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*The Good Neighbor Policy in a
Geopolitical Context: 1934-1941*

M.A. Thesis
(HIS 7999)

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ABSTRACT

Since his first term, Franklin D. Roosevelt presented the Good Neighbor Policy as a remedy for past wrongs (such as military intervention) done to Latin America. After 1935, however, Roosevelt used the Good Neighbor Policy to achieve his internationalist goals in the realm of economic and military cooperation. Part I, dealing with economics, shows that the Roosevelt administration began waging economic warfare in Europe, the Far East and the Americas against the revisionist powers as early as 1934 and that the trade offensive in Latin America was part of a wider policy of economic aggression.

Part II argues that the Roosevelt administration actively sought Latin America's cooperation in military matters after 1935. As this thesis will show, the Roosevelt administration was interested in Latin America's strategic location because of its close proximity to the West African coast and as producer of strategic raw materials. Therefore, Roosevelt's Good Neighbor Policy sought to establish bases in Latin America to secure supply routes to Africa and to integrate Latin America's primary economy into the U.S. war economy.

INTRODUCTION

At his first inauguration (March 1933), Franklin D. Roosevelt laid out several priorities to tackle the Great Depression. He also announced, though briefly, the beginning of the Good Neighbor Policy. “In the field of world policy,” he declared:

I would dedicate this Nation to the policy of the good neighbor – the neighbor who resolutely respects himself, and, because he does so, respects the rights of others – the neighbor who respects his obligations and respects the sanctity of the agreements in and with a world of neighbors. We now realize as we have never realized before our interdependence on each other; that we cannot merely take, but must give as well....¹

In announcing one seemingly generous program after another, Roosevelt appeared to honor the promises of his message. Throughout the 1930s, he improved U.S.-Latin American relations through reciprocal trade agreements, economic aid and other initiatives.² These measures were remembered collectively as the “Good Neighbor Policy.”

For many historians, the Good Neighbor Policy was initially an altruistic policy that sought to improve relations with Latin America; but then over the course of the 1930s it became a set of reactions to perceived external threats to the Americas. In *The Latin American Policy of the United States* (1943), Samuel F. Bemis introduced the Good Neighbor Policy as a well-meaning policy whose purpose was to improve relations with Latin America and promote commerce, culture and peace:

Not fear of European dictators, but respect for the republican New World and a sincere desire to get along with it on the most cordial and friendly terms possible, as a means of cultivating commerce and culture, and above all of promoting peace, inspired the Neighbor of the

¹ Samuel Flagg Bemis, *The Latin American Policy of the United States: An Historical Interpretation* (New York: Harcourt, Bruce & World, Inc., 1943), p. 258.

² Irwin F. Gellman, *Good Neighbor Policy: United States Policies in Latin America, 1933-1945* (Baltimore: Johns Hopkins UP, 1979), p. 2.

North....³

But then, in Bemis' account, totalitarianism began to threaten the security of the Americas in the mid-1930s. Fortuitously and largely by happenstance, the United States would not have to combat this threat alone. Bemis explained that Latin Americans, in appreciation of the Good Neighbor Policy, ran enthusiastically to the U.S. banner to defend the Americas against totalitarian aggression:

How fortunate – to use a pagan word -- that the Good Neighbor Policy had cemented the solidarity of the American republics in an interlude of security before the menace of Hitler rose so visibly and so portentously across the Atlantic, while at the same time another conqueror was towering up across the Pacific! How providential that the free republics of the New World had placed themselves in such a happy relationship that at the Second Meeting of Foreign Ministers in Havana, July 21-30, 1940, they could take a stand of all for one and one for all.⁴

Two decades later, J. Lloyd Meham presented similar arguments in *The United States and Inter-American Security, 1889-1960* (1967). Like Bemis, Meham argued that the Good Neighbor Policy started out as altruistic. The United States, owing to “its great strength following World War I” and the absence of a global threat, could “afford to be indulgent” with its southern neighbors. For this reason, Presidents Calvin Coolidge and Herbert Hoover improved relations with Latin America in the 1920s and early 1930s. Roosevelt then went further with the Good Neighbor Policy, which abandoned imperialism and tried to “salvage the Pan American movement.”⁵

Then the totalitarian threat in 1935-36, in Meham's view, forced the

³ Samuel Flagg Bemis, *The Latin American Policy of the United States: An Historical Interpretation* (New York: Harcourt, Bruce & World, Inc., 1943), p. 256.

⁴ *Ibid.*, p. 368.

⁵ J. Lloyd Meham, *The United States and Inter-American Security, 1889-1960* (Austin: University of Texas Press, 1967), p. 113.

Roosevelt administration to *change* the course of the Good Neighbor Policy. The policy's new purpose was now to prevent the spread of war by establishing a common neutrality front.⁶ Then at the Lima Conference (1938), the Roosevelt administration, reacting to the Munich crisis, used the Good Neighbor Policy to create a Pan-American defensive alliance:

It was the Munich crisis which caused President Roosevelt to propose on November 15, 1938, on the eve of the Lima conference, a defensive alliance of the American nations against external aggression. The declared objective of the United States defensive program was to maintain continental security from Canada to Tierra del Fuego.⁷

Twelve years later, Irwin F. Gellman reiterated many of the themes that previous historians of the Good Neighbor Policy have raised. According to Gellman, the Good Neighbor Policy was founded largely on the belief that non-intervention was the best means for preserving peace in the Western Hemisphere; thus, the Good Neighbor Policy began as an altruistic policy aimed at promoting hemispheric peace.⁸ Gellman also emphasized the role of external events in transforming the Good Neighbor Policy: "Roosevelt's hemispheric diplomacy was a set of actions and reactions to unique circumstances". Of course, it is true that Gellman differed from his colleagues in many respects. He argued against the view that the Good Neighbor Policy resulted from previous Republican initiatives aimed at improving relations with Latin America. "[This] assertion," he stated, "is not substantiated by the record." For Gellman, the individuals in the Roosevelt administration had as much impact as the external factors in shaping the new

⁶ Ibid., p. 122.

⁷ Ibid., p. 136.

⁸ Irwin F. Gellman, *Good Neighbor Diplomacy: United States Policies in Latin America, 1933-1945* (Baltimore and London: The Johns Hopkins UP, 1979), pp. 24-25, 30-31.

Latin American policy.⁹ Yet, on balance, Gellman left largely intact the view that the Good Neighbor Policy was initially altruistic before perceived external dangers forced it to become defensive.

Five years later, David Haglund reaffirmed once more the older view of the Good Neighbor Policy* in *Latin America and the Transformation of U.S. Strategic Thought, 1936-1940* (1984). Like Bemis and Mecham, Haglund contended that the Good Neighbor Policy initially sought to improve relations with Latin America.¹⁰ Also like Bemis and Mecham, Haglund believed that perceived external dangers forced the Roosevelt administration to transform the Good Neighbor Policy into a defensive strategy:

The [Roosevelt] administration, in reacting to the breakdown of the world order from 1936 on, had placed great emphasis upon constructing political, economic and military links between the United States and other republics in the hemisphere – links that would serve as the substance of a powerful Pan-Americanism which, it was hoped, would keep the Axis at bay on the far side of the Atlantic.¹¹

For Haglund, the Good Neighbor Policy was originally isolationist, since its aim was to enable the United States to avoid political ties with Europe and the Far East.¹² To be sure, the United States had economic ties with those regions, but Haglund did not think these ties made U.S. foreign policy internationalist, because “isolationism has traditionally

⁹ Ibid., p. 1.

* Unlike Gellman’s *Good Neighbor Diplomacy*, the role of individuals in the Roosevelt administration and their ideas are clearly absent in Haglund’s work, thereby making it similar to Bemis and Mecham’s historical accounts of the Good Neighbor Policy.

¹⁰ Although Haglund did not state this argument explicitly, the altruistic argument is the only one that he does not oppose. He dismissed the notion that security concerns were a rationale behind the Good Neighbor Policy before 1936; and he did not regard economic considerations, namely, the expansion of U.S. exports, as an important reason either. See David G. Haglund, *Latin America and the Transformation of U.S. Strategic Thought, 1936-1940* (Albuquerque: University of New Mexico Press, 1984), pp. 46-48.

¹¹ Ibid., p. 5.

¹² Ibid., pp. 18-19, 20

and justifiably been construed as a political orientation and not as an economic one.”¹³

Paradoxically, however, Haglund concluded that the isolationist Good Neighbor Policy had the unintended consequence of precisely forcing Roosevelt to abandon his isolationist foreign policy:

These isolationist predilections.. contained the seeds of the destruction of the Roosevelt policy of isolation, for the good reason that men who equated American security with the security of the hemisphere would prove to be extremely sensitive to any potential dangers below the Rio Grande – and, beginning in late 1936, the more evidence of danger in Latin America that Washington searched for, the more evidence of danger ‘the cables’ revealed.¹⁴

According to Haglund, Roosevelt’s belief that the Axis posed an imminent threat to national security led to his decision to order U.S. intervention in World War II:

It is my contention that a necessary condition for American intervention in World War II was the uncertainty that the Latin American republics could or would resist the combined political, economic and military threats and blandishments of a Germany that, by the middle of 1940, looked to be the conqueror of all Europe. This uncertainty over Latin America began to be experienced, mildly at first, by American policymakers in late 1936; by 1938 the uncertainty had turned to dread; by May and June 1940 the dread had become paranoia. It was this uncertainty and its *sequelae* that ultimately became to borrow and slightly alter the phrase made famous by Charles Callan Tansill, not a ‘back door’ but a ‘trap door to war’ for the United States.¹⁵

For six decades then, historical opinion on the Good Neighbor Policy has run along similar lines. In the early 1930s, the Roosevelt administration, feeling safe and secure, wanted only to improve U.S.-Latin American relations and promote commerce; in the mid-1930s, when the first signs of external danger appeared, the Roosevelt administration decided to establish a common neutrality policy; in the following years, this common neutrality policy became a defense policy; finally, in 1941, after Pearl Harbor, the United

¹³ Ibid., p. 20.

¹⁴ Ibid., p. 18.

¹⁵ Ibid., p. 34.

States was forced to go to war.

Yet, the Roosevelt administration's Good Neighbor Policy was created for the purpose of achieving more internationalist goals. This thesis will show that, as the Good Neighbor Policy developed, Roosevelt sought Latin America's cooperation in order to wage economic warfare against the revisionist powers.* The goal of U.S.-directed economic warfare was to reduce the revisionist powers' economic strength and, by doing so, render them incapable of conducting a protracted war. The means by which this goal was to be achieved was, first, by curtailing the revisionist powers' commerce with Latin America and other regions of the world**; and then – once the revisionist powers were almost completely reliant on U.S. trade – by cutting them off from the U.S. market. The Good Neighbor Policy also helped lay the groundwork for hemispheric cooperation in wartime. In the years' 1936-40, the Roosevelt administration, far from being passive in the face of rising totalitarianism, engaged in patient and determined diplomacy with specific strategic goals in mind (namely, the acquisition of bases in Latin America and the integration of Latin America in the U.S. war economy); and its success in achieving these goals by 1940 meant that the United States was prepared for war at the time of the Pearl Harbor attack.

These interpretations reflect recent developments in the historiography of this subject. Irwin Gellman's *Good Neighbor Diplomacy* (1979) made the novel claim that Roosevelt and his aides were not wholly committed to the Good Neighbor Policy's

* The revisionist powers (Germany, Italy and Japan), as of 1936, became known as the Axis powers; and for this reason, the term "Axis" will be used after this paper reaches the year 1936.

** This paper will focus primarily on the trade offensive as it pertains to Latin America. Lastly, the Roosevelt administration did not take measures to sever Japanese trade relations with other parts of the world (except the Dutch East Indies), because Britain, France and other countries had already increased their tariffs against Japanese goods by the mid-1930s.

principles regarding military intervention and political interference.¹⁶ John Child's article, "From 'Color' to 'Rainbow': U.S. Strategic Planning for Latin America, 1919-1945," reveals that the Roosevelt administration considered military intervention as a possible alternative, if diplomacy failed to secure the bases it sought from Latin America.¹⁷ Max P. Freedman's "There Goes the Neighborhood" (2003) claims that Roosevelt had few scruples about using political pressure to coerce Latin American governments to create and enforce a blacklist of German nationals.¹⁸ The main aim of this thesis is to take their work a step further.

Before going on to Part I, I would like to devote some space to methodology. This thesis was founded on a question, was the Good Neighbor Policy internationalist, as opposed to isolationist, in some respects? Haglund, whose work we have discussed earlier, believed that isolationism only had a political orientation, and not an economic one. Furthermore, he narrowed the meaning of political orientation to formal military alliances with countries outside the Americas. This thesis, however, will broaden the meaning of isolationism so that it has an economic orientation, as well as a political one. In other words, this thesis argues that the United States can only be isolationist, if it refrains from political *and* economic involvement in the affairs of countries outside the Western Hemisphere. Since economic warfare against the revisionist powers was a Good Neighbor Policy, it follows that this policy was internationalist, since it had economic implications for countries in Europe and the Far East. For Haglund, this definition may seem

¹⁶ Irwin F. Gellman, *Good Neighbor Diplomacy: United States Policies in Latin America, 1933-1945* (Baltimore: Johns Hopkins UP, 1979), pp. 38-39.

¹⁷ John Child, "From 'Color' to 'Rainbow': U.S. Strategic Planning for Latin America, 1919-1945," *Journal of Interamerican Studies and World Affairs* 21, no. 2 (May 1979), pp. 251-253.

¹⁸ Max P. Freedman, "There Goes the Neighborhood: Blacklisting Germans in Latin American and the Evanesence of the Good Neighbor Policy," *Diplomatic History* 27, no. 4 (September 2003), pp. 569-570.

inconsistent with the way many contemporary Americans viewed isolationism and his point is well taken.¹⁹ However, political isolationism is unattainable without economic isolationism, because – as the Roosevelt administration recognized – U.S. economic policy (and in particular, trade policy) often has an impact on geopolitics. Roosevelt, Hull and Welles, for example, had long argued that a liberal trade order ensured peace and political stability for all nations, whereas restrictive trade practices and trade rivalries often caused political instability in countries most reliant on trade and could therefore lead to war.²⁰

Aside from broadly defining isolationism, this thesis also widens the meaning of “political orientation” to include any formal diplomatic agreement that has implications going beyond the Western Hemisphere. For example, the Consultative Pact, which the United States and many Latin American nations agreed to, laid the groundwork for hemispheric cooperation during the Second World War and, therefore, can be considered an internationalist element of the Good Neighbor Policy.²¹

PART I: Chapter 1. President Franklin D. Roosevelt

More than sixty years after his death, Franklin D. Roosevelt still remains mysterious. To be

¹⁹ Haglund, p. 20.

²⁰ For FDR views on the relationship between economic rivalries and war: See Emily S. Rosenberg, *Spreading the American Dream: American Economic and Cultural Expansion, 1890-1945* (New York: Hill and Wang, 1982), p. 175; For Hull’s views: See (1) Robert M. Hathaway. “1933-1945: Economic Diplomacy in a Time of Crisis.” In *Economics and World Power: An Assessment of American Diplomacy Since 1789*, ed. William H. Becker and Samuel F. Wells, Jr. (New York: Columbia UP, 1984), p. 281; (2) Rosenberg, p. 177; (3) Arthur W. Schatz, “The Anglo-American Trade Agreement and Cordell Hull’s Search for Peace, 1936-1938,” *The Journal of American History* 57 (June 1970), p. 89; For Welles’ views: See The Secretary of State [Welles in Hull’s place] to the Ambassador in Brazil (Gibson), Washington, June 1, 1936; from *FRUS: Diplomatic Papers, 1936, Volume 5: The American Republics* (Washington: United States Government Printing Office, 1954), p. 260).

²¹ Sumner Welles, *Seven Decisions That Shaped History* (New York: Harper & Brothers Publishers, 1951), p. 104.

sure, we have an excellent account of his career; but what remains largely hidden from us is Roosevelt the human being. What were his beliefs? Was he a long-term planner or did he improvise foreign policy? Was his foreign policy agenda hidden from the public? These questions are as relevant now as they were when first contemplated. What is more, they touch upon the character of the Good Neighbor Policy, which was in many ways a policy of Roosevelt's own creation. In the next two sections, this chapter will attempt to uncover Roosevelt the human being and explain his role with concern to the Good Neighbor Policy. The first section, "Roosevelt's Persona and Foreign Policy," deals with the secretive Roosevelt personality and how it probably gave rise to an equally reticent foreign policy. The main argument here was that although the Rooseveltian foreign policy was to a certain extent shaped by isolationist public opinion, it moved overall in an internationalist direction. In "Roosevelt and the Good Neighbor Policy," we learn of the importance of Roosevelt's involvement with the Good Neighbor Policy. This section contends that Roosevelt's involvement with the Good Neighbor Policy only came at important junctures, such as the Buenos Aires Conference of late 1936.

Roosevelt's Persona and Foreign Policy

The president of the United States was very secretive man. On 22 November 1932, Roosevelt, accompanied by Raymond Moley, met with outgoing President Herbert Hoover at the White House. At this meeting, Roosevelt listened politely Hoover's speech on the international debt problem and his call for a debt commission. Conrad Black continued,

In a formula with which many people would become disagreeably familiar, Roosevelt smiled, nodded and said yes at least once. As far as Hoover was concerned, he had agreed to the idea of the commission. Roosevelt was just being polite and taking note of the President's proposal, and asked Moley to respond. Moley adhered scrupulously to what

he knew to be the sacrosanct Roosevelt policy of giving no hint of his policy intentions in advance of taking office.²²

In May 1933, Nazi envoy Hjalmar Schacht informed Roosevelt that Germany would default on her foreign debts. To Schacht's surprise, Roosevelt exclaimed, "Serves the Wall Street bankers right!" On the next day, however, Schacht learned from Secretary of State Cordell Hull that Roosevelt had been shocked after learning of Germany's default.²³ The above account comes from Schacht's memoirs and is largely consistent with what others, who have worked with Roosevelt, have said about the president. Under Secretary of State Sumner Welles recalled that Roosevelt would turn on and off "three to four personalities" with "such speed that you often never knew where you were or to which personality you were talking."²⁴ Dean Acheson observed, "[FDR's] responses seemed too quick; his reasons too facile for considered judgment; one could not tell what lay beneath them."²⁵ Harold Ickes, who served as Secretary of the Interior, was known to have exclaimed, "I cannot come to grips with [FDR]." Lastly even Professor MacGregor Burns concluded that, "Roosevelt was a superb actor in the literal sense – in the way his face, his gestures, the tilt of his head communicated feeling, in the perfect modulation of his voice and the timing with which he read his speeches."²⁶

With such a secretive personality, Roosevelt's foreign policy was bound to mysterious as well. The U.S. president, after all, was largely responsible for explaining his

²² Conrad Black, *Franklin Delano Roosevelt: Champion of Freedom* (New York: Public Affairs, 2003), pp. 253-254

²³ Hjalmar Schacht, *Confessions of 'The Old Wizard': The Autobiography of Hjalmar Horace Greeley Schacht* (Westport: Greenwood Press, 1974), p. 283-284.

