in the region grew at an average annual rate of 5.5 percent. Manufacturing output grew at a rate of 6.5 percent during the decade, and beyond. Mexico, Brazil, Venezuela and Peru posted average yearly GDP growth of 5.5 or more during the decade. The growth in the manufacturing sector produced the desired economic diversification. Between 1950 and 1973, agriculture's share of GDP growth in the region fell from 18 percent to 12 percent. The robust growth was heartily welcomed in a region that had grown skeptical about its reliance on international commodity and financial markets.

However, the ISI model stumbled soon after. As output increased, manufacturers realized that the markets for their goods, typically domestic consumers, were too small. Factories in Argentina and Chile found it difficult to tap economies of scale by selling goods over a broader area to reduce costs and promote efficiency.[437] At the same time, the demands of industrialization curtailed the export sector. Primary materials that were once exported to the industrial countries were now earmarked for the domestic manufacturing sector. As a result, Latin America's trade surplus, which accounted for nearly 4 percent of GDP in 1950,

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[437] Celso Furtado, "Development and Stagnation: A Structuralist Approach," in Irving Louis Horowitz, ed., *Masses in Latin America* (New York: Oxford University Press, 1970), pp. 56-60. Furtado, a Brazilian ECLA economist, argued that the continued existence and perpetuation of a pre-capitalist labor sector in the region continued despite industrialization. As a result, the Latin American economies suffered from small internal markets for the goods they produced.

dropped precipitously to .7 percent in 1960. The fizzling of the export market undermined the ability of the Latin American economies to generate revenues and secure financing, and this trend ultimately constrained productivity, employment and investment needed for advanced technology.[438]

ISI then came under attack from another group of economists and researchers. These critics argued that the capitalist world economic system assigned each region a station and that it was difficult to recast that role without a complete break from the system. Those peripheral countries, thus, were stuck in a perpetual state of capitalist underdevelopment and programs such as ISI could not reform that reality.[439] By the time of Prebisch's death in 1985, the failures of the import-substitution model and the inward-growth strategy during the 1960s and 1970s left his ideas in a state of discredit – even though scholars accept that ISI did lead to growth and did produce some successes.[440]

The oil shock of the 1970s sparked the transition from ISI to another macroeconomic

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[438] Fernando Enrique Cardoso and Enzo Faletto, *Dependency and Development in Latin America* (Berkeley: University of California Press, 1979). Cardoso and co-author Enzo Falleto argued that the basic problem in the center-periphery nexus was one of capital accumulation. The international economic network stressed consumption – specifically the purchase of manufactured goods by the periphery. But as long as the periphery spent its resources to acquire goods, it would not have the resources to invest in its own manufacturing centers. The key to the periphery's dependence on the industrial center, the two authors posited, was due to its failure to develop its own technology. As long as it could not do so, the peripheral countries were at the mercy of multinational corporations.

[439] Andres Gunder Frank, *Capitalism and Underdevelopment in Latin America: Historical Studies of Chile and Brazil* (New York: Monthly Review Press, 1967).

[440] For readings on Prebisch revisionism, see Rosemary Thorp, "A Reappraisal of the Origins of Import Substituting Industrialisation," *Journal of Latin American Studies* 24 (February 1992), 181-195, and Roberto Cortes Conde, "Export-Led Growth in Latin America: 1870-1930," *Journal of Latin American Studies* 24 (February 1992), pp. 163-79.

trend, debt-led growth. The sudden surge in oil prices affected the region in different ways. The economies of some countries, like Chile, spun into recession, as happened in the developed industrial nations. Most of the other petroleum dependent nations, including Brazil, responded by borrowing heavily from international sources to cover costs and to prime the economy. The oil exporting countries, Venezuela, Mexico and Peru, turned to lenders, too, but for a different reason. They mortgaged future revenues by pledging that potential money up front for loans. They then spent the money on imported capital and consumer goods in ways that ranged from prudent to inefficient to wasteful. As they did, the region’s indebtedness surged throughout the 1970s. Between 1973 and 1981, Latin America's imports from the United States doubled from $44 billion to $93 billion. The region’s current account deficit also quadrupled to $40 billion during that time. The lend-and-spend binge essentially replaced ISI as the guiding development model.