²⁴ Frederick B. Pike, *FDR's Good Neighbor Policy: Sixty Years of Generally Gentle Chaos* (Austin: University of Texas Press), 157.

²⁵ Black, p. 1117.

²⁶ James MacGregor Burns, *Roosevelt: the Lion and the Fox* (New York: Harthcourt Brace Jovanovich, 1956), p. 472, 474.

nation's foreign policy to the public; and if he chose to adopt one of his "three or four personalities," how could one be sure that he was telling the truth? Ultimately, we are dealing with a foreign policy whose purpose is only partly discernible. However, some things can be said. To begin with, Roosevelt's foreign policy was, to a certain extent, subordinate to isolationist public opinion.²⁷ Congressman Hiram Johnson, for example, passed legislation that prevented the U.S. government from granting loans to defaulting nations.²⁸ Consequently, the Roosevelt administration (as we shall see) could not use economic aid to persuade the Vargas regime and other Latin American government to abandon their compensation trade agreements with Germany until 1938. Similarly, Roosevelt's attempt in 1935 to convince Congress to embargo, in the event of war, weapons headed for belligerents, while offering them to victims of aggression, also proved unsuccessful. Congress argued that the United States should not take sides in any World War and, for this reason, argued for a Neutrality Act that prevented the U.S. government from providing weapons to either side.²⁹

Yet if an isolationist Congress influenced the conduct of international affairs, this did not mean that Roosevelt and his advisers pursued a wholly isolationist foreign policy. On the contrary, the Roosevelt administration consisted largely of internationalist foreign policy makers, who shared a deep hatred of the revisionist powers dating back to 1933, if not earlier. Roosevelt's animus against Germany had existed since his childhood, when he was arrested in 1896 for entering the fortified city of Strasbourg. Later in 1918, he remarked to King George V of Great Britain that it was during his school days in Germany

²⁷ See also Robert Dallek, *Franklin D. Roosevelt and American Foreign Policy, 1932-1945* (New York: Oxford University Press, 1979), p. 529.

²⁸ *Ibid.*, p. 249.

²⁹ Rosenberg, p. 177.

that he witnessed “their preparation for the first stages of the war machine.”³⁰ This bias against Germany stayed with him well into his presidency. In a telegram to U.S.

Ambassador Strauss in Paris dated early 1936, Roosevelt claimed that:

I have been increasingly concerned about the world picture ever since May 1933. There are those who come from England and France and Germany who point to the fact that every crisis of the past three years has been muddled through with a hope that each succeeding crisis will be met peacefully in one way or another in the next few days. I hope that point of view is right, but *it goes against one's common sense*.³¹

Cordell Hull, who became Secretary of State in 1933, also shared Roosevelt's prejudices.

In his “Memoirs,” Hull had the following to say about Japan: “The prediction I made at the time of the 1921-22 Washington Disarmament Conference – that Japan, regardless of her signature of treaties, meant to continue her expansion – had unfortunately come true.”

Similarly, Hull claimed, “There was little doubt in my mind in March, 1933, that Germany would provide one of my biggest problems in the years to come.”³² In specifying what these problems were, Hull referred to one of George Messersmith's* telegrams, dated May 1933, which observed,

I think we must recognize that while the Germany of today wants peace, it is by no means a peaceful country or one looking forward to a long period of peace. The present German Government and its adherents desire peace ardently for the present because they need peace to carry through the changes in Germany which they want to bring about. What they want to do, however, definitely is to make Germany the most capable instrument of war that there has ever existed.³³

Then there was Henry Morgenthau, appointed Secretary of the Treasury in 1934, who had a reputation for being the most voluble anti-Nazi in Roosevelt's cabinet. Indeed,

³⁰ John L. Harper, *American Visions of Europe: Franklin D. Roosevelt, George F. Kennan and Dean G. Acheson* (New York: Cambridge UP, 1996), p. 14.

³¹ MacGregor Burns, p. 256.

³² Cordell Hull, *The Memoirs of Cordell Hull: Volume 1* (London: Hodder & Stoughton, 1948), p. 170.

* George Messersmith was a Charge of the U.S. embassy in Nazi Germany and served as de facto head of the embassy until William E. Dodd took over as Ambassador.

³³ Hull, pp. 234-235.

Morgenthau hated Nazi Germany so much that he staunchly opposed any trade agreement with that country from 1936 on.³⁴ Furthermore, Morgenthau called for a clause that prohibited other nations from devaluing their currencies to promote exports; he then told Feis that he wanted this clause to be used against Germany and Italy.³⁵ Finally, Roosevelt indicated, perhaps implicitly, the direction he wanted to take U.S.-German relations in, when he appointed as U.S. ambassador to Germany William E. Dodd. This appointment, Robert Dallek explained, was a reflection of Roosevelt's own "antipathy for Nazi views and plans."³⁶ For a country that was in the grips of isolationism, it was quite remarkable that Roosevelt had succeeded in appointing people who would have wanted aggressive measures to be taken against the Axis. In the area of economics, they had their way as early as 1934 (see Chapter 2).

The internationalist direction that Roosevelt was taking his foreign policy was, however, not only evident in his appointments; it was reflected in some of his actions as well. FDR's decision to begin naval construction in June 1933 was regarded in some circles as a challenge to Japan, which was attempting at that time to achieve naval parity with the United States. Furthermore, this view seems credible, considering how Roosevelt and Hull reacted to Japan's continued demands for naval parity. In October 1934, Roosevelt wanted to form a common front with Britain against Japan. The British government, however, was more preoccupied Germany, prompting Roosevelt to instruct Norman Davis, head of the U.S. delegation at the World Disarmament Conference of Geneva, to constantly impress Foreign Secretary John Simon with:

³⁴ Arnold A. Offner, "Appeasement Revised: The United States, Great Britain and Germany, 1933-1940," *Journal of American History* 64 (September 1977), p. 375.

³⁵ See M.A. Thesis pages 23-24.

³⁶ Dallek, p. 533.

[The] simple fact that if Great Britain is even suspected of preferring to play with Japan to playing with us, we shall be compelled, in the interest of American security, to approach public sentiment in Canada, Australia, New Zealand, and South Africa in a definite effort to make these Dominions understand clearly that their future security is linked with us in the United States.³⁷

As MacGregor Burns observed,

Here was an astonishing move – a threat in effect to detach the sympathies of the dominions from the mother country, and to establish with them an anti-Japanese alignment with the United States as the centre stone. The effort came to naught; a week later Hull was instructing Davis on the need for an early, open, and conclusive indication of American and British alignment on naval limitation.³⁸

Yet, if nothing came from this threat, this episode was nevertheless significant for revealing Roosevelt's intention to take his foreign policy in an anti-Japanese direction; he was so determined to oppose Japan that he was willing at one point to break diplomatic ties with Britain and further weaken the cohesiveness of the British Empire itself.

A more subtle move towards internationalism was evident in the gradual rise of military spending during the Roosevelt years. In the 1920s and 1930s, U.S. presidents reduced military spending to almost anemic levels; this policy being in keeping with isolationist view that the United States should not become militarily involved with the affairs of other nations. Roosevelt, however, soon reversed that trend. In 1934, he returned military spending to its 1929 level of \$700 million. In 1937, the military budget reached \$1 billion; two years later, that figure rose to \$1.3 billion. In 1940, Roosevelt increased military spending again to \$2.2 billion;³⁹ but this amount could have been higher, if Congress had not slashed proposed defense spending by 10%, thereby eliminating two-

³⁷ MacGregor Burns, p. 250.

³⁸ *Ibid.*, p. 250.

³⁹ J. Noakes and G. Prindham (Editors) *Nazism 1919-1945, Volume 2: State, Economy and Society, 1933-1939: A Documentary Reader* (Exeter: Exeter UP, 1984), pp. 103-104.

thirds of the planes ordered.⁴⁰ These increases, though gradual, appeared to envisage a role for the U.S. military that was somewhat more significant and conceivably more internationalist than the one past U.S. Presidents had sought.

In summary, therefore, Roosevelt, when making foreign policy, often took into account the views of Congress and the general public; both staunch supporters of isolationism. However, Roosevelt also gradually took his foreign policy in an internationalist direction. This much was clear, considering the selection of political appointments, early signs of antagonism to Japan and the gradual rise of military spending.

Roosevelt and the Good Neighbor Policy

But what relevance did the internationalist direction of Roosevelt's larger foreign policy have for the Good Neighbor Policy? The Good Neighbor Policy, though concerned with Latin America, contributed in many ways to that larger foreign policy. For example, one component of Rooseveltian foreign policy – discussed in chapter 2 – was economic warfare against the Axis from 1934 to 1939. The Good Neighbor Policy's purpose, in this context, was in trying to persuade Latin American governments to end their compensation trade agreements with Nazi Germany. Similarly, the Good Neighbor Policy also helped the Roosevelt administration attain to militarily align Latin America with the United States. By doing this, Roosevelt ensured that hemispheric cooperation would be stronger than ever by the time the United States entered the Second World War.

⁴⁰ Gerhard L. Weinberg, *A World at Arms: A Global History of World War II* (Cambridge, New York: Cambridge UP), p. 154. Incidentally, this event also testifies to the war economy's impressive productive capacity. If the expenditures were approved, many more planes would have been produced.

Yet, if the Good Neighbor Policy was an important component of U.S. foreign policy, this did not mean Roosevelt played an active role in Latin American affairs. For most of the Good Neighbor Policy years, Roosevelt was conspicuous by his absence. He seemed to have left the running of this policy to Hull, Welles and Morgenthau.* This delegation of responsibilities did not necessarily reflect Roosevelt's lack of interest in Latin America, but rather his tendency to leave smaller details – that represented the majority of the Good Neighbor Policy's responsibilities – to his subordinates. As we shall see later, Hull and Welles made representations to Brazil and other Latin American countries to end compensation trade with Germany. Morgenthau supported more lenient policies – such as continued purchases of Mexican silver -- toward Mexico, in the aftermath of the expropriation of the oil industry.⁴¹ From late 1938 on, he also dealt with the technical details associated with economic aid to Latin America.⁴²

Although his subordinates largely ran the Good Neighbor Policy, Roosevelt did participate in Latin American affairs at important junctures. In late 1933, Roosevelt met with Argentinian, Brazilian, Chilean and Mexican envoys to reassure them that his administration had no intention of intervening in Cuba. Roosevelt's initiative here went a long way towards saving the Good Neighbor Policy and preserving U.S.-Latin American cooperation in economic and military matters.⁴³

In economic matters, Roosevelt remained largely absent. In early 1939, Roosevelt made a rare appearance, when he instructed Welles to invite Brazilian Foreign Minister

* Of course, it should be added that Roosevelt, although not engaged in the day-to-day running of the Good Neighbor Policy, probably did set the priorities of that policy; priorities which were consistent with those of his largely foreign policy – namely, economic warfare against the Axis and military preparation.

⁴¹ Dallek, p. 175.

⁴² MA Thesis Text pages 62-63.

⁴³ Dallek, p. 63.

Oswaldo Aranha to Washington to discuss the future of U.S.-Brazilian economic cooperation. This meeting turned out to be very important, because for the first time, Roosevelt and his advisers were willing to significantly increase economic aid to convince their southern neighbors to sever trade ties with Germany.⁴⁴

While Roosevelt chose not to involve himself for the most part with the Good Neighbor Policy's economic aspects, he played a more active role promoting military cooperation with Latin America. In early 1936, Roosevelt and Welles pushed for the broadening of U.S.-Latin American naval ties. They repeated their efforts again in 1937, indicating that this issue was of the utmost importance to both of them.⁴⁵ In 1936, Roosevelt proposed, over Hull's objections*, that a Pan-American Conference be held at Buenos Aires in the upcoming months. He then attended the Buenos Aires Conference, using his own popularity to raise the profile of the U.S. delegation. These developments were unprecedented, because never before had a U.S. President proposed the timing for a Pan-American Conference or took the initiative of going to Latin America. Yet, Roosevelt did both, which really testified to his own determination to do whatever was necessary at that time to achieve U.S. objectives – which included an agreement that a threat to one American Republic threatened all; and a Consultative Pact that obligated all American nations to consult with each other when external threats endangered hemispheric security.⁴⁶ Indeed, Roosevelt's presence and his own speeches contributed to U.S. delegation's partial

⁴⁴ See MA Thesis: Chapter 4: The Trade Offensive in Brazil.

⁴⁵ See MA Thesis: Chapter 6: Omaha Ships Deal.

* Cordell Hull opposed the idea of holding a Pan-American Conference in late 1936, because he believed that, "the Latins are bound to ask us for the moon!" Since the United States could meet Latin America's demands (probably for economic aid and other incentives), Hull believed that little could be accomplished at Buenos Aires. See Benjamin Welles, *Sumner Welles: FDR's Global Strategist* (New York: St. Martin's Press, 1997), pp. 188.

⁴⁶ Benjamin Welles, pp. 188-189.

success at this conference, with the result that the machinery for hemispheric cooperation would be firmly in place by late 1941.⁴⁷

After Buenos Aires, Roosevelt did not attend any Pan-American Conference, but he did participate in Latin American affairs in other ways. In 13 May 1939, President Anastasio Somoza of Nicaragua visited Washington, where he was greeted by Roosevelt himself. This meeting not only improved U.S.-Nicaraguan ties, but also strengthened Pan-American ties as well. Furthermore, Roosevelt's willingness to meet Somoza at "the station for the first time since he took office" indicated his deep interest in improving military, as well as economic ties, with his southern neighbors.⁴⁸ In September 1939, Roosevelt did not attend the Panama Conference, but he helped Welles to outline boundaries for a security belt that was meant to encompass most of the Western Hemisphere.⁴⁹ Similarly, Roosevelt did not attend the Havana Conference in July 1940, but he did improve the U.S. delegation's chances of success there by persuading Congress to increase the Export-Import Bank's budget from \$200 million to \$700 million. With these funds, the Export-Import Bank ensured that those Latin American Republics who supported U.S. objectives at Havana – namely, to participate in Western Hemispheric Defense – would be handsomely rewarded.⁵⁰

In summary, Roosevelt did not participate actively in Latin American affairs, but his involvement in this field at crucial junctures indicates that he attached great importance to the attainment of the Good Neighbor Policy's internationalist goals.

⁴⁷ Ibid., p. 194. See also Dallek, pp. 133-134.

⁴⁸ Frank Kluckhohn, "Capital Strengthens Pan-American Ties," *The New York Times*, 14 May 1939, p. E7

⁴⁹ Irwin F. Gellman, *Secret Affairs: Franklin Roosevelt, Cordell Hull and Sumner Welles*. Baltimore and London: The Johns Hopkins UP, 1995), pp. 84-85.

⁵⁰ See MA Thesis text pages 109-110.

PART II: THE TRADE OFFENSIVE

After World War I, the United States, together with Britain, dominated the global economy and international trade with the result that industrialized countries like Germany, Italy and Japan remained second-rate powers with little prospect for improvement. This reality became more obvious during the 1930s, when the revisionist powers faced formidable challenges in promoting the recovery of their industries owing to shortages of raw materials and credit. The United States, by contrast, enjoyed an overabundance of raw materials and was the leading creditor nation. Consequently, its trade policies impacted significantly on the economic fortunes of Germany, Italy and Japan. If the United States avoided signing trade agreements with these countries involving the lowering of tariffs or chose not to offer them credit, their economic recovery would be seriously undermined.⁵¹

In 1934, Roosevelt and his aides created an uneven playing field for international trade by introducing the Reciprocal Trade Agreements Act. The United States and its allies benefited from international trade in hard currencies but the revisionist powers were left out in the cold. Japan faced high tariff walls in the United States throughout the 1930s, while Germany was unable to negotiate a Reciprocal trade agreement with the United States (see Chapter 2). Consequently, to ensure their economic survival, the revisionist powers tried other options, such as compensation trade, which the Roosevelt administration attempted to suppress. The next few sections will show how this unequal trading order came to be and what the consequences were for the revisionist powers.

⁵¹ Rosenberg, p. 176.

Chapter 2. Origins (1933-1935) *

In 1933, the darkest year of Great Depression, Roosevelt postponed needed action in the area of international trade by wrecking the London Conference of June 1933. As David Green rightly puts it:

The President's famous 'bombshell' message to the London Economic Conference of 1933, in which he declined to commit the United States to an early return to the gold standard, was the result of a tactical decision. Roosevelt did not mean to 'torpedo' international economic cooperation; rather he wished to insure it -- but on American terms.⁵²

The two sections in this chapter will examine how the Roosevelt administration, beginning in 1934, set out the American terms for international economic cooperation. As noted in the introduction to Part I, Roosevelt created an international trading order of unequal benefits. The first section, "Economic Warfare Against Germany and Italy: The Reciprocal Trade Order," will explain how the Roosevelt administration founded this new international trade order and dealt with the trade offensive against Germany (beginning in 1934) and Italy (beginning in 1936). This section will also show that the Tripartite Stabilization Agreement was directed against the revisionist powers -- and Germany and Italy, in particular -- and that the order itself excluded Germany from the growing benefits of trade in hard currency. The second section, "Economic Warfare Against Japan," deals with the Roosevelt administration's trade offensive against Japan.

* Here, it should be noted that the chapter "Origins" does not focus on Latin America, which will be discussed in chapters 2-5 of Part two.

⁵² David Green, *The Containment of Latin America* (Chicago: Quadrangle Books, 1971), p. 19.

*Economic Warfare Against Germany and Italy:
The Reciprocal Trading Order*

Roosevelt set out the terms for international economic cooperation with the Reciprocal Trade Agreements Act, which, once passed through Congress (June 1934), gave him the power to enter into trade agreements with countries of his own choosing.⁵³ With this Act, the Roosevelt administration determined that those countries friendly to the United States would benefit from Reciprocal Trade; those nations regarded as adversaries would suffer from one thinly disguised economic assault after another.