Debt-led growth was short-lived. The petroleum glut that formed in 1982 led to loan defaults, currency devaluations and austerity programs. Almost overnight, the international banks stopped lending to the region as oil prices and revenues fell. The end of the credit line forced Latin American countries to begin repaying the debt from export revenues, not through additional borrowing. This resulted in a series of painful measures. The region reduced its take of U.S. goods and services by almost 40 percent in 1984 when currencies were devaluated. The decreased worth of paper money plus shortages in imported goods created the worst inflationary spiral in the region’s history. Prices increased at annual rates of 672 percent rate in Argentina, 586 percent in Brazil and 132 percent in Mexico at various points during the 1980s. For the balance of that decade, the combination of flat or declining growth hyperinflation, a mix dubbed hyper-stagflation, sapped the Latin American economies in a “lost decade” crisis that rivaled the declines of the Great Depression.

The malaise ended in the early 1990s with the privatization programs that attracted huge capital flows into the region. The funds flow began with a series of accords that renegotiated the debt and lured a trickle of investment money. Then the auctioning and selling of state-owned enterprises to global multinational companies at discount prices sped the flow of cross-border capital. Finally, the type of trade liberalization that Hull, Welles and other Roosevelt liberals dreamed of in the 1930s took hold from the Southern Cone to the Arctic Circle. The European Union, NAFTA and regional pacts like Mercosur in southern South America fueled intercontinental and cross-continental commerce. As the industrial countries entered the 1990s economic boom, they purchased more and more raw materials and low technology manufactured products from Latin America. With that, the nationalist era begun by the politics of Cardenas, Vargas and Peron – and later professionalized by Prebisch and ECLA – gave way to a return to liberalism.

The liberal renaissance has permeated Latin American intellectual quarters. Fernando Enrique Cardoso, a critic of liberalism as an intellectual in the 1960s, served as Brazilian president and proved himself as one of the most adamant advocates of privatization and market economics. Cardoso positioned Brazil as a basket for global capital flows, not as a bulwark of protectionism. As a result, Sao Paulo, the site of the largest stock exchange in Latin America, is now seen as a bridge for international corporations, accounting firms and both portfolio and direct investment.[441] Even the economists at the United Nation’s Economic Commission for Latin America, a former hub of protectionism, concede today that

[441] Saskia Sassen, “Global Financial Centers,” in *Foreign Affairs* 78 (January/February 1999), 77.

they must also accept liberalism as the dominant paradigm. Rather than oppose “the tide of market reforms,” ECLA recently said in a mission statement that it prefers to advocate for privatization and trade regimes consistent with a structural reform model adapted to the new era of openness and globalization.

So, it is tempting to now proclaim the death of nationalism, except that history cautions against it. A hundred years ago, liberalism was the dominant paradigm at the dawn of the twentieth century. Across the hemisphere, export-oriented growth was the rule with few exceptions. Then, as this dissertation has shown, a combination of factors altered political economy about 1930. For the following six decades, the region’s politicians, citizenry and economists struggled with and against changing financial tides and currents. True in light of the broad liberal renaissance, the nationalists of the 1930s seem out of place. But are they that more of an anachronism today than Venezuela’s Hugo Chavez, Cuba’s Fidel Castro, the rebel army in Colombia, or even Peru’s Alberto Fujimori? The fact is that the inter-American political and economic present, like the past, remains shaded more by cross-currents and inconsistencies than by defined, pronounced and uninterrupted marches.

Conclusion: Pax Liberal or Prelude to Neo-Nationalism?

It should not surprise anyone to find that a certain measure of ambiguity in political economy has greeted the twenty-first century. Macroeconomic indicators show persistent success in the United States and renewed strength in most Latin American countries. As long as they do, contemporary liberals can continue to claim victory and a mandate for their agenda. On the other hand, the popularity of nationalists such as Venezuelan president Hugo Chavez, the importance that Mexico’s Vicente Fox is placing on migration issues and the chronic difficulties of liberal finances in countries like Ecuador may foreshadow shifts in public opinion and conventional wisdom. They may, at least, suggest that the march toward liberal hegemony has stopped and that opportunities exist for either nationalists or those who harbor doubts about liberalism to offer reforms and counter measures. In fact, it is fair to say that political economy in the Western Hemisphere is at a crossroads.