One example from the latter group was Nazi Germany. In March 1934, Roosevelt cancelled the U.S.'s commercial agreement with Germany. The official reason was Germany's refusal to accept the non-discriminatory most-favored-nation clause. The real reason, however, was quite different. Consul General George Messersmith and commercial attaché Douglas Miller had sent back influential reports to the State Department arguing against the trade agreement's renewal because, in their view, Germany wanted a trade agreement, credits, and raw materials for the purpose of rearmament. As Miller warned, "The Nazis are not satisfied with the map of Europe" and, the more economic concessions they received, "the more certain is a large-scale war in Europe." The U.S. Ambassador in Germany, William E. Dodd, told his German guests that the Roosevelt administration's objection to treaty talks "was more attributable to political than to economic reasons," and due especially to signs of incipient German rearmament.⁵⁴

With the commercial agreement cancelled, Germany lost a major trading partner

⁵³ Cordell Hull, *The Memoirs of Cordell Hull: Volume 1* (London: Hodder & Stoughton, 1948), pp. 358-359.

⁵⁴ Arnold A. Offner, "Appeasement Revised: The United States, Great Britain and Germany, 1933-1940," *The Journal of American History* 64 (September 1977), pp. 374-375.

and, for a time, it seemed to the Roosevelt administration that the Nazi regime would fall. Messersmith, reporting two months after the U.S.-German trade agreement's cancellation, concluded that Germany's economic situation was hopeless. He claimed that Germany would try to acquire badly needed raw materials* either through "negotiation of very favorable agreements with the major suppliers of raw materials" or "through the getting of credits." Yet, he added that presently German imports from other countries "do not assure her of the major supplies of raw materials which she needs and do not open to her for her exports the major markets she needs desperately." Moreover, he claimed that the Nazi regime perceived the acute raw materials problem "more than any other factor" and "its dangers to the regime"; and added, on a very optimistic note, that "intelligent observers" believe the Third Reich "cannot survive more than five or six months... unless help comes to the regime from the outside which will prop its falling prestige in the country and which will provide the raw materials which they have to have."⁵⁵

Although Messersmith raised the possibility that Germany could find a way out of its trade difficulties, he felt optimistic that the Nazis would fail in this endeavor. He wrote that, "The only hope for all is that this regime does fall so that it may be replaced by a Government with which we can deal in the ordinary way." He then indicated to the State

* Messersmith did not mention specific raw materials, but instead emphasized how raw materials, in general, were essential to the future health of the German economy overall. Germany, having a relatively small land mass (and no colonies), could only acquire raw materials through trade. However, German exports had fallen precipitously during the early 1930s, thereby undermining its ability to purchase raw materials with hard currency. As Arkansas Senator Joseph T. Robinson suggests, this shortage of raw materials had an adverse effect on most, if not all, German industries, not just a specific group of industries: "Germany's pressing problem for the immediate future is how to obtain raw materials essential to the operation of her industries. Her credit has been so impaired and her imports have been so restricted that she has been forced increasingly to turn to substitutes created by her 'ersatz industries.'" See Joseph T. Robinson, "Great Difficulties Confront Germany, Robinson Reports," *The New York Times*, 30 December 1934, p. XX5.

⁵⁵ Paul N Hehn, *A Low Dishonest Decade: The Great Powers, Eastern Europe, and the Economic Origins of World War II, 1930-1941* (New York: Continuum International Publishing Group, 2002), pp. 16-17.

Department that this hope was realistic, by advising them that by “policy of waiting we have everything to gain and nothing to lose.”⁵⁶

While Germany faced an uncertain economic future, the Roosevelt administration ensured brighter economic prospects for the rest of Europe with the Reciprocal Trade program. On 6 May 1936, for example, the United States successfully negotiated a Reciprocal Trade Agreement with France. Later in that year, the United States, Britain and France signed the Tripartite Stabilization Agreement*, which allowed the French government to devalue the franc. As part of the agreement, Britain and the United States promised not to devalue their own currencies once the franc was devalued. Consequently, France enjoyed several economic advantages thanks to this agreement. U.S. tariffs were not only against French goods lowered, but the franc’s devaluation made French goods less expensive and thus more competitive on the world market.⁵⁷

While the Tripartite Stabilization Agreement did not bring significant economic benefits to the United States, it did serve the Roosevelt administration’s broader foreign policy goals. France, once economically strengthened, would be able to increase its military strength and act as an effective bulwark against German expansion.⁵⁸ Furthermore, the Roosevelt administration probably sought to use the Tripartite Stabilization Agreement as a weapon in its economic war against the revisionist powers by introducing a clause which discouraged the latter from devaluing their currencies. As Henry Morgenthau explained to his staff, when he first proposed the clause in September 28, 1936:

⁵⁶ Ibid., p. 17.

* The Tripartite Stabilization Agreement was later strengthened further with the accession of Belgium, Switzerland and Holland. See Kenneth A. Oye, “The Sterling-Dollar-Franc Triangle: Monetary Diplomacy, 1929-1937,” *World Politics* 38, no. 1 (October 1985), p. 194.

⁵⁷ Ibid., p. 194.

⁵⁸ Ibid., p. 193.

We feel that the three countries [the United States, Britain and France] are strong enough to resist the interference of any other nation. In other words, we ask you to get on board, but look out – don't try to wreck this thing or we will be on your neck. This is a threat to Italy and Germany – don't try to undervalue because you are going to go under.... This is a notice to Japan, Germany and Italy that we won't stand any monkey business.... This is a notice to the boys – Achtung!⁵⁹

Herbert Feis, the economic adviser to the State Department, who was present at the meeting, questioned the wisdom of making even a mild threat against Italy and Germany. He warned that language such as the Treasury Secretary was using risked provoking another war in Europe. "We have numerous potential causes of war now," Feis told Morgenthau. "I don't like to bring into the arena as another cause of war national action as regards the value of currency and I think if you bring it out in such terms you are directing public opinion to regard these words as so valuable." He added that Morgenthau's presentation of the clause "would bring the peoples throughout the world to attach a certain new type of importance to moves in the currencies field – a new type of importance; a sharpening of their feeling that it is a matter of vital interest; the type of vital interest in the defense of which they might be led to use arms."⁶⁰ In the end, Morgenthau got the resolution that he wanted – which warned against currency devaluation by other countries aside from France -- but it was worded in such a way as not to appear overly provocative to any particular country or group of countries.

As a result of the Tripartite Stabilization Agreement, the Nazi regime, along with Italy, found itself in a difficult position. On the one hand, owing to the franc's devaluation, German goods could not compete as effectively with French products for the European

⁵⁹ John Morton Blum, *From the Morgenthau Diaries: Years of Crisis, 1928-1938* (Boston: Houghton Mifflin Company, 1959), p. 166.

⁶⁰ *Ibid.*, pp. 166-67.

market as they did in the past. On the other hand, the Nazi regime was further discouraged from devaluing its currency not only by a fear of hyperinflation, but also by the knowledge that a devaluation would lead to commercial retaliation from the formidable trio of the United States, Britain and France (and later by Switzerland, Belgium and Holland as well). To overcome these disadvantages, Germany had to find a way to enter the Reciprocal trading order. However, German attempts to enter this order were unsuccessful, because the US State Department demanded economic concessions from Germany that were far in excess of those it had demanded from other countries. In an aide-memoire dated October 21, 1937, the German embassy complained:

Germany considers itself discriminated against by the United States. The United States grants most favored nation treatment to certain other countries which likewise impose restriction upon their imports and payments abroad; and these countries, on their part, have not been obliged to bind themselves to an unlimited application of the principle of most favored nation treatment insofar as it refers to the allotment of foreign exchange within a percentage of the representative period. The German Government cannot comprehend why the United States, only in its relations to Germany, makes the granting of most favored nation treatment dependent upon Germany's putting this principle into effect at once and without restriction.⁶¹

The real reason behind the State Department's inflexible position cannot be known for sure. But it seems plausible, given the reasons for U.S.-German commercial agreement's cancellation (1934) and the Tripartite Stabilization Agreement (1936), that the Roosevelt administration wanted the Reciprocal trading order to exclude Germany and any country deemed a potential military adversary. Thus, two important groupings emerged in Europe. The first benefited from freer trade in hard currency and the second suffered from persistent foreign exchange shortages because it was not allowed to enter the new liberal

⁶¹ The German Embassy to the Department of State: Aide-Memoire, October 21, 1937; in *Foreign Relations of the United States (FRUS): Diplomatic Papers, 1937, Volume 2: The British Commonwealth, Europe, Near East and Africa* (Washington: United States Government Printing Office, 1954), p. 340

trading order that Roosevelt had created.

Economic Warfare Against Japan

As far as Japan was concerned, the State Department was aware of that country's economic problems since early 1935. On 6 February 1935, U.S. Ambassador in Japan, Joseph Grew warned the State Department that Japan would wage war with the Western powers unless it received "economic elbow room" from the United States:

The satisfaction of Japanese needs will require, primarily, more economic elbow room for the nation. Manchuria will probably supply the needed opportunities for some fifteen or twenty years, but after that time it will certainly be necessary for them to extend their economic "life-line." They can, as in the past, do this by means of military force, but further Japanese military adventures in the Far East would very probably result in a tremendous clash with the Western Powers, in which, presumably, Japan would be crushed....⁶²

In spite of Grew's warning, Roosevelt and his aides intensified their attack on Japanese trade. When Japanese cotton exports to the Philippines rose from 24 million square meters in 1933 to 72 million in 1935, the Roosevelt administration forced Japan to accept a "gentleman's agreement," by which it reduced its cotton exports to 45 million square meters. As a result, Japanese cotton exports fell to 47.5 million in 1936. Another "gentleman's agreement" in 1936 imposed quantitative limitations on Japanese cotton rugs entering the United States to 127.5 million yards annually for 1937-39 – a reduction from bookings of 150 million yards made in late 1936 for the following year (1937).⁶³

The Roosevelt administration, through the Tariff Commission, also imposed tariff

⁶² The Ambassador in Japan (Grew) to the Secretary of State, Tokyo, February 6, 1935 [Received February 23], from *FRUS: Diplomatic Papers, 1935, Volume 3: The Far East* (Washington: United States Government Printing Office, 1953), p. 852.

⁶³ Ethel B. Dietrich, "Closing Doors against Japan," *Far Eastern Survey* 7, no. 16 (August 10, 1938), p. 183, 185.

increases on Japanese imports amounting to 50%, in accordance with the Hawley-Smoot Tariff Act's statutory provisions.* Japanese goods falling under this tariff were canned fish, rubber-soled and rubber footwear, frozen swordfish, wool-knit gloves, cordage and cotton cloth. "When a 50% increase was not sufficient to equalize unit costs," Ethel Dietrich wrote, "the bases were changed from foreign value to American selling price."⁶⁴

Finally, the Roosevelt administration used Reciprocal Trade Agreements as weapons in the trade war against Japan through a clever interpretation of their wording. Technically, Japan abided by the most-favored-nation clause in its trade with other countries. However, the Roosevelt administration took advantage of some clauses in the Reciprocal trade agreement to discriminate against Japan. One clause, for example, stated that, "if a third country gains greater advantages from a concession than the country to which the concession is granted directly, such a concession may be withdrawn after consultation." Using this clause, the Roosevelt administration forced trading partners to discriminate against Japanese trade on the grounds that the latter benefited more from trade concessions than the United States. In the United States' Reciprocal Trade Agreement with Czechoslovakia, for example, "the reduction of duties on cotton warp-knit fabric gloves was limited to gloves valued at \$1.50 or more per dozen pairs; duty reductions on linen napkins and table damasks were limited to items with a thread count of 120 and over; duty reductions on cotton table damask were limited to damask valued at 25 cents per pound or more." With these selections, the Roosevelt administration prevented Japanese goods that

* In accordance with the statutory provisions of the Hawley Smoot Tariff (passed in 1930), Japanese goods would face tariff increases of up to 50%, if their goods were found to discriminate against (i.e. compete unfairly with) U.S. goods. Although the Hawley Smoot Tariff's passage preceded his administration, Roosevelt enforced its provisions more than then the previous Hoover administration.

⁶⁴ Ibid., p. 185.

did not fit the above criteria -- for example, gloves worth \$1.50 or more -- from competing with U.S. goods for the Czechoslovak market.⁶⁵

The new international trading order on American terms, therefore, was one of unequal benefits. The Roosevelt administration promoted economic recovery among nations allied to the United States, while stifling the recovery of potential adversaries such as Germany and Japan.

Chapter 3. Trading with the Americas: The Revisionist Powers Defy the Odds (1935-1937)

During the years 1935-37, the Roosevelt administration's trade policies had mixed success. Japan, under intense fire from "gentlemen's agreements," Reciprocal Trade Agreements, and Hawley-Smoot tariffs, turned to territorial expansion in order to acquire raw materials in 1937. In 1937 Japan resumed war with China in part to resolve its economic difficulties.⁶⁶ The Nazis, on the other hand, temporarily solved their trade difficulties with

⁶⁵ Ibid., p. 185.

⁶⁶ As Professor Michael Barnhart has explained, the total officers (with Ishiwara Kanji as their leader) controlled Japanese foreign policy at the time of the China incident of 1937. Their goal was to achieve economic self-sufficiency for Japan, largely by relying on China as a market for Japanese goods and a source of raw materials since Japanese trade with other countries was on the decline. To achieve economic self-sufficiency, the total war officers recognized that peace with China had to be maintained at least for the next few years. For this reason, the total war officers diluted the authority of the hawkish Kwantung Army, transferred officers, who supported a more aggressive foreign policy, out of China (p. 77), marginalized the Imperial Navy's influence (which also supported a more aggressive policy against China) over foreign policy decisions (pp. 78, 81), and ended the practice of setting up more autonomous states in Northern China under de facto Japanese control (p. 78). In short, the total war officers did not intend to wage war against China in 1937. On the contrary, Barnhart claims that "in the spring of 1937, there were high hopes in Tokyo for a new era in Sino-Japanese relations. On March 20, Kodama Kenji, head of the Japan-China Trade Association, had departed for China, leading an economic mission" (p. 82). Kodama's hope was to continue Sino-Japanese trade and thereby acquire more raw materials for Japan's defense effort. Unfortunately for the Japanese government, Chiang Kai Shek's Kuomintang government, supported by U.S. economic aid, started to rearm, and thereby increased its dependence on the west, instead of Japan. The increase of western influence over China not only threatened future Sino-Japanese trade relations, but it also made the Kuomintang government more assertive in its dealings with Japan. For example, the Chinese were interested in Kodama's trade proposals, but they were also bold enough to oppose Japanese efforts to isolate the Northern provinces (such

compensation trade, a complex kind of trade involving the payment of goods with an artificial currency called the aski mark.⁶⁷

This chapter will examine the Roosevelt administration's trade offensive against Germany in Latin America (and in particular in Brazil). To illustrate why Germany was so successful in negotiating compensation trade agreements with Latin America, the first section, "The Compensation Trade and the Aski Mark," explains what compensation trade was, points out its various advantages and disadvantages, and argues that, on balance, Latin America and Germany saw compensation trade as more advantageous to their economic interests than multilateral trade in hard currency, which, in its present state, offered little in the way of economic benefits.

The second section, "The Trade Offensive in Latin America,"* discusses first the beginning of the U.S. State Department's efforts to thwart a possible compensation trade agreement between Germany and Brazil. Second, it shows how the State Department's efforts seemed to meet with success. Only later did it become apparent that the U.S. State

as Manchukuo) from the Kuomintang's control, and thereby threaten Japan's economic interests in those places (p. 82). As Barnhart explains "Japan now had two alternatives. It could attempt to come to terms with the newly assertive Chinese by accepting the conditions that they had given to Kodama, which might include the dismantling of the collaborative regimes in the north. Or it might elect to cling to those regimes and the influence they represented, paying the price in greater tensions with Nanking" (p. 83). The Japanese opted for the latter course and thereby increased tensions with the Kuomintang. Other factors -- such as continued Chinese rearmament (p. 82), Chiang's exploitation of anti-Japanese sentiment to further the cause of Chinese national unity (p. 83), and rumors that the Kuomintang was preparing for war with Japan (and probably seeking the assistance of the Soviet Union in this endeavor) (p. 82) led to a worsening of Sino-Japanese relations; culminating the China Incident that resulted in the outbreak of war between Japan and China. See Michael A. Barnhart, *Japan Prepares for Total War: The Search for Economic Security, 1919-1941* (Ithica: Cornell UP, 1987)

⁶⁷ Nazi Germany signed compensation trade agreements employing the aski mark mainly with southeastern Europe and Latin America. See Avraham Barkai, *Nazi Economics: Ideology, Theory and Policy* (New Haven and London: Yale UP, 1990), p. 178. The Germans also employed the aski mark system in their trade with Egypt, Turkey and Iran. Overall, compensation trade encompassed a significant fraction of Germany's import needs throughout much of the 1930s. See Frank D. McCann, Jr., *The Brazilian-American Alliance, 1937-1945* (Princeton: Princeton UP, 1973), p. 169.

* This thesis will focus on the trade offensive for the year 1936 alone, since the State Department's efforts in 1937 were little more than a repetition of those from the previous year.

Department's efforts were failing. Then, unexpectedly, the proposed German-Brazilian trade talks broke down and the State Department appeared to have scored a decisive victory. Later at the Buenos Aires Conference, the U.S. delegation convinced other Latin American nations to accept a resolution which recommended that they stop engaging in compensation trade with the revisionist powers. As subsequent events have shown, these successes were nominal at best, because the Latin American nations, including Brazil, continued to engage in compensation trade.

The third section, "German Trade Discrimination in Latin America," raises doubts about the conventional view that the Roosevelt administration's opposition to compensation trade resulted from perceptions of unfair trade competition from German exports to Latin America.

The fourth section, "A Strange Paradox: Opposition to Compensation Trade with America and the Promotion of U.S.-German Compensation Trade," is more complex. Between 1935 and 1939, the Roosevelt administration permitted U.S.-German compensation trade, while opposing German compensation trade with Latin America. This section will advance a more plausible interpretation for this strange paradox; namely that the Roosevelt administration wanted to prevent Germany from successfully making the transition to freer trade in hard currency. Thus, the U.S. government allowed U.S.-German compensation trade to occur, but it thwarted German attempts to negotiate a Reciprocal Trade Agreement with the United States. Why would the Roosevelt administration do this? To make Germany more dependent on compensation trade so that when the State Department's efforts to curb German compensation trade with Latin America met with greater success, as they did in 1938 and 1939, and when the U.S.-German compensation

trade agreement was cancelled, as it was in March 1939, then Nazi Germany's trade difficulties would become much worse. This section reveals, in short, that the Roosevelt administration's objective was not to change German trading behavior, but to wreak economic destruction upon Germany for entirely understandable political reasons.

The Compensation Trade and the Aski Mark

The aski mark was like any other devalued currency⁶⁸, except that it was separate from the Reichsmark, not recognized as a currency of international acceptance,^{*69} and used only for bilateral trade.⁷⁰ The purpose behind creating such a currency was to enable Germany, in theory at least, to prevent hyperinflation by maintaining an overvalued Reichsmark⁷¹, while making its exports competitive with foreign exports by pricing them in undervalued aski marks.

The new currency's success depended on the willingness of other countries to accept it as legal tender. Here, Germany was fortunate as it was not the only country suffering from foreign exchange shortages. Most Latin American Republics could not gain

⁶⁸ David Haglund himself describes the aski mark as an "undervalued currency." See Haglund, p. 136. It is also interesting to point out that State Department officials also believed the aski mark was a devalued currency of sorts. See Arnold A. Offner, *American Appeasement: United States Foreign Policy and Germany, 1933-1938* (Cambridge, MA: The Belknap Press of Harvard UP, 1969), p. 148.

* For example, Brazil, after earning aski marks from its coffee and cotton sales to Germany, could not use that artificial currency to buy U.S. goods or resume interest payments on loans owing to American bondholders, since the aski mark was not freely exchangeable with other currencies of international acceptance.

⁶⁹ Hjalmar Schacht, *Confessions of "The Old Wizard": The Autobiography of Horace Greeley Schacht* (Westport: Greenwood Press, 1974), p. 289.

⁷⁰ Offner, p. 149.

⁷¹ The German government felt that it was necessary to prevent hyperinflation, because deficit spending for much of the 1930s (which made possible the record job creation) had reached remarkably high levels. In 1932-33, the fiscal deficit was as high as 13.1% of GNP. By 1934-35, it rose to 17.4%, before stabilizing at 15.1% for the fiscal years, 1936-37 and 1937-38 (Statistics based on calculations from Table 35: Government Expenditure and Revenue, 1932-37 (fiscal year) (m. RM); to be found in Harold James, *The German Slump: Politics and Economics, 1924-1936* (Oxford Clarendon Press, 1986), p. 374). Of course, Germany after 1936 was discouraged from devaluing by the Tripartite Stabilization Agreement of 1936 (see previous section).

access to credit, having defaulted on their external debts,⁷² and they were unable to earn enough foreign exchange to pay for their imports because developed countries had for the most part closed their markets to Latin American goods.⁷³ Therefore, many Latin American nations saw compensation trade with Germany in aski marks as an attractive alternative. Latin American exporters, regardless of how devalued the aski mark became, had little difficulty selling their goods to Germany for attractive prices because the Nazis were consistently willing to buy large quantities of favorably priced Latin American goods. Since exporters could not find trade relations conditions as favorable as these from other countries, they were understandably enthusiastic about continuing their trade with Germany.⁷⁴ After earning aski marks, the exporters sold these marks via local German or national banks to importers who were willing to pay hard currency for them. Importers, for their part, preferred to spend their hard currency on aski marks, because the latter's purchasing power was greater than that of other currencies. In other words, importers realized the cost of German imports in aski marks tended to be lower than the cost of foreign goods in hard currency.⁷⁵

Yet, if compensation trade had significant benefits for importers and exporters, it also brought some disadvantages. The Nazi regime was infamous for dumping products, which it had bought with aski marks, in order to resell them at lower prices for hard

⁷² On several occasions, the *New York Times* reported on Latin American countries who defaulted on their loans. See the following articles: (1) "State Department Blamed on Loans to Latin America," *The New York Times*, 7 January 1932, p. 1; (2) "Defaults Set at Thirty Billions," *The New York Times*, 8 January, 1932, pg. 13; (3) "Foreign Debt Here is 34% in Default," *The New York Times*, 18 May 1936, pg. 25 (Financial Section).

⁷³ McCann points out that Brazil was unable to accelerate exports to the American market, because of trade barriers. Such arguments apply as much to other Latin American countries. See Frank D. McCann, Jr., *The Brazilian-American Alliance, 1937-1945* (Princeton: Princeton UP, 1973), p. 168, 175.

⁷⁴ Haglund, p. 136.

⁷⁵ Frank D. McCann, Jr., *The Brazilian-American Alliance, 1937-1945* (Princeton: Princeton UP, 1973), p. 150.

currency on the world market. Another disadvantage was that traders could only use this currency to buy German goods. Brazil, for instance, could not use the aski marks it earned from coffee and cotton sales to Germany to buy goods from the United States. Therefore, any country doing business in aski marks found itself involved in bilateral, not multilateral, trade.⁷⁶ Notwithstanding this, most Latin American Republics found compensation trade preferable to trade in hard currency. Brazil's Vargas regime engaged in compensation trade with Germany until late 1939;⁷⁷ the same held true for Mexico, Peru, Venezuela and Chile.⁷⁸

In many respects, the Nazi regime also recognized the disadvantages of compensation trade. German government officials tried, through U.S.-German trade negotiations dating back to 1936, to engineer Germany's transition to freer trade in hard currency.* They had quickly recognized that compensation trade contributed little to the build up of Germany's foreign exchange reserves and that the Roosevelt administration's Reciprocal trade program was the wave of the future. For better or worse, the Roosevelt administration seemed to distrust the thesis, which Cordell Hull so enthusiastically touted, that free trade makes for free societies.

With that said, Germany probably would not have abandoned the aski mark system entirely, at least not for the near to medium term. Compensation trade with Latin America,

⁷⁶ One piece of evidence proving that compensation trade was bilateral comes from Hull's telegram to Ambassador Gibson in Brazil, in which he claimed, "Any arrangement setting up inter-government machinery for compensation trade would be a threat to the success of the program of re-establishing the system of multilateral trade"; See The Secretary of State to the Ambassador in Brazil (Gibson), Washington, July 18, 1936 – 4 p.m.; from *FRUS: Diplomatic Papers, 1936, Volume 5: The American Republics* (Washington: United States Government Printing Office, 1954), p. 276.

⁷⁷ Frank D. McCann, Jr., *The Brazilian-American Alliance, 1937-1945* (Princeton: Princeton UP, 1973), p. 153.

⁷⁸ Haglund, p. 137.

* See pages 35-39 of the M.A. thesis.

after all, contributed significantly to Germany's economic survival during this period. In 1935, 13.1% of German imports came from Latin America, compared to 7.7% from Southeast Europe. In 1938, Germany exported 14.9% of its goods to Latin America and 9.8% to Southeast Europe. Many of the commodities Germany imported from Latin America had little or nothing to do with rearmament. In 1938, 20% of Latin America's cocoa went to Germany, along with 22.2% of its cereals, 19% of its corn, and 25% of its hides and skins. The only commodities that could conceivably have any military value to Germany were, in 1938, wool (23%**), cotton (29%), metals such as lead, zinc, tungsten, antimony and manganese (12%), and fibers (15%). Although German purchases of oil received considerable attention in the press, the Nazis only bought 1% of Latin America's petroleum in 1938, while Canada imported 4%. Similarly, Germany bought relatively negligible amounts of copper (1%), nitrates (9%) and tin (1%).⁷⁹

The Trade Offensive in Latin America

Meanwhile, the Roosevelt administration looked upon the rise of German-Latin American compensation trade with disfavor. Thus, the news of Brazil's plans to sign a compensation trade agreement with Germany met with a chilly reception in Washington in April 17, 1936. On that day, Cordell Hull made an inquiry to Ambassador Gibson of Brazil about an article in the *New York Times*:

Please comment briefly by cable on [a] story in today's issue of [the] New York Times that the Brazilian Foreign Trade Council has recommended an emergency commercial agreement (with Germany) as a method of selling surplus cotton stocks [that] Germany is willing to buy

** This figure refers to the percentage of the said commodity that Latin America exported to Germany.

⁷⁹ Leonard S. Wilson, "Latin American Foreign Trade," *Geographical Review* 31, no. 1 (January 1941), pp. 136-139.

with compensated marks.⁸⁰

Gibson reported that the *New York Times* article was accurate, adding that because of the Foreign Trade Council's recommendation, the Vargas regime could not avoid "giving some satisfaction to cotton exporters, particularly in the north." Yet, he also qualified his assessment by explaining that the Council's recommendation did not necessarily mean a decisive victory for German trade. "[The Vargas] Government," he wrote, "realizes [the] need for restricting German trade and is ready although unwilling to adopt the quota system". Vargas' decision to impose quotas, he added, resulted partly from British and U.S. business pressure, and also from the need to build a favorable trade balance to support Brazil's currency and enhance the country's prestige. Though Gibson did not state this explicitly, it is possible that his informal meetings with Macedo Soares (Brazilian Foreign Minister) influenced Vargas' decision to impose the import quota system. Thus, Gibson, toward the end of his telegram, reported that,

Confidentially, Macedo Soares in several recent conversations with me has shown himself [to be] fully alive to the dangers of destroying American import trade and goodwill and is studying... measures to protect lines normally purchased by Brazil in the United States, automobiles, typewriters, et cetera.⁸¹

Over the course of the next month, Gibson appeared to meet with greater success in his efforts, on the State Department's behalf, to curb German-Brazilian compensation. At one point, he even congratulated himself in a telegram on his own diplomacy with the

⁸⁰ The Secretary of State to Gibson, Washington, April 17, 1936 – 6 p.m.; in *FRUS: Diplomatic Papers, 1936, Volume 5: The American Republics*, p. 247.

⁸¹ Gibson to the Secretary of State, Rio de Janeiro, April 20, 1936 – noon (received 1:30 pm); *Ibid.*, p. 248-249.

Vargas regime.⁸² Then the reverses came. On May 30, 1936, Macedo Soares handed Gibson a memorandum of the proposed compensation trade agreement, containing favorable concessions from both sides. Gibson reported that,

A special commercial interchange should prejudice commercial relations with countries which deal in international currency, this clause being drafted as follows: 'It is agreed the following articles, automobiles and accessories, typewriters and accessories, gasoline, oil, sewing machines and accessories, and carbon paper, may be imported from Germany in maximum quantities equal to those of the last 12 months previous to the entry into force of this agreement, with an increase of 10%.'⁸³

In other words, Brazil, instead of pushing for quotas on all the products valued in aski marks, entered into a compromise with Germany where some products that competed with American goods received quotas, while others did not. The only consolation, from the State Department's point of view, was that Soares took a stand, or so he claimed, against the proposed agreement, on the grounds that quotas were not extended to all items.⁸⁴

In June 1, 1936, Gibson reported that the German delegation made a proposal to the Brazilian side that would result in "a distinct upward revision of Brazilian export trade to Germany." This concession did not sit well for the State Department, because it meant that Nazi efforts to secure a compensation trade agreement with Brazil were meeting with greater success. As Gibson wrote,

This is frankly regarded by the Brazilian Government as a remarkably advantageous offer, much better than they had hoped for. The Germans appear to have combined enticing offers as regards purchases with threatening methods concerning articles to be

⁸² (1) Gibson to Hull, Rio de Janeiro, April 24, 1936 – 5 pm (Received April 24 – 4:55 pm); from *FRUS: Diplomatic Papers, 1936, Volume 5*, p. 249; (2) The Ambassador in Brazil (Gibson) to the Secretary of State, Rio de Janeiro, May 27, 1936 – noon [Received 2 p.m.], *Ibid.*, p. 254; (3) Gibson to Hull, Rio de Janeiro, May 28, 1936 – 1 p.m. [Received 2:20 p.m.], *Ibid.*, p. 255; (4) Gibson to Hull, Rio de Janeiro, May 29, 1936 – 2 p.m. [Received 7:23 p.m.], *Ibid.*, p. 256.

⁸³ Gibson to Hull, Rio de Janeiro, May 30, 1936 – 3 p.m. [Received 8:09 p.m.], *Ibid.*, p. 257

⁸⁴ Same telegram, *Ibid.*, p. 258.

put on the restricted list.⁸⁵

Gibson also reported that he was unsuccessful in convincing the Vargas regime that, by signing a compensation trade agreement with Germany, it was violating the “broader principles of international trade to which they profess their devotion,” and “lessening the amount of available exchange for debt service and purchases abroad.”⁸⁶

Just as the State Department’s efforts to end German-Brazilian compensation trade appeared to be going nowhere, Gibson suddenly reported a decisive diplomatic victory. According to Gibson’s June 6 telegram, Soares argued for the restriction of German export trade to “normal bounds,” warning that, “if Germany disregarded this warning and persisted seeking unduly to enlarge her sales of motor cars, machinery, et cetera, [Brazil] would be obliged to take steps.”⁸⁷ Soares’ strong stand caused the formal compensation trade agreement to fail.⁸⁸

Later in December 21, 1936, the U.S. delegation, attending the Buenos Aires Conference, also convinced all Latin American governments to support a resolution stating:

That each Government declare its determination to bend every effort, having in mind the different national economies, towards the objective of enforcing in all the phases of its general commercial policy the peaceful and equitable principle of equality of treatment, and recommends that the Governments of all countries adopt this principle in their commercial policies, and in accordance therewith suppress as soon as possible all discriminatory practices including those arising in connection with import-license systems, exchange control, and bilateral clearing and compensation agreements.⁸⁹

The resolution’s obvious targets were Germany, Japan and Italy. Yet, these diplomatic

⁸⁵ The Ambassador in Brazil (Gibson) to the Secretary of State, Rio de Janeiro, June 1, 1936 – 8 p.m. [Received 10:05 p.m.], *Ibid.*, p. 261.

⁸⁶ Same telegram, *Ibid.*, p. 262.

⁸⁷ Gibson to Hull, Rio de Janeiro, June 6, 1936 – 8 p.m. [Received June 7 – 1:54 a.m.], *Ibid.*, p. 267.

⁸⁸ Gibson to Hull, Rio de Janeiro, June 6, 1936 – 9 p.m. [Received June 7 – 12:24 a.m.], *Ibid.*, p. 267.

⁸⁹ James W. Gantenbein (ed.), *The Evolution of Our Latin-American Policy: A Documentary Record* (New York: Octagon Books, 1971), *Ibid.*, pp. 768-769.

successes concerning Brazil and the rest of Latin America proved to be illusory. Although trade talks with Germany broke down, the Vargas regime agreed to an informal understanding that continued German-Brazilian compensation trade.⁹⁰ Similarly, most of Latin America, while adopting the resolution, continued to trade in aski marks.⁹¹

German Trade Discrimination in Latin America

Historians of Latin America have not been ignorant of the US trade offensive. Many thought that the Roosevelt administration wanted to end compensation trade because it saw this trade as a threat to U.S. commerce.⁹² However, there are reasons to conclude that trade competition was not the main impetus behind the trade offensive. The notion that the Roosevelt administration was concerned about Brazilian cotton competing unfairly with U.S. cotton for the German market seems less than plausible, considering that Germany could not pay for cotton with hard currency. U.S. cotton exports to Germany were already falling in 1935, not due to Brazilian competition, but because Germany lacked hard currency with which to buy cotton.⁹³ Second, the claim that the State Department feared German export competition appears less than credible, given the U.S. Commerce

⁹⁰ McCann, p. 154.

⁹¹ Haglund, p. 137.

⁹² Frank McCann claimed the State Department was concerned about Brazilian cotton competing unfairly with U.S. cotton for the German market: "The matter [McCann meant the proposed German-Brazilian compensation trade agreement] was especially touchy because the United States also sold cotton to Germany, but for hard currency, and obviously Germany would benefit if it could obtain Brazilian cotton via the aski system." He also maintained that, "Ostensibly, the Americans did not object to Brazilian sales of rubber and wool to the Reich, though they were concerned about Brazilian cotton competition – what they objected to was that Brazil's sales obligated it automatically to buy German products that competed with American ones." See McCann, p. 153, 165. As late as 2003, Max P. Freedman argued that "Well before war came to seem inevitable, what concerned U.S. officials was not any potential military threat, but rather the Third Reich's economic challenge in an area Washington considered an integral part of its own trading system." See Max Paul Freedman, "There Goes the Neighbor Policy," *Diplomatic History* 27, no. 4 (2003), p. 576.

⁹³ A German Foreign Office spokesperson said: "It must be remembered, however, it was the force of circumstances, not ill will on Germany's part, that resulted in the falling off of German-American trade. As we have no foreign exchange, we necessarily had to turn to countries that could deal with us on a barter basis." See "Reich Desires a New Accord," *The New York Times*, 3 April 1935, p. 15.

Department's trade statistics. According to these statistics, U.S. exports to Latin America rose seven years out of eight during the period 1933-1940*, except for countries like Argentina, Bolivia, Colombia, Paraguay and Venezuela. However, the decline in U.S. exports to these five countries was probably not due to German trade competition. U.S. exports to Argentina declined in 1939, after the Roosevelt administration had already made progress suppressing German compensation trade; Colombia cancelled its compensation trade agreement with Germany in 1935, making it unlikely that German competition caused the slight decline in U.S. exports (minus 1.3%) to that country in the same year; the decline in U.S. exports to Venezuela in 1935 probably resulted from that country's large trade deficit with the United States, which necessitated a reduction in U.S. imports.⁹⁴

This is not to say that German exports to Latin America did not increase rapidly in the mid-1930s. Between 1934 and 1935, Germany's exports to Brazil rose by 128%,⁹⁵ while its exports to Chile increased 147.2%.⁹⁶ Yet, these increases need to be placed in their proper context. In 1933, Germany supplied 11.5% of Latin America's imports, a share lower than 23 years before, when it supplied 15.6%. Germany was simply recovering lost

* The single year where U.S. exports to most Latin American Republic fell was in 1938. But this significant decline in U.S. exports resulted from a downturn in the global economy (which reduced the amount of exchange available to the Latin American Republics), not competition from German exports. Indeed, German exports to Latin America also fell significantly in that year. See Julian G. Zier, "United States Trade with Latin America in 1938," *Bulletin of the Pan American Union* 73 (April 1939), p. 227.