Liberals will correctly argue that the region has weathered plenty of setbacks, crises and *contretemps* in the past decade. The 1994 Mexican peso crisis, the insurgency in the Chiapas region and the scandals that rocked former President Carlos Salinas and his family did little to unwind Mexico's liberal realignment with the United States. Neither have significant military victories by a rebel army in Colombia, high unemployment in Argentina, currency devaluation in Brazil, political uncertainty in Venezuela, bank collapses in Ecuador or a recession in Chile succeeded in busting the liberal backbone in these countries. Skeptics may argue the resiliency of today's brand of liberalism is a matter of default: Without a competing model, there is no alternative to which the frustrated may turn. So liberals may feel at ease now that the margin for error is greater. Liberalism is the only option: Take it or leave it.

Nevertheless, this dissertation should be a warning to today's bullish liberals. This project demonstrates how in five significant countries, economic nationalism served as a reaction against uneven wealth distribution and unequal trade and investment relationships that dogged the liberal order in Latin America. In Cuba, the Grau government, and the political actors and groups behind it, advocated for a stronger and proactive state with an eye on widening the distribution of the fruits of the export-oriented economy. In the 1930s, Getulio Vargas imposed exchange restrictions to serve as a throttle on financially destabilizing capital flight out of Brazil. In Mexico, the Cardenistas turned to expropriation as a last gasp measure to extract a larger share of profits from Mexican oil. And in Argentina, Colombia, Venezuela, and Cuba, governments attempted to reorient state-multinational relations to improve the welfare of the citizenry.

The lesson of the 1930s and 1940s is that efforts to build a lasting liberal economy in the Western Hemisphere depended on political economy. As patience with liberalism dwindled, inward-looking and nationalist models molded a political and economic consensus. Nationalization of properties, controls on currency exchanges and repatriation and stricter government regulation through labor codes and taxation had at least as much to do with political pressure as they did with economic models. Anti-liberalism is not born from foreign ideology. It results from frustration over inequities in the global marketplace or within a particular country.

At the macroeconomic level, some of the weaknesses that undermined the liberal regime in the 1930s and 1940s remain in place. Imbalances in trade relations still exist. While the U.S. pushes sales of personal computers, software packages and other high-technology products, its Latin American trading partners still deal in low profit margin commodities and tourism. Workers toiling in *maquiladoras* and other export factories are paid far less than their counterparts in the industrial countries. The wave of economic setbacks and recessions in Brazil, Argentina, Colombia and Venezuela resulted largely from a deflation in global commodity prices and drops in cross-border capital investments[442] – approximately the same culprits that caused the malaise of the 1930s and 1940s. Further adding to the financial uncertainty is the ebbing of investor interest in Latin America and the resulting surge in borrowing by governments in the region. On top of this, there remain grave problems such as

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[442] Knight Kiplinger, *World Boom Ahead* (Washington, D.C.: Kiplinger Washington Editors, 1999), p.94.

widespread poverty, disparities in wealth and per capita income levels that are little higher than they were almost 20 years ago.

It is no coincidence that the same six nations surveyed in this dissertation are struggling in today's liberal renewal. Colombia and Venezuela are troubled economically and politically. Cuba, which is barred from U.S. trade and investment, struggles to recover from the loss of its major commercial benefactor, the Soviet Union. Although it recovered from the peso crisis, Mexico's gains from NAFTA commerce are a mixed bag. Argentina and Brazil have fared better. But they have done so at the expense of strict austerity measures whose longevity and viability are in doubt.

It is not inconceivable that out of the current disillusionment with liberalism will come a competing model to challenge the free trade, free investment regime. The new liberalism – if it is to work in the long run – must ultimately alter the commercial and investment relationship in the hemisphere. It must find ways to enact technological transfers so those products made in Latin America are of higher value and result in wider profit margins. Liberalism must find ways to ensure that manufacturing facilities in the region offer wages that provide a greater measure of buying power for the people that work in those factories. It must attack the corruption that rewards inefficiency and promotes waste where inefficiency and waste are unaffordable luxuries. And it must develop systems to control volatility in currency exchanges. The liberals cannot rely unquestionably as they did years ago that underdevelopment was not due to the inherent inequalities of capitalism, but rather to the *insufficient degree* of capitalism practiced in the past.[443]

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[443] Francies Fukuyama, *The End of History and the Last Man* (New York: Avon Books, 1993), p. 42.

Today's liberals, however, must be convinced that to regroup and regain the initiative they must realize that the consolidation of their model over the past decade is reversible. A nationalist or protective backlash – similar to the one that ended the last liberal order existing from 1870 to 1930 – is not out of the question. While liberalism may appear as the only viable model right now, history shows us this will not always be the case.

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