⁹⁴ Statistics for U.S. Trade with Latin American collected from (1) Matilda Phillips, "Trade of the United States with Latin America in 1933," *Bulletin of the Pan American Union* 68, no. 4 (April 1934), p. 259; (2) Matilda Phillips, "Trade of the United States with Latin America in 1935," *Bulletin of the Pan American Union* 70, no. 3 (March 1936), p. 261; (3) Matilda Phillips, "Trade of the United States with Latin America in 1936," *Bulletin of the Pan American Union* 71, no. 3 (March 1937), p. 245; (4) Julian G. Zier, "United States Trade with Latin America in 1938," *Bulletin of the Pan American Union* 73, no. 4 (April 1939), p. 227; and (5) Julian G. Zier, "United States Trade with Latin America, 1940," *Bulletin of the Pan American Union* 75, no. 6 (June 1941), p. 359.

⁹⁵ Matilda Phillips, "Foreign Trade of Brazil in 1935," *Bulletin of the Pan American Union* 70, no. 7 (July 1936), p. 564.

⁹⁶ Matilda Phillips, "Foreign Trade of Chile in 1935," *Bulletin of the Pan American Union* 70, no. 9 (September 1936), p. 564.

ground in its exports to Latin America. After 1935, trade statistics show German export growth to Latin America slowing down. While Latin America's share of imports from Germany rose from 9.9% in 1934 to 13.0% in 1935, it increased at a more moderate pace in the following two years: from 13.0% in 1935 to 15.4% in 1936 and from 15.4% in 1936 to 15.5% in 1937.⁹⁷

Furthermore, these increases in trade with Germany failed to reduce the share of Latin America's imports from the United States. According to U.S. Commerce Department's trade statistics, Latin America's share of imports from the United States increased by 4.8% between 1933 and 1937, while its share of imports from Germany rose by 4.0% for the same period. Therefore, the United States had moderately strengthened its lead as the main supplier of exports to Latin America.⁹⁸ The greater increase in U.S. trade was evident not only to the Roosevelt administration through the U.S. Commerce Department's trade statistics, but also to contemporaries. Richard F. Berhrendt wrote in July 1939, "The Trade competition between totalitarian and democratic nations which has been going on in Latin America for six years constitutes, undoubtedly, a very serious problem"; but, he added, "It must be pointed out, however, that the gains which have been obtained in this period by Germany, Japan, and, to a much lesser degree, Italy do not always constitute losses for the United States."⁹⁹ Lew B. Clark commented in September 1940, "While we hear a great deal of the threatened inroads on our trade with Latin America by Germany, Italy, or Japan, these reports are, in the main, exaggerated and

⁹⁷ Julian G. Zier, "Latin American Foreign Trade, In 1936, 1937, and Part of 1938," *Bulletin of the Pan American Union* 73, No. 4 (April 1939), p. 232.

⁹⁸ *Ibid.*, p. 232.

⁹⁹ Richard F. Berhrendt, "Foreign Influences in Latin America," *Annals of the American Academy of Political and Social Science*, Vol. 204 (July 1939), p. 1. Richard F. Berhrendt was professor of economics and sociology at the University of Panama.

overemphasized.”¹⁰⁰ Since competition from German exports did not pose an exceptional threat to U.S. commerce, it was probably not a factor behind the State Department’s opposition to German compensation trade. As with the U.S.-German commercial agreement’s cancellation in 1934, one of the Roosevelt administration’s aims in opposing compensation trade was to undermine Germany’s economy and thus its ability to wage war.

*A Strange Paradox: Opposition to German Compensation Trade with Latin America
and the Promotion of U.S.-German Compensation Trade*

Surprisingly, however, the Roosevelt administration permitted U.S.-German compensation trade from 1935 to early 1939 over the objections of even the Treasury Department and the Customs Bureau, which had argued in November 1935 that Germany was subsidizing exports to the United States and thereby undermining U.S. business. When the Treasury Department called for the imposition of duties on German goods, the State Department tried to thwart the initiative.¹⁰¹ The State Department’s stance, of course, revealed glaring contradictions about the way it viewed compensation trade. On the one hand, the State Department complained that German-Brazilian compensation trade placed “American traders at a disadvantage” because German goods were valued in aski marks.¹⁰² Yet, the State Department had no qualms about subsidized German products (also valued in aski marks) competing with U.S. goods for the American market. According to Professor

¹⁰⁰ Lew B. Clark, “Competing for Latin American Markets,” *Annals of the American Academy of Political and Social Science*, Vol. 211 (September 1940), pp. 164-165. Lew B. Clark was Chief of the Latin American Section of the Division of Regional Information of the Bureau of Foreign and Domestic Commerce, Washington D.C.

¹⁰¹ Offner, pp. 147-148.

¹⁰² McCann, Jr., p. 153.

Arnold Offner of Lafayette College:

[The State Department] believed Germany used the Aski system with American exporters and importers because German goods were otherwise too expensive in dollars to sell in the United States, and that higher duties would eliminate these German goods from the American market. The Germans might curtail their purchases of American raw materials. All in all, they concluded, the Germans were only devaluing their currency and employing devices that did not give an 'extraordinary advantage' over American manufacturers.¹⁰³

In mid-1936, however, the State Department's efforts faced a significant reversal. Roosevelt concluded that "It may be possible to make the action apply to Germany only," and Morgenthau subsequently imposed on German products duties ranging from 20-55% on July 11, 1936. The duties produced the desired results, because Germany agreed to abandon subsidies a month later.¹⁰⁴

Whether Germany was sincere about honoring this promise remains uncertain, because soon afterwards, according to Offner, "the State Department and American businessmen pressed the Treasury to alter its interpretation of the law so that by clever bookkeeping and financial devices the old Aski practices could be taken up in a new guise." In October 1936, German and U.S. government economic experts and the Treasury Department agreed not to impose duties on subsidized German exports, if the person or firm using aski marks had received them by selling goods to Germany, instead of purchasing these marks from another U.S. exporter. The clause led to the revival of U.S.-German compensation trade as it had existed before the duties. As Offner explains:

The bookkeeping procedure worked in the following manner. An American importer, "A," ordered from a German exporter, "B," chemicals costing 9,000 registered marks. Then "A" purchased \$2,700 worth of cotton from an American firm, "C," \$2,700 equaling only three fourths the real dollar value of 9,000 registered marks. Then firm "A" sold the cotton to a

¹⁰³ Offner, p. 148.

¹⁰⁴ Ibid., pp. 150-151.

German firm, “D,” interested in buying American cotton, and “D” in turn deposited a credit of 9,000 registered marks with the German chemical firm, “B,” or its bank, in the name of the American importer of German chemicals, firm “A.” Whereupon “B” shipped the chemicals to the American importer, “A.” To facilitate matters, American cotton firms never shipped the cotton to American importers of German goods but only invoices for such goods, and importers in turn shipped the invoices to German purchasers of the cotton.¹⁰⁵

The scheme also worked for copper and petroleum.¹⁰⁶ The revival of U.S.-German compensation trade was so successful that about 50% of U.S.-German trade was conducted in aski marks by early 1939.¹⁰⁷

The revival of U.S.-German compensation trade suggests that the State Department was not very concerned about subsidized German goods competing with U.S. goods for the Latin American market. After all, as a consequence of the State Department’s support for U.S.-German compensation trade, U.S. manufacturers discovered that competition from German goods was as great inside the United States as it was in Latin America.

The existence of a U.S.-German compensation trade during this period seems at first blush to imply that the main argument presented in this section of the thesis – that the Roosevelt administration had launched a trade offensive against Germany – is erroneous. However, it must be remembered that, as mentioned above, the Roosevelt administration, while allowing U.S.-German compensation trade, prevented any possible Reciprocal Trade agreement with Germany in hard currency. According to a State Department memorandum dated 3 February 1936, Dr. Puhl, Director of the Reichsbank, had informed Assistant Secretary Francis Sayre and two other officials, “that the German Government shared the

¹⁰⁵ Ibid., pp. 151-152.

¹⁰⁶ Ibid., p. 152.

¹⁰⁷ Arnold A. Offner, “Appeasement Revised: The United States, Great Britain and Germany, 1933-1940,” *The Journal of American History* 64 (September 1977), p. 375.

views of this Government regarding the necessity of freer trade.”¹⁰⁸ Puhl continued:

Germany, however, was so completely tied down by clearing arrangements that it had practically no free foreign exchange. These arrangements had been forced upon it by countries which were chiefly interested in assuring payment of coupons and interest due their own nationals. Germany would very much like to be able to utilize its exchange for the purpose of necessary American products, such as cotton and lard. The clearing arrangements, however, made it impossible to get at the money. The problem for Germany was how to make a start in breaking down this system.¹⁰⁹

The issue, therefore, was not whether Germany would join the new trading regime, which Hull so enthusiastically advocated, but how to make the transition to this trading order. In March 30, 1936, the German Ambassador Hans Luther and Dr. Meyer, Germany’s Chargé d’Affairs in the United States, presented their first trade proposals.¹¹⁰ As Meyer explained to Sayre on 24 November 1936, these proposals would “make it possible for the United States to maintain its principles and yet to trade with Germany” and would “establish most-favored-nation treatment even with respect to the allotment of foreign exchange with the great bulk of commodities concerned in the trade, excepting only three or four, albeit very important commodities...” Sayre, however, refused to make any compromises. He indicated that Germany would have to abandon compensation trade with Latin America, if it wanted to successfully negotiate a reciprocal trade agreement in hard currency with the United States. Ambassador Luther objected to Sayre’s demand for an end to German-Latin American compensation trade, claiming that in the present trade proposals, Germany was “going very far and taking a real risk” in offering to pay 10%

¹⁰⁸ Memorandum by Mr. Rudolf E. Schoenfeld of the Division of Western European Affairs, [Washington], February 3, 1936; From *FRUS: Diplomatic Papers, 1936, Volume 2: Europe* (Washington: United States Government Printing Office, 1954), p. 213.

¹⁰⁹ Same telegram, *Ibid.*, p. 213.

¹¹⁰ Memorandum by the Chief of the Division of Trade Agreements (Grady), [Washington], March 30, 1936, pp. 221-223.

more hard currency than the 1935 average for U.S. imports. Sayre, however, replied that if Germany wanted reciprocal trade with the United States, it must adhere to the principle of strict equality of treatment by paying for all U.S. imports in hard currency.¹¹¹

Consequently, German trade proposals went nowhere.

In 1937, trade discussions continued, but they proved inconclusive, because Secretary Hull would only agree to a trade agreement with the “principle of equality” in its unrestricted form. The German embassy’s counter-argument, in an aide-memoire dated 21 October 1937, that “The United States itself, in all of the trade agreements concluded since June 1934, has not insisted upon an unrestricted application of most favored nation treatment, within this meaning,” failed to persuade the State Department to reconsider its position.¹¹²

In 1938, Dr. Rudolf Brinkmann, Secretary of State for Germany’s Economic Ministry), the most influential moderate and liberal economist in Germany, presented what were arguably the most promising trade proposals to date. The U.S. Ambassador in Germany, Hugh Wilson, who passed on Brinkmann’s proposal to Sayre, wrote that while he could not ascertain the feasibility of the proposals themselves, he believed that

Brinkmann is the influence in German economic life which is most friendly to us and should be kept that way by all means in our power. I would say that at the present time, with Schacht’s partial retirement, he is probably the strongest single influence towards liberal economic development and organization in the Reich.¹¹³

¹¹¹ Memorandum by the Assistant Secretary of State (Sayre), [Washington] November 24, 1936, *Ibid.*, pp. 252-253.

¹¹² Memorandum by the Under Secretary of State (Welles), [Washington], October 21, 1937: The German Embassy to the Department of State, Aide-Memoire; From *FRUS: Diplomatic Papers, 1937, Volume 2: The British Commonwealth, Europe, Near East and Africa* (Washington: United States Government Printing Office, 1954), p. 339.

¹¹³ The Ambassador in Germany (Wilson) to the Assistant Secretary of State (Sayre), Berlin, November 10, 1938 [Received November 26.]; From *FRUS: Diplomatic Papers, 1938, Volume 2: The British Commonwealth, Europe, Near East and Africa* (Washington: United States Government Printing Office, 1955), pp. 427-428.

Wilson also added that Brinkmann had offered to help moderate the Nazi regime's Jewish policy. For these reasons, Wilson concluded, "I hope that an answer can be given [to] him which is friendly and interested in tone, and which will encourage him to continue to devote his real ingenuity eventually to finding a ground we could consider perhaps as a common one for our two systems."¹¹⁴

In a brief memorandum, Brinkmann proposed the creation of an "American-mark" as the best way to revive U.S.-German trade, and illustrated several ways that U.S.-German trade could be mutually beneficial. Germany was traditionally the United States' best customer of agrarian products and a new trade agreement would, therefore, help market excess American farm produce. He continued that "the industrial products of both countries complement each other in various respects, so that it would be possible along this line to expand German-American trade." In the second part, Brinkmann discussed the chief obstacle to the revival of U.S.-German trade – namely, the unilateral devaluation of the dollar that forced Germany to apply counter-measures, such as subsidies, to correct its trade imbalances. Brinkmann's solution to these unfortunate trends in both countries' trade policies was to restore the parity between the Reichsmark (RM) and the dollar that existed before the devaluation – i.e. to create the "American-Mark" with a parity of 4.2 RM to the dollar. He also recommended a procedure by which German purchases of U.S. exports created a Reichsmark credit balance. This balance would be liquidated by the sale of German goods to the United States.¹¹⁵

¹¹⁴ Same telegram, *Ibid.*, p. 428.

¹¹⁵ The State Secretary, German Ministry of National Economy (Brinkmann), to the American Ambassador (Wilson): Memorandum, Berlin, October 31, 1938, *Ibid.*, p. 429.

Yet, Sayre offered the following response to the Brinkmann trade proposals,

I have considered the proposal which you were good enough to suggest in your memorandum of October 31. Unfortunately, there would seem to be no possibility at the present time of entering into fruitful conversations about the matters dealt with in your memorandum. I hope, however, that you will not desist in your effort to discover the means of improving the relations between your country and mine...¹¹⁶

The main result of all these failed negotiations was that Germany was locked into the very trading system that the Roosevelt administration was aiming to destroy. In fact, locking Germany into a trading system with an uncertain future was more plausibly the Roosevelt administration's goal all along. By preventing Germany from making the transition to freer trade in hard currency, the Roosevelt administration ensured the Third Reich's continued dependence on compensation trade. Consequently, as the Roosevelt administration's efforts to curb German compensation trade with Latin America met with greater success beginning in 1938, the Third Reich's trade difficulties took a turn for the worse. On the eve of the Second World War, the German economy, which depended heavily on trade, was in crisis and faced a future that nothing short of bleak.

Chapter 4. 1938: The Turning Point

Through a patchwork of trading policies, Germany's financial wizards had delayed the denouement that Roosevelt and his advisors had planned. The years 1935-37 saw a postponement of Nazi Germany's trade problems. During this period, German trade surpluses were 111 million Reichsmarks (RM) (1935), 550 million (1936) and 443 million

¹¹⁶ The Assistant Secretary of State (Sayre) to the State Secretary, German Ministry of National Economy (Brinkmann), Washington, December 16, 1938, *Ibid.*, p. 431.

(1937). These surpluses, however, were low compared to the years' 1930-32, when they were in the billions of Reichsmarks, and, thus, contributed little to the overall improvement of Germany's foreign exchange reserves. When German trade incurred a deficit worth 192 million RM in 1938, the negligible foreign exchange reserves acted only as a temporary buffer.¹¹⁷ Despite the relative trade prosperity of the previous years, Nazi Germany was again headed for economic crisis. One factor behind Germany's worsening trade situation was the downturn in the global economy. Another was that, after years of unsuccessful economic warfare, the Roosevelt administration had finally turned the tide against German compensation trade.

The first section of this chapter, "The Turning Point in Brazil," concerns the U.S. State Department's increasingly successful efforts to curb German-Brazilian compensation trade. As this chapter will show, this turning point was achieved when the U.S. Ambassador in Brazil, Jefferson Caffery, convinced the Banco do Brasil to gradually increase the value of the aski mark, thereby making German exports headed for Brazil less competitive. Furthermore, the rising aski mark, owing to the unique nature of compensation trade, resulted in the fall of Brazilian exports to Germany for reasons that this section will explain. The second section, "Germany's Trade Success in Mexico and the Roosevelt Administration's Reaction," narrates the events leading up to Mexican president Lazaro Cardenas' momentous decision to nationalize the oil industries in Mexico. This section will argue that one of the Roosevelt administration's concerns, arising from the nationalization of the oil industry, was that the Mexican government would increase oil exports to

¹¹⁷ See "German Visible Foreign Trade: Exports and Imports, 1928-1938 (in millions RM)," from J. Noakes and G. Prindham (ed.) *Nazism 1919-1945, Volume 2: State, Economy and Society, 1933-1939: A Documentary Reader* (Exeter: Exeter UP, 1984), p. 104.

Germany, Japan and Italy. However, the U.S. government could do little to discourage Mexico from exporting oil to these countries, because U.S. oil companies were also doing business with the Axis powers. The third section, “German Trade Reverses in the Rest of Latin America,” draws largely from German diplomatic correspondence to show that Germany was experiencing growing trade difficulties in the rest of Latin America. Lastly, the fourth section, “The Trade Offensive Outside the Americas,” discusses the important Anglo-American Trade Agreement, signed in late 1938, which contained provisions targeting German trade. This agreement would have the effect of reducing German trade with the British Empire.

The Turning Point in Brazil

In February 2, 1938, Jefferson Caffery (U.S. Ambassador in Brazil) reported that Brazilian Ambassador in the U.S., Oswaldo Aranha,¹¹⁸ on his advice, “instructed the Exchange Director of the Bank of Brazil gradually to increase the value of the compensation mark until it reached the level of the reichsmark.”¹¹⁹ This move* was

¹¹⁸ Aranha was the State Department’s new “amigo.” In Brazil, foreign diplomats conducted diplomacy with the Vargas regime by establishing contacts with government officials. If one or more of these officials became amigos with the foreign embassy, then he would serve that embassy’s interests almost blindly. In 1938, the U.S. Embassy’s amigo was Aranha, who soon became Brazil’s minister for foreign affairs. However, Aranha, as we shall see, shrewdly supported the interests of the Vargas regime. For a reference to the amigo system, see 6966/E519855-58, Counselor of Embassy von Levetzow to Minister Prince von Bismark, Rio de Janeiro, January 2, 1939; In Germany (Auswartiges Amt.), *Documents on German foreign policy, 1918-1945*, from the archives of the German Foreign Ministry, Server D, Volume 5 (Latin America) (London, H.M. Stationery Office, 1949), p. 887.

¹¹⁹ Caffery to Hull, Rio de Janeiro, February 2, 1938 – 6 p.m. [Received 7:03 p.m.], *FRUS: Diplomatic Papers* Volume 5: 1938, p. 387.

* As an artificial currency, the aski mark’s value was determined not by market forces -- i.e., supply and demand -- but by those governments who used this artificial currency for international trade. Thus, the governments controlled, through their central banks, both the buying and selling rates of the aski marks within their respective jurisdictions. For example, the Banco do Brasil, the central bank under the control of the Vargas regime, initially dealt with an overbought position in aski marks (an instance where the bank was receiving more aski marks from exports to Germany than it was able to sell to importers of German goods) by unilaterally reducing the selling rate for aski marks and thereby increasing the level of demand (in Brazil) for

significant in two respects. First, with the aski mark rising against the reichsmark, German exports valued in aski marks declined, as they faced increasingly difficulty competing with U.S. goods in the Brazilian market. Second, this gradual decline of German exports to Brazil steadily increased Brazil's reluctance to sell goods in the German market for overvalued aski marks.* The Banco do Brazil and other Brazilian banks found themselves holding increasingly large amounts of an artificial currency for which there was declining demand. Therefore, the increase in the value of the aski mark ultimately rendered the compensation agreement pointless.

In 17 May 1938, Caffery informed the State Department that the gradual appreciation of the aski mark was indeed having a negative impact on German trade:

The Director of Exchange informs me that the Bank of Brazil today is changing the selling rate for compensation marks to 14.85** to the pound as contrasted with the ratio of 15 to the pound which had been in effect since February 3.

Today's selling rate for compensation marks is milreis 5.880 as against yesterday's rate of milreis 5.825. The Bank of Brazil's new buying rate is 150 reis under the selling rate as compared to 100 reis previously. These changes will of course improve our competitive position with Germany in this market...¹²¹

A month later, German-Brazilian trade suffered another blow. Caffery reported on June 2, 1938, that:

that artificial currency. See McCann, pp. 150-151. What Caffery had done in February 1938 was to persuade the Vargas regime to gradually increase the selling rate of the aski mark. The subsequent appreciation of this artificial currency, therefore, resulted not from the increased demand for aski marks, but from the Vargas regime's intervention in monetary policy.

* This reluctance, as this paper will reveal shortly, was evident in two respects. First, the Banco do Brasil refused to buy aski marks from exporters of goods to Germany. Second, the Vargas regime on occasion -- again through the central bank -- forced Brazilian producers not to sell their goods to Germany for aski marks.

¹²⁰ Caffery to Hull, Rio de Janeiro, May 17, 1938 -- 5 p.m. [Received May 17 -- 4:45 p.m.], *Ibid.*, p. 393.

** "14.85 to the pound" means that the British pound sterling could only buy 14.85 aski marks, compared to before when one pound could buy 15 aski marks. Since the pound could buy a marginally lower number of aski marks than before, it follows that the bank had gradually raised the selling rate for the aski mark. This represents the second reduction in the selling rate for the aski mark, which means that U.S. influence over the Bank of Brazil was having a real, though for the moment moderate, impact on German-Brazilian trade.

¹²¹ Caffery to Hull, Rio de Janeiro, May 17, 1938 -- 5 p.m. [Received May 17 -- 4:45 p.m.], *Ibid.*, p. 393.

I am informed that the Bank of Brazil decided today that until further notice and pending further study of the economic situation between Germany and Brazil all new contracts for the sale of cotton to Germany must be closed in free exchange instead of compensation marks. As a result of this decision trading in cotton futures for Germany is at a standstill.¹²²

It is quite probable that the Vargas regime decided to halt cotton exports to Germany in order to help the Banco do Brasil reduce its overbought position.¹²³ Brazil, at that time, was exporting at a faster pace than it was importing German goods, with the result that its overbought position was 35 million aski marks (June 2, 1938).¹²⁴ Normally, the Banco do Brasil liquidated its overbought position by reducing the aski mark's selling rate, thereby encouraging importers to buy more aski marks.¹²⁵ However, the Banco do Brasil could not resort to this expedient in 1938, having promised Caffery to raise the aski mark's value. Consequently, the Vargas regime decided to prevent the Banco from accumulating this artificial currency.¹²⁶

Meanwhile, the aski mark continued to appreciate from milreis 5.880 to milreis 5.90¹²⁷, and, by mid-July, to milreis 5.92. With the aski mark steadily rising, U.S. exports to Brazil were able to compete more effectively with German ones.¹²⁸ As the aski mark continued its ascent, Caffery boasted of another success:

The Bank of Brazil today *suspended all purchases of compensation marks*. The Bank, however, will continue to sell compensation marks. The Director of Exchange stated that this policy will remain in force until the Bank's overbought position in compensation marks is liquidated.¹²⁹

¹²² Caffery to Hull, Rio de Janeiro, June 2, 1938 – 8 p.m. [Received 8:21 p.m.], *Ibid.*, p. 394.

¹²³ Same telegram, *Ibid.*, p. 394.

¹²⁴ Caffery to Hull, Rio de Janeiro, July 18, 1938 – 4 p.m. [Received 9:11 p.m.], *Ibid.*, p. 353.

¹²⁵ McCann, pp. 150-151.

¹²⁶ The claim is based on previously documented information: See page 74.

¹²⁷ The Ambassador in Brazil (Caffery) to the Secretary of State, Rio de Janeiro, June 15, 1938 – noon [Received June 16 – 6:30 a.m.], in *FRUS: Diplomatic Papers, 1938, Volume 5*, p. 394.

¹²⁸ Caffery to Hull, Rio de Janeiro, June 18, 1938 – noon [Received 12:45 p.m.], *Ibid.*, p. 395.

¹²⁹ Caffery to Hull, Rio de Janeiro, June 22, 1938 – 9 p.m. [Received 11:04 p.m.], *Ibid.*, p. 350.

The Banco do Brasil's decision was in reaction to Germany's decision to buy more cocoa at attractive prices to keep the Banco in an overbought position; and thereby forcing it to reduce the aski's mark's selling rate to liquidate its overbought position. Germany's plan failed, however, because the Banco simply halted all purchases of aski marks. According to Caffery, the German Embassy and the German banks "registered strong protests."¹³⁰

Eventually, the Banco do Brasil gave in to Brazilian exporters, intent on selling their produce to Germany. In spite of the rising value of the aski mark, the Banco had during this time reduced its overbought position from 35 million to 5 million aski marks.¹³¹ Thereafter, the Banco resumed purchases of aski marks, with the result that German-Brazilian compensation trade continued. Yet, on a brighter note for the Roosevelt administration, the selling rate for the aski mark continued to rise, resulting in an increase in the demand for American products.¹³²

In summary, the Roosevelt administration turned the tide against German trade with Brazil. To be sure, U.S. exports to Brazil also fell, because of an economic downturn in 1938. However, there was an important difference. Once the economy was on the mend, U.S. exports rose once again. The decline in German compensation trade, by contrast, resulted from problems that no economic recovery could ever solve. By persuading the Banco do Brasil to increase the aski mark's value in February 1938, Caffery had struck at the Achilles heel of Germany's bilateral trading system. After that, German-Brazilian trade began its steady and irreversible decline.

¹³⁰ Same telegram, *Ibid.*, p. 350.

¹³¹ Caffery to Hull, Rio de Janeiro, July 18, 1938 – 4 p.m. [Received 9:11 p.m.], *Ibid.*, p. 353.

¹³² Caffery to Hull, Rio de Janeiro, July 22, 1938 – 1 p.m. [Received 2:04 p.m.], *Ibid.*, p. 353.

*Germany's Trade Success in Mexico and
the Roosevelt Administration's Reaction*

Elsewhere in Latin America, Germany's economic position was also in retreat, and this decline became one of the reasons for the depressed business climate in the Reich.¹³³ In Mexico, however, Germany scored a rare success, thanks to U.S.-Mexican tensions. President Lazaro Cardenas had already become unpopular with the U.S. government by expropriating mines and agricultural property,¹³⁴ but relations were strained further because of an oil dispute. The oil companies refused to concede to workers' demands for wages and fringe-benefits, even though the Board of Conciliation and Arbitration had ordered them to do so. Instead, these petroleum behemoths appealed to the Mexican Supreme Court to impose an injunction that would block the Board's decision. The Supreme Court, however, ruled against the litigants and upheld the Board's ruling on 1 March 1938. When the oil companies still refused to make concessions, the oil dispute turned political. Cardenas stepped in and promised the companies that if they agreed to a settlement he would oppose further wage or tax demands. But negotiations broke down, prompting Cardenas to take the fateful step of expropriating the oil properties of all U.S. and British companies on March 17, 1938.¹³⁵

With the oil properties expropriated, the State Department began negotiations with Mexico first with the aim of reversing the expropriation and then of securing financial compensation for the injured parties. Why the State Department took the trouble of finding

¹³³ In July 1938, German business sentiment was negative, because of "forebodings about exports" among other reasons. The outlook for German trade in South America was decidedly unsatisfactory. See Robert C. Long, "Business Surveys Depress the Reich," *The New York Times*, 11 July 1938, p. 25.

¹³⁴ Frank L. Kluckhohn, "U.S. Stake in Mexico Shrinking Rapidly," *The New York Times*, 17 July 1938, p. 44.

¹³⁵ David Green, *The Containment of Latin America* (Chicago: Quadrangle Books, 1971), p. 29.

a settlement for the oil dispute in Mexico has been the subject of countless articles and books. Most historians believe that the oil companies influenced the State Department to negotiate with Mexico.¹³⁶ While this interpretation largely explains the impetus behind negotiations, there was at least one other important consideration – namely, that the Roosevelt administration, as in late 1937¹³⁷, did not want the Axis to benefit economically from the nationalization of the oil industry. To be sure, this concern did not often appear in diplomatic correspondence. Indeed, the State Department could not justifiably make representations to Mexico concerning the sale of oil to the Axis powers, because U.S. oil companies were also doing business with those countries.¹³⁸ For this reason, the State Department rarely discussed with Mexico its concerns about oil sales to Germany or Japan. However, there is some evidence suggesting that the U.S. government viewed possible oil sales to the Axis powers with some apprehension. In March 21, 1938, Mexico's Under Secretary of Foreign Affairs Ramon Beteta had the following exchange with Ambassador Josephus Daniels:

Mexico, Beteta said, wished to sell [oil] to democratic nations, the United States and Great

¹³⁶ Clayton Koppes writes of a “scholarly consensus” that is of the view that the State Department backed the oil companies for three years, but then broke with them in 1941 to improve relations with Mexico and meet the perceived Nazi threat to the Western Hemisphere. Koppes goes even further by arguing that the Cooke-Zevada commission agreement (1942) did not so much end the oil dispute and it represented “a tactical interruption in an essentially consistent policy of support for United States oil firms in Mexico from 1901 through 1950.” See Clayton R. Koppes, “The Good Neighbor Policy and the Nationalization of Mexican Oil: A Reinterpretation,” *Journal of American History* 69 (June 1982), pp. 62-63.

¹³⁷ In December 15, 1937, Treasury Secretary Morgenthau warned Roosevelt that if the United States alienated Mexico, then the Axis powers would take advantage of the resulting U.S.-Mexican tensions by increasing their trade with Mexico. “We’re going to wake up and find inside a year,” Morgenthau declared, “that Italy, Germany and Japan have taken over Mexico.... It’s the richest – the greatest store of natural resources close to the ocean of any country in the world. I mean it’s perfectly amazing what they’ve got. They’ve got everything that those three countries [i.e. Germany, Japan and Italy] need – everything.” See Haglund, pp. 74-75.

¹³⁸ U.S. Ambassador to Mexico Josephus Daniels told Hull in 1939, “We cannot properly object to such [Mexican] sale because the Standard Oil Company sold to Japan and Germany before the expropriation.” Green, p. 38.

Britain preferred. It has no relations or sympathy with Fascist countries and would not willingly sell to them. I asked about the report that Mexico had plans to sell to Japan. He denied this, but said he had learned that Petro-Mex had sold to a Mr. Thomas, an Englishman, who in turn sold to Japan.¹³⁹

Arguably, Beteta, in making these statements, hoped that his assurance would help resolve the oil crisis. If the Roosevelt administration felt that Mexico could be counted upon to halt oil exports to the Axis, then it might also accept the expropriation of the oil industry.

This hope, moreover, seemed reasonable, given Under Secretary of State Sumner Welles' tame attempt to persuade Mexican Ambassador Najera (March 21, 1938) that Mexico should not sell oil to the Axis:

Furthermore, I said, as the Ambassador knew, in view of the way in which oil was sold in the world market and of the control by the companies of the oil tankers, it would be out of the question for the Government of Mexico to sell this oil in the world market except at ruinous prices, and that this raised the question of whether the Mexican Government would not be forced to dump oil which it might produce into the hands of Japan, Germany, or Italy, which were the very Governments that the Mexican Government had consistently and openly opposed...¹⁴⁰

Similarly, Wall Street pundit and major Democratic Party financier Bernard Baruch warned Daniels, "I know you must realize that if Japan, Italy or Germany had the tankers, they would take that oil and pay for it with goods made by them, displacing American-made goods."¹⁴¹

The warning about export losses was overly pessimistic, but Baruch and Welles were right about one thing: the oil dispute did indeed force Mexico to trade with the Axis powers. In July 9, 1938, the Cardenas government signed an oil deal with Germany, Italy

¹³⁹ Daniels to Hull, Mexico, March 21, 1938 – 10 p.m. [Received March 22 – 3:30 a.m.], From *FRUS: Diplomatic Papers, 1938, Volume 5*, p. 728.

¹⁴⁰ Memorandum of Conversation by Welles [Washington], March 21, 1938, *Ibid.*, p. 732.

¹⁴¹ Green, p. 34.

and Sweden worth \$10 million in exchange for machinery and other products.¹⁴² On 5 September 1938, the Mexican Government Petroleum Administration completed its first direct oil barter deal with Germany involving the exchange of oil for manufactured goods.¹⁴³ On 6 September 1939, Ambassador Daniels reported to the State Department that, “We learned informally and confidentially from Petroleos Mexicanos that the German Legation and the Mexican Government have reached an understanding to continue shipments of oil to Germany via Italy and to receive German and Italian goods in return via Italy.”¹⁴⁴ Mexico was also involved in informal barter deals with Japan.¹⁴⁵

German Trade Reverses in the Rest of Latin America

However, Germany’s success in Mexico did not compensate for trade reverses elsewhere in Latin America.¹⁴⁶ The Nazis believed that U.S. influence had caused the decline of their economic position in South America, as Ambassador Karl Ritter stated in March 30, 1938:

It is practically certain that the President’s break* with the Integralists and the draconic persecution to which they are subject at present are very strongly attributable to the direct influence of the United States... This is all the more the case since [the United States] hopes that a general deterioration of relations between Germany and Brazil might thereby be brought about and that it will be able indirectly and more completely to achieve its economic goal of driving Germany out of the Brazilian market.¹⁴⁷

¹⁴² Frank L. Kluckhohn, “U.S. Stake in Mexico Shrinking Rapidly,” *The New York Times*, 17 July 1938, p. 44.

¹⁴³ Frank L. Kluckhohn, “Mexico and Reich in Direct Oil Deal,” *The New York Times*, 6 September 1938, p. 1.

¹⁴⁴ Daniels to Hull, Mexico, September 6, 1939 – 6 p.m. [Received September 7 – 12:02 a.m.], from *FRUS: Diplomatic Papers, 1939, Volume 5: The American Republics* (Washington: United States Government Printing Office, 1957), p. 707.

¹⁴⁵ David Green, *The Containment of Latin America* (Chicago: Quadrangle Books, 1971), p. 38.

¹⁴⁶ Robert C. Long, “Business Surveys Depress the Reich,” *The New York Times*, 11 July 1938, p. 25.

* By which, Ritter meant President Vargas’s break with the Integralists.

¹⁴⁷ The Ambassador in Brazil to the Foreign Ministry, Rio de Janeiro, March 30, 1938 [Received April 5], Pol. IX 490; From *Documents on German Foreign Policy, 1918-1945*, from the archives of the German Foreign Ministry, Server D, Volume 5 (Latin America) (London, H.M. Stationery Office, 1949), p. 826.

German Minister Langmann of Uruguay reported that, “America is exerting very strong pressure against Germany commercially...” A few weeks later, Langmann reported that the German position in Uruguay declined significantly, “with the result that there was a danger of several restrictions on trade.”¹⁴⁸

On July 28-29, 1938, German Ambassadors Ritter (Brazil), von Thermann (Argentina), von Schoen (Chile) and Minister Langmann (Uruguay) met to discuss the deteriorating German position. Significantly, they believed that if Germany hoped to continue trading with Latin America, it would have to repudiate allegations of pursuing aims of power, such as supporting coup d’etats and trying to spread Nazi influence. They concluded that “If German policy is restricted to economic and cultural aims there is promise of success, particularly in the economic field.”¹⁴⁹

The Trade Offensive Outside the Americas

While the German embassies of Brazil, Argentina, Chile and Uruguay struggled to maintain their government’s economic position in Latin America, the Roosevelt administration launched a trade offensive against the Nazi regime by means of the Anglo-American Trade Agreement. As historian Paul Hehn explained:

Thereafter the British government was no longer willing after the Munich crisis to pursue a singular policy of economic appeasement in hopes of yoking the Nazi ox to the British chariot to lead Europe into stiller, calmer waters. The Anglo-American Trade Agreement of November 17, 1938, was the instrument of this changed policy. Germany’s access to raw materials was now to be made more difficult and exports markets for Germany would become increasingly tight.”¹⁵⁰

¹⁴⁸ The Minister in Uruguay to the Foreign Ministry, Montevideo, April 21, 1938 [Received July 11]. Pol. IX 1215, Ibid., pp. 830-831. See also the caption below this telegram on page 831.

¹⁴⁹ The Ambassador in Argentina to the Foreign Ministry, Buenos Aires, August 2, 1938 (Received August 20), Pol. IX 1669, Ibid., p. 864.

¹⁵⁰ Hehn, p. 206.

Hehn, however, has overlooked one important point. The Roosevelt administration began preliminary trade negotiations with Britain in mid-1937 and formal negotiations in November 18, 1937, which means that the U.S. and British governments had probably planned to throttle German trade before the Munich Pact.¹⁵¹ Both the United States and Britain, it should be noted, pretended to appease Hitler politically and waived before the public Hitler's assurances of peace in the aftermath of the Munich Pact. Yet, while political appeasement was officially their primary objective, the United States and Britain quietly set in motion policies based on Germany's non-compliance with the "spirit of Munich." Overall, 1938 was not a good year for German trade. Germany's foreign exchange reserves declined from a meager 84 million (1934) to 74 million Reichsmarks (1938). As Hehn has pointed out, "the Third Reich has come to the end of its rope and either had to cease rearming or to secure its imports in some other manner."¹⁵² However, the worst had yet to come. The year 1938 marked the return of Germany's trade troubles; the year 1939 was when Germany's trade difficulties reached their crisis point.

Chapter 5. The Curtain Falls on German Compensation Trade (1939)

By early 1939, Germany's trade difficulties were well known inside the United States. A *New York Times* wireless, dated January 9, 1939, reported, "No problem is causing such keen anxiety in Germany at present as the imperative necessity for [an] immediate large

¹⁵¹ Arthur W. Scatz, "The Anglo-American Trade Agreement and Cordell Hull's Search for Peace, 1936-1938," *The Journal of American History* 57 (June 1970), pp. 97-98.

¹⁵² Hehn, p. 35.

increase in her exports.”¹⁵³ In March 18, 1939, Otto D. Tolischus stated that Germany’s trade problems continued into February. German imports for February held steady at 471,500,000 marks, but its exports fell 6.8% to 411,000,000 marks, resulting in a trade deficit of 60,500,000. Germany’s acquisition of assets from Czechoslovakia, in gold and foreign exchange, would finance these trade deficits for only a short period of time.¹⁵⁴

The underlying rapid decline of German compensation trade will be discussed in this chapter in four sections. The first, “The Trade Offensive in Brazil,” argues that the U.S. State Department used economic aid to persuade Brazil to cooperate in a larger way in the trade war with Germany. This section will also show how desperate Germany had become to preserve its trade relations with Brazil. The second section, “The Trade Offensive Elsewhere in Latin America,” gives a better idea of the now fully successful American trade offensive and its scope in Latin America. In Paraguay, Chile, Nicaragua and other Latin American nations, the trade offensive was (as in Brazil) meeting with increasing success. The third section, “The End of U.S.-German Compensation Trade,” discusses the cancellation of the U.S.-German Compensation Trade Agreement in March 1939 and illustrates Nazi Germany parlous state thereafter. The fourth section, “Another Rationale for the Trade Offensive,” relies on the Domeratzky report (released in March 1939), which predicted that Germany had a slight chance of surviving a long war. It shall then be argued that this report probably reveals the rationale for the trade offensive – namely that the Roosevelt administration’s trade offensive sought to undermine the Axis

¹⁵³ Wireless, “Nazi Exports Pose an Urgent Problem,” *The New York Times*, 9 January 1939, p. 21.

¹⁵⁴ Otto D. Tolischus, “Nazi Trade Deficit Continues to Rise,” *The New York Times*, 18 March 1939, p. 6.

powers' economic strength and thereby render them incapable of fighting a long war.*

The Trade Offensive in Brazil

As Germany's trade problems worsened in the first months of 1939, the Roosevelt administration launched the final trade offensive against German compensation trade. In January 9, 1939, Welles, serving as Acting Secretary of State, wrote to R.M. Scotten, the Charge of Brazil: "The President has sent today by telegram to President Vargas an invitation to Brazilian Foreign Minister Aranha** to come to the United States as the guest of this Government as soon after the first of February as possible..."¹⁵⁵ Through Scotten, Welles also sent a detailed list of items to Aranha to be discussed in Washington. This list consisted of financial inducements designed to convince the Vargas regime to further change its trade relations with Germany. Section A(3) concerned "Cooperation and the development of Brazilian resources and complementary trade."¹⁵⁶ This item was of great importance to Brazil, because the main problem with U.S.-Brazilian trade was that high tariffs prevented Brazilian goods (outside of coffee and a few other staples) from entering the U.S. market.¹⁵⁷ The State Department, however, proposed solutions to these problems, which included a "possible joint study of the status of the growth and development of certain complementary products, such as rubber, oiticica oil, manganese and hardwoods."

* Louis Domeratzky was the chief of regional information of the Bureau of Foreign and Domestic Commerce and had been commissioned, by Harry Hopkins (Secretary of the U.S. Commerce Department), to do a report on Germany's ability to wage a protracted war.

** Aranha had resigned his post as Brazilian Ambassador to the United States to become Foreign Minister in President Vargas' cabinet. Although he was the State Department's most important "amigo" who advanced American interests, Aranha also shrewdly served the interests of his government and country as well. See Special Cable, "Aranha Takes Post in Brazil's Cabinet," *The New York Times*, 16 March 1938, p. 8.

¹⁵⁵ Welles to Scotten, Washington, January 9, 1939 – 4 p.m.; *FRUS: Diplomatic Papers, 1939, Volume 5: The American Republics*, p. 348.

¹⁵⁶ Hull to Scotten, Washington, January 16, 1939 – 8 p.m., *Ibid.*, p. 349.

¹⁵⁷ Frank McCann writes that one of the advantages of trade with Germany was that Brazil could export goods – such as cotton, wool and fruits – that lacked a market in the United States. See McCann, p. 162.

Other concessions included “the possibility of cooperation and assistance of agricultural experts” and, to help subsidize Vargas’ ambition to industrialize Brazil, “progress on the development of hydroelectric service by American technicians.”¹⁵⁸

Section B contained another list of economic concessions. Group I dealt with financial assistance to help the Vargas regime liquidate import arrears. Group II concerned the establishment of a Central Bank in Brazil and the Treasury Department’s inquiry regarding estimates for gold reserves and foreign exchange for the new Central Bank.¹⁵⁹ Lastly, Group III, “Long range economic development program,” contained the Treasury Department’s proposals for financing Vargas’ ambitious plan to transform Brazil into an industrialized nation. Significantly, the Roosevelt administration recognized that Brazil’s “long-range development program will doubtless require large expenditures for local materials and labor.”¹⁶⁰

In February 21, 1939, the Roosevelt administration and Aranha reached a formal agreement on economic cooperation.¹⁶¹ This agreement was important, not so much because of what Brazil received from the United States, but for what Aranha surprisingly agreed to offer in return. The decree-law (which Aranha and the State Department agreed to), if enforced, would have seriously undermined, if not destroyed, German-Brazilian compensation trade. Article VIII of the decree-law stated: “Exchange operations in compensated currencies will continue to be handled exclusively by the Bank of Brazil which shall alter its quotation in accordance with the fluctuations in the free market.” In

¹⁵⁸ Hull to Scotten, Washington, January 16, 1939 – 8 p.m., *Ibid.*, p. 349.

¹⁵⁹ Same Telegram, *Ibid.*, p. 349.

¹⁶⁰ Same Telegram, *Ibid.*, p. 350.

¹⁶¹ Memorandum by the Assistant Chief of the Division of the American Republics (Briggs), [Washington], February 21, 1939, *Ibid.*, p. 351.

other words, the Roosevelt administration wanted and the Vargas regime formally agreed to continue revaluing the aski mark as it had done in 1938 until it attained parity with the Reichsmark.¹⁶² Article IX appeared moderate by comparison, since it stated that, “With the exception of the Bank of Brazil, banks may not maintain ‘bought’ exchange needs beyond the limit fixed by the bank control.”¹⁶³ However, the State Department wanted Article IX also to prohibit the Banco do Brasil from maintaining a bought position.¹⁶⁴ If the State Department had its way, Article IX would have sounded the death knell for compensation trade. The Banco of Brasil could not liquidate its bought position by lowering the selling price of the aski mark, since it promised to revalue this artificial currency; therefore, Article IX would force the Banco to curb Brazilian exports to Germany in order to reduce export earnings in aski marks.*

The Director of Exchange of the Banco do Brasil was so opposed to the new decree-law that he resigned in protest. He explained that “his principal objections to the proposed decree law were:

(1) that it would be a serious mistake for the Brazilian Government at this time to relinquish in whole or in part the right which it now enjoys in purchasing all of the export bills; (2) that he is convinced the Brazilian Government cannot carry out the provisions of the decree law relating to the compensation trade with Germany.¹⁶⁵

The Nazi regime, meanwhile, tried to prevent the passage of the decree-law by offering economic concessions to the Vargas regime. According to Frank McCann, “[the Germans] were even willing to consider paying for a desired million-sack increase in coffee imports

¹⁶² Scotten to Hull, Rio de Janeiro, April 9, 1939 – 7 p.m. [Received 8:47 p.m.], *Ibid.*, p. 384.

¹⁶³ Scotten to Hull, Rio de Janeiro, April 9, 1939 – 7 p.m. [Received 8:47 p.m.], From *FRUS: Diplomatic Papers, 1939, Volume 5: The American Republics*, p. 384.

¹⁶⁴ Hull to Scotten, Washington, April 11, 1939 – 6 p.m., *Ibid.*, p. 386.

* For further clarification on this point, see pages 45-46; and footnote * (p. 45) and footnote * (p. 46).

¹⁶⁵ Scotten to Hull, Rio de Janeiro, March 20, 1939 – 6 p.m. [Received March 20 – 5:37 p.m.], *Ibid.*, p. 382.

with 50 percent or more in hard currencies and the remainder in aski marks.”¹⁶⁶

Considering Germany’s foreign exchange shortages, this was a tremendous concession¹⁶⁷; and it shows how desperate the German delegation had become.

The Trade Offensive Elsewhere in Latin America

Outside Brazil, the Roosevelt administration moved rapidly to curb German compensation trade with the rest of Latin America. As early as December 1938, Morgenthau, with Roosevelt and the State Department’s approval, studied ways to supply Latin America with foreign exchange to buy U.S. goods. Officially, the goal was to stimulate trade between the United States and its southern neighbors.¹⁶⁸ In reality, the Roosevelt administration wanted to increase loans to Latin America to convince those Republics to reduce their trade with the Axis powers. As *New York Times* reporter Frank L. Kluckhohn explained:

United States financial aid for Brazil, and that to be given, according to plans, to Nicaragua, Chile and Paraguay, while others perhaps getting assistance later, have as the primary objective putting these countries in financial shape so that they will not be forced to barter with Germany and will be able to resist German political penetration.¹⁶⁹

On July 2, 1939, John W. White – an enthusiastic supporter of the Roosevelt’s trade offensive, since it prevented, in his view, Axis political penetration of Latin America -- reported that the State Department’s trade offensive was successful in Brazil and Paraguay. “On two recent occasions, the United States has granted loans and commercial credits to two South American Republics, Brazil and Paraguay. On both occasions totalitarian

¹⁶⁶ McCann, p. 170.

¹⁶⁷ See documented information in pages 81-82.

¹⁶⁸ Special, “U.S. Studies Loans to Latin America to Promote Trade,” *The New York Times*, 13 December 1938, p.1

¹⁶⁹ Frank L. Kluckhohn, “Capital Tightens Pan-American Ties,” *The New York Times*, 14 May 1939, p.E7.

bartering states, more especially Germany, received definite setbacks.”¹⁷⁰ White continued saying that “Brazil stopped accepting compensated marks from Germany and asked Italy to pay cash for coffee which formerly had been shipped to Italian ports in exchange for Italian products.”¹⁷¹ In the case of Paraguay:

President-elect Jose Felix Estigarribia of Paraguay, on his triumphal tour through Brazil, Uruguay and Argentina this week, has spoken enthusiastically of a new road-building program made possible by American financing. Although he had not said so, this American financing has taken the huge road-construction project away from a big German syndicate, which offered to finance the work in exchange for a tax on gasoline plus certain agricultural products to be taken on the barter basis.¹⁷²

As concerns Chile, the trade offensive ran into a few difficulties. In August 19, 1939, the Finance Minister, Roberto Wachholtz, bluntly told the U.S. Chargé d’Affairs in Chile, Wesley Frost that his government would accept German credits, if U.S. credits were not forthcoming:

[Wachholtz] stated that the Corporations of Fomento and Reconstruction will desire credits for electrical machinery, road-making machinery, and agricultural machinery, possibly to the amount of 10 or 15 million dollars. He added that he has received offers of credit from Germany, and without intimating that he will refuse them nevertheless suggested that he prefers American credits in so far as feasible.¹⁷³

Significantly, Frost concluded from his discussion with Wachholtz that,

There would appear to be no doubt that the types of machinery specified by Señor Wachholtz will be needed here in the near future, and that they will be imported either from Germany or the United States. It seems not unlikely that imports will be made from both countries, and that the share which comes from the United States will be determined to a good extent by the granting or withholding of Export-Import Bank credits.¹⁷⁴

¹⁷⁰ John W. White, “Latin Republics Await Loans,” *The New York Times*, 2 July 1939, p.E5.

¹⁷¹ *Ibid.*, p.E5.

¹⁷² *Ibid.*, p.E5.

¹⁷³ Frost to Hull, Santiago, August 19, 1939 [Received August 25.], in *FRUS: Diplomatic Papers, 1939, Volume 5: The American Republics*, p. 447.

¹⁷⁴ Same telegram, *Ibid.*, p. 448.

In September 19, 1939, the U.S. Export-Import Bank allocated a credit worth \$5,000,000 “for discounting of notes received by American exporters from the Chilean Fomento Corporation in connection with the purchase of American equipment urgently required during the next 6 months by the Chilean development program.”¹⁷⁵

As in Chile, President Oscar Benavides of Peru also used German offers to purchase Peruvian goods as leverage to gain credits from the Export Import Bank. Benavides, on 29 May 1939, asked Louis G. Dreyfus (the U.S. Chargé d’Affairs in Peru) “why the American Government is apparently discriminating against Peru in the matter of loans.” He then added that “if Peru was unimportant to the United States, it could turn to Germany and buy more things from her as Germany was anxious to get more Peruvian cotton.”¹⁷⁶ Benavides’ statement was an obvious threat, but it was characteristic of the trade offensive’s new phase: American Republics were willing to reduce their trade with the Axis, but this was seemingly contingent on their receiving loans and other inducements from the United States in return. Of course, examples tend to distract from and even distort the larger picture. But the larger picture was (see figure 1.2) that German exports to Latin America for first quarter of 1939, compared with the first quarter of 1938, were largely in decline.¹⁷⁷ The *New York Times* wireless explained that German export figures for the other quarters were unavailable, but “there is no indication, however, that the trend has changed.”¹⁷⁸

¹⁷⁵ Hull to Claude Bowers, Washington, September 19, 1939 – 8 p.m., *Ibid.*, p. 452.

¹⁷⁶ Dreyfus to Hull, Lima, May 29, 1939 – 2 p.m. [Received May 30 – 2:08 a.m.], p. 773.

¹⁷⁷ “Reich Loses Trade in Western World,” *The New York Times*, 23 June 1939, p. 35.

¹⁷⁸ *Ibid.*, p. 35.

The End of U.S.-German Compensation Trade

At home, the Roosevelt administration placed one more important restriction on German trade. This time, the Nazi march into Prague on March 1939 gave the administration the pretext for the long prepared coup de grace. In March 18, 1939, it imposed countervailing duties of 25% on all subsidized German exports.¹⁷⁹ The impact these duties had on German trade was exceptionally severe. Dr. Tannenber (the First Secretary of the German embassy who was speaking on his government's behalf) offered very extravagant concessions to try and convince the Roosevelt administration to remove the duties. He agreed to "repeal and prohibit completely, 'today, if necessary,' all decrees, regulations and practices under which the 'barter' procedures have been carried on" and "prohibit effectively any practice or procedure for offsetting the disadvantages to German exports resulting from our dollar devaluation," and even abandon the aski mark system.¹⁸⁰

However, the Roosevelt administration turned a deaf ear to Tannenber's pleas. In August 8, 1939, Henry F. Grady (who succeeded Sayre as Assistant Secretary) sounded the death knell for any possibility of constructive U.S.-German trade talks when he informed the press that, "Fundamentally, the totalitarian economic philosophy is founded on aggression. Ours is founded on peace." Ignoring the recent proposed German concessions, Grady continued:

Until they abandon their present methods of operation, there can be no satisfactory arrangement on commercial matters between us. We had sincerely hoped that in the case of both Germany and Italy we could arrive at some mutually beneficial agreement, but we

¹⁷⁹ Otto D. Tolischus, "Germany Stunned by Action of U.S.," *The New York Times*, 19 March 1939, p. 1.

¹⁸⁰ Memorandum of Conversation, by Acting Deputy Commissioner of Customs, W.R. Johnson, Washington, April 21, 1939, from *FRUS: Diplomatic Papers, 1939, Volume 2: General, The British Commonwealth and Europe* (Washington: United States Government Printing Office, 1956), p. 571.

appear now to have run into a stone wall which cannot be penetrated.¹⁸¹

In August 14, 1939, the State Department received a telegram from Alexander Kirk, U.S. Chargé d’Affairs in Germany, which carried an ominous message. Kirk argued that Henry Grady’s comments had “weakened the efforts which moderate elements in the Government were exerting to bring about a ‘moderation of policy’ on the part of the Reich and strengthened the hands of the extremist influence in the party and Government.” Kirk even wrote that he had received reproaches stating that, “well, you see that your policy of conciliation doesn’t get anywhere.”¹⁸² Less than three weeks later, the Second World War began.

Another Rationale For the Trade Offensive

When Roosevelt waged economic warfare, he justified it with official reasons. The U.S. trade offensive in Latin America, for example, resulted from the administration’s fears that the totalitarian nations wanted to penetrate the Americas politically.¹⁸³ The imposition of duties on German exports was supposedly in retaliation for the German occupation of the rest of Czechoslovakia.¹⁸⁴ Under these reasons, however, lay a more complex reality. In early 1939, Secretary of Commerce Harry Hopkins had commissioned Louis Domeratzky, chief of regional information of the Bureau of Foreign and Domestic Commerce, to do a study on Germany’s capacity to wage a protracted war. What the study found, according to

¹⁸¹ “Totalitarians Bar Pacts, Grady Says,” *The New York Times*, 9 August 1939, p. 11.

¹⁸² Kirk to Hull, Berlin, August 12, 1939 – 4 p.m. [Received August 14 – 6:30 a.m.], *Ibid.*, pp. 573-574.

¹⁸³ Irwin Gellman also wrote, “[Roosevelt] excited peoples’ emotions by warning of invasions, surprise attacks, and fifth-column revolts in Latin America.” See Gellman, pp. 114-115, 115. Newspaper articles would also reiterate claims about Axis political penetration to their readers. See Frank L. Kluckhohn, “Capital Tightens Pan-American Ties,” *The New York Times*, 14 May 1939, p. E7; and John W. White, “Latin Republics Await Loans,” *The New York Times*, 2 July 1939, p. E5.

¹⁸⁴ Otto D. Tolischus, “Germany Stunned by Action of U.S.,” *The New York Times*, 19 March 1939, p. 1.

a “Special to *The New York Times*,” was that “Germany’s policy of subordinating economic and financial stability to political aggrandizement has in all essentials defeated itself, since the Reich faces democracies in such impoverished condition that there is slight possibility it could survive a protracted war.” The report went on to describe Germany’s supply of war essentials, such as copper, iron, cotton and oil, as precarious; and added that German annexations will probably not ease the situation.¹⁸⁵ The implications of this study are considerable. Since Nazi Germany, as the study asserted, had a slight possibility of surviving a long war, it follows that the German threat to the Americas was, for the Roosevelt administration, not very serious.

This study more plausibly reveals the workings of a complex strategy aimed at preventing Germany from surviving a protracted war. Significantly, it saw economic strength as an essential support for military power. It also determined Germany’s ability to wage war on the basis of economic, and especially trade, conditions. By concluding that the German economy suffered from raw material and foreign exchange shortages, the study confirmed to the administration that its trade offensive was working and, therefore, Germany could only wage war for a short period of time.

Of course, the Second World War was not short. Yet, World War II’s longevity had little to do with Germany’s economic preparedness for it; German autarkic policies affecting agriculture and industry were, after all, a dismal failure. Initial German successes in that war should be attributed more to the tremendous implications resulting from the Nazi-Soviet Pact, which enabled Germany to import large supplies of raw materials from the Soviet Union and, thereby, prolong its survival as a military power; at least until the

¹⁸⁵ Special to the *New York Times*, “Reich Held Too Poor for Prolonged War,” 21 March 1939, p. 8.

Third Reich made the mistake of turning on its Soviet ally.¹⁸⁶

Chapter 6. Aftermath (1940-41)

After World War II began, the Roosevelt administration's trade offensive against the Axis powers continued. Since Germany developed its trade with the USSR to sustain its war effort, Roosevelt intensified efforts to prevent the Nazis from gaining raw materials elsewhere. In the months following the outbreak of war, he instituted export controls, banned all trade with the Axis, and blacklisted German firms doing business in Latin America (this also prevented U.S. firms from engaging in business with German firms). In June 1940, he approved legislation that enabled the RFC* to create government-owned corporations, whose purpose was to buy from countries which were likely to do business with Germany. The state-owned U.S. Commercial Company, for example, bought commodities "especially from areas close to Nazi Germany – Spain, Portugal and Turkey."¹⁸⁷ In sum, the Roosevelt administration, in trying to make up for the setback of German-Soviet trade relations, was intent on preventing German trade with other countries

¹⁸⁶ Nicholas V. Riasanovsky writes, "On August 23, a German-Russian agreement of strict neutrality was signed in Moscow – secret talks had begun as early as April – an event which produced surprise and shock in the world." See Nicholas V. Riasanovsky, *A History of Russia*, 2nd Edition (New York: Oxford UP, 1969), pp. 372-373. It should be noted that the Roosevelt administration obtained information about Nazi-Soviet negotiations from a member of the German embassy staff in Moscow. However, this does not change the fact that the Roosevelt administration's strategy in early 1939 was to undermine Germany's capacity to wage war, because it only received information about the Soviet negotiations at a later stage. Weinberg has implied as much, when he wrote that the Nazi-Soviet Pact was signed, before Roosevelt could pass on intelligence, concerning the Nazi-Soviet negotiations, to Britain. See Gerhard L. Weinberg, *A World at Arms: A Global History of World War II* (Cambridge, New York: Cambridge UP), pp. 40-41. Weinberg provides a detailed account of the German-Soviet economic relationship that involved the exchange of German manufactured goods for Soviet raw materials and emergency oil shipments from the Soviet Union. See Weinberg, p. 3.

* Reconstruction Finance Corporation (RFC).

¹⁸⁷ Emily S. Rosenberg, *Spreading the American Dream: American Economic and Cultural Expansion, 1890-1945* (New York: Hill and Wang, 1982), p. 187.

in the world that would provide more raw materials for the Nazi war machine. It did this, furthermore, even though the prospects for the economic strangulation of Germany were no longer as favorable as they had been before the Nazi-Soviet Pact.

If the European picture was not to Roosevelt's liking, the situation was very difficult in Latin America. With Germany and Italy's economic influence largely absent from Latin America because of the trade embargo, the Roosevelt administration focused its efforts at curbing Japanese-Latin American trade. This chapter will discuss the Roosevelt administration's trade offensive against Japan in Latin America for the period, 1940-41. The section, "The Trade Offensive Against Japan in Latin America," argues that the Roosevelt administration convinced Mexico in 1940 to halt oil exports to Japan, almost a year before the U.S. oil embargo against the latter in July 1941. The trade offensive against Japanese-Peruvian trade is also discussed, as well as the Roosevelt administration's success in passing legislation through Congress aimed at reducing U.S. exports to Japan. Finally, this section will show how the Roosevelt administration convinced the Dutch East Indies to end their oil exports to Japan in 1940 and then carried out its own oil embargo against Japan in July 1941.

The Trade Offensive Against Japan in Latin America

Since Japan's best opportunities to expand trade in Latin America were Mexico, Peru, and Chile owing to their location along the Pacific, these were the places where the Roosevelt administration focused its efforts. In 1939-40, U.S.-Mexican trade relations were slowly on the mend, even though the oil crisis continued. As evidence of improved relations, the Cardenas government agreed to halt oil exports to Japan, which was one of

the Roosevelt administration's concerns. In September 1940, Mexico's Finance Minister Manuel Suarez assured the State Department that his government would halt oil exports to Japan, although he realized that U.S. and British companies were selling oil to that country. Welles, in response, asked Ambassador Daniels to convey to Suarez the "Department's sincere appreciation of his attitude". However, Mexico took its time to reduce oil exports to Japan, canceling the last of its oil contracts only in January 1941.¹⁸⁸

As for Peru, the Roosevelt administration's aim was to prevent Japan from acquiring much needed minerals and other raw materials.¹⁸⁹ Since the Peruvian government was aware of this trade offensive, it naturally tried to play off the United States against Japan to gain credits from the Export-Import Bank. In May 22, 1940, Peru's Finance Minister Oscar Ramos Cabieses informed Ambassador Henry Norweb that Japan was interested in buying Peruvian cotton, but that his government "does not want to obligate itself further to Japan." The remark was shrewd, because Cabieses probably raised this issue as a way of implying that if the United States did not offer Peru credit, then his government would be forced to trade with Japan.¹⁹⁰ As subsequent events showed, the implied threat seemingly effective, because Peru received \$2,000,000 in credit less than one month later.¹⁹¹

Chile, like Peru, also dragged its heels when it came to economic cooperation with the United States. In early September 1941, the Chilean and Japanese governments were negotiating an exchange of Chilean copper for Japanese cement. Yet, later in the same

¹⁸⁸ Bryce Wood, *The Making of the Good Neighbor Policy* (New York: Columbia UP, 1962), pp. 411-412.

¹⁸⁹ Irwin F. Gellman, *Good Neighbor Diplomacy: United States Policies in Latin America, 1933-1945* (Baltimore: John Hopkins UP, 1979), p. 106.

¹⁹⁰ Norweb to Hull, Lima, May 22, 1940 – 5 p.m. [Received 10:45 p.m.]; From *FRUS: Diplomatic Papers, 1940, Volume 5: The American Republics*, p. 1135.

¹⁹¹ Hull to Norweb, Washington, June 10, 1940 – 7 p.m., *Ibid.*, p. 1140.

month, Charles B. Henderson, Chairman of the RFC and President of the Metal Reserve Company, began negotiations with Chile, as well as Peru and Argentina, for the purpose of acquiring strategic metals. Admittedly, a significant reason behind these negotiations was to meet the growing demands of the booming U.S. war economy. However, Deborah A. Hubbard wrote in an article published November 3, 1941 that, "One of the express purposes of the pacts is to prevent Axis countries, including Japan, from obtaining any of these minerals."¹⁹²

In summary, the Roosevelt administration, in the two years before Pearl Harbor, went to great lengths to prevent Peruvian and Chilean raw materials, as well as Mexican oil, from reaching the Japanese. Herbert Feis, the State Department's economic adviser, often complained about Japanese purchases in Latin America. In May 7, 1941, he declared: "The Lord knows I have bestirred myself to try to get the buying branches of our Government to be there first. But they apparently again failed somewhat." Yet, Feis' pessimism was unjustified, because Japanese attempts at increasing trade with Latin America were ultimately unsuccessful.¹⁹³

While the trade offensive against Japan in Latin American proceeded, Roosevelt adopted measures aimed at limiting U.S. exports to Japan. In early July 1939, Roosevelt convinced Congress to curtail exports of military equipment and raw materials to Japan. This measure was easy to justify, because the items covered on Roosevelt's list were scarce commodities required for the defense of the Americas. Therefore, the Roosevelt administration was able to effectively use Western Hemispheric defense as the justification

¹⁹² Deborah A. Hubbard, "Japan Losing Chile Copper," *Far Eastern Survey* 10, no. 21 (November 3, 1941), pp. 249-250.

¹⁹³ Irwin F. Gellman, *Good Neighbor Diplomacy: United States Policies in Latin America, 1933-1945* (Baltimore: John Hopkins UP, 1979), p. 106.

for denying raw materials to Japan. Over time, the Roosevelt administration added more commodities to the list of proscribed exports, until finally oil was cut off in July 1941.¹⁹⁴

However, before the Roosevelt administration could add oil to the proscribed list, it had to prevent the Dutch East Indies from exporting oil to Japan. In the fall 1940, the Roosevelt administration achieved that goal. Japan was concerned about falling oil imports from the Dutch East Indies and sent a delegation, under Minister of Commerce Ichizo Kobayashi, to convince the Dutch to resume oil exports. Unfortunately for Japan, Kobayashi made no progress and, in very undiplomatic language, he and his diplomats accused Dutch delegates of being Washington's puppets. Then Kobayashi requested a five-year agreement, during which the Dutch East Indies would export 3,150,000 metric tons of oil to Japan annually, adding, "The Netherlands has been closely cooperating with the United Kingdom and the United States. Now is the time to shake hands with Japan." Dutch Minister H.J. van Mook, however, described Kobayashi's oil demands as preposterous and argued that, in any case, the Dutch oil companies controlled the production and sale of oil, not his government. Japan would make further diplomatic overtures to convince the Dutch to resume oil exports, but these proved futile. In June 1941, the Japanese gave up.¹⁹⁵

With Japan's alternative sources of oil supplies effectively cut off, the Roosevelt administration then proceeded to impose a total oil embargo in July 1941, supposedly in surprise and shock at the Japanese invasion of Southern Indochina.¹⁹⁶ Through this

¹⁹⁴ Emily S. Rosenberg, *Spreading the American Dream: American Economic and Cultural Expansion, 1890-1945* (New York: Hill and Wang, 1982), pp. 186-187.

¹⁹⁵ Robert B. Stinnet, *Day of Deceit: The Truth about FDR and Pearl Harbor* (New York: The Free Press, 2000), pp. 40-41.

¹⁹⁶ Emily S. Rosenberg, *Spreading the American Dream: American Economic and Cultural Expansion, 1890-1945* (New York: Hill and Wang, 1982), p. 187; Weinberg, Gerhard L. *A World at Arms: A Global History of World War II* (Cambridge, New York: Cambridge UP), p. 254.

“defensive” measure, it hoped to cripple the Japanese war machine; and in a way, the United States achieved that result. Admittedly, Japan succeeded in occupying much of South East Asia after the attack on Pearl Harbor. Yet, Japan was on the defensive in a losing war from 1942 on, because it lacked the raw materials to sustain a protracted war.¹⁹⁷

PART II: PREPARATIONS FOR HEMISPHERIC DEFENSE

In February 1935, the State Department learned from Joseph Grew, the U.S. Ambassador in Japan, that, “further Japanese military adventures in the Far East would very probably result in a tremendous clash with the Western powers, in which, presumably Japan would be crushed.”¹⁹⁸ In light of Grew’s telegram, the Roosevelt administration had good reason to believe that the Japanese would have some trouble surviving a long war in Asia, let alone threatening the Americas. Between the time of Grew’s telegram and the Pearl Harbor attack, there was little in the way of Japanese military exploits that could persuade the Roosevelt administration to reassess this judgment. As Professor Villa has observed, Roosevelt and the Navy Department knew that Japan, once it was at war, could be effectively strangled by decimating its barely adequate merchant fleet, which Japan could not adequately replace in wartime. Roosevelt and the U.S. Navy held the trump cards and they knew it. As Admiral Yamamoto (the mastermind behind the Pearl Harbor attacks) recognized, probably no less than

¹⁹⁷ Hermann Kinder and Werner Hilgemann, *The Penguin Atlas of World History: Volume 2 – From the French Revolution to the Present* (Toronto: Penguin Books Canada Ltd., 1978), p. 216-217. Concerning Japan’s lack of resources to sustain a long-term war effort, see Weinberg, p. 155. Weinburg writes that, “From the summer of 1940 on, the Japanese had to reckon with the fact that the fleet being built by the United States would some day be completed, that their own limited and strained resources precluded any prospect of matching such a building program, and that they would be left hopelessly behind.”

¹⁹⁸ Grew to Hull, Tokyo, February 6, 1935 [Received February 23], From *FRUS, 1935, Volume 3*, p. 852.

FDR, Japan could score temporary successes, but in the long run the inexorable law of shipping statistics would prevail. Where Yamamoto failed (as the events of Pearl Harbor had shown to great effect) was in making Japan appear as the naked aggressor, when in fact it had been the victim of Anglo-American economic warfare for some time.¹⁹⁹

Similarly, Roosevelt had even less reason to believe in 1939 that Germany would threaten the Western Hemisphere, even though he publicly painted Germany as a menacing aggressive in Latin America. Although some historians claim that the Roosevelt administration, in 1938, anticipated with horror a possible German invasion of the Western Hemisphere²⁰⁰, most high-ranking policy-makers thought this wildly improbably and believed instead that another world war would lead to Nazi Germany's destruction. According to the *New York Times*, a Commerce Department study concluded that, "Germany's policy of subordinating economic and financial stability to political aggrandizement has in all essentials defeated itself, since the Reich faces the democracies in such impoverished condition that there is [a] slight possibility it could survive a protracted war."²⁰¹ Significantly, the study did not mention a possible German invasion of the Americas, implying that it was never a serious consideration for Roosevelt and his aides.

This thesis will argue that U.S. military preparations at home and efforts to achieve hemispheric cooperation with Latin America, which involved the leasing of bases and the

¹⁹⁹ For further reference, see Professor Villa's long awaited and forthcoming study of Pearl Harbor, whose essential points he has laid out before his students in several insightful and thought provoking courses at the University of Ottawa.

²⁰⁰ David Haglund wrote, "It is my contention that a necessary condition for American intervention in World War II was the uncertainty that the Latin American republics could or would resist the combined political, economic and military threats and blandishments of [] Germany... This uncertainty over Latin America began to be experienced, mildly at first, by American policymakers in late 1936; by 1938 the uncertainty had turned to dread..." See David G. Haglund, *Latin America and the Transformation of U.S. Strategic Thought, 1936-1940* (Albuquerque: University of New Mexico Press, 1984), p. 34.

²⁰¹ Special, "Reich Held Too Poor for Prolonged War," *The New York Times*, 21 March 1939, p. 8.

integration of Latin American primary industries into the U.S. war economy, should be seen not so much as defensive precautions, but as preparations for the eventual U.S. participation, passive or otherwise, in the Second World War.

Chapter 7. Building Pan-American Solidarity (1933-1939)

As Roosevelt prepared his country for war, he was building Pan-American solidarity in anticipation of a global conflagration. His aim was not so much to defend the Western Hemisphere from a possible Nazi invasion, but primarily to serve the broader strategic goals of an offensive war against Germany, if and when the United States found itself formally engaged in such a conflict.²⁰²

One of the strategic goals was to establish naval and air routes to Africa, routes that

²⁰² For many historians, the military aspects of Roosevelt's Good Neighbor Policy were primarily defensive until the Japanese attack on Pearl Harbor forced the United States to go to war. This paper will present a different argument than the one presented above for the following reason. First, there is no agreement on when the Roosevelt administration sensed a totalitarian threat to the Western Hemisphere. Mecham has claimed that Roosevelt was aware of the totalitarian threat before the Buenos Aires Conference (1936): "The developing crisis in Europe, marked by the aggrandizement of Nazi power in Germany, the outbreak of the Italo-Ethiopian War, and the Japanese attack on China raised the specter of another general war, with all the attendant dangers of American involvement... It became clear, in the course of the following months before the convening of the conference in December, that the United States government wanted the American nations to organize a common neutrality front in the event of a non-American war." See J. Lloyd Mecham, *The United States and Inter-American Security, 1889-1960* (Austin: University of Texas Press, 1967), p. 122. Lastly, Haglund has maintained that the Roosevelt administration's perception of the totalitarian threat to the Western Hemisphere was mild in late 1936 and turned to dread by 1938: "This uncertainty over Latin America began to be experienced, mildly at first, by American policymakers in late 1936; by 1938 the uncertainty had turned to dread..."; Haglund, p. 34. These inconsistent interpretations suggest weaknesses in the evidence showing that Roosevelt perceived an Axis threat; and for this reason, they are open to interpretation. Second, there are examples of government reports contradicting public statements about a threat to the Western Hemisphere. For example, Welles in January 1939 raised the possibility that Germany could invade Brazil via Dakar, West Africa. Yet, the Commerce Department (as noted in the section, "Another Rationale For the Trade Offensive," in chapter 4 reveals) released a report in March 1939 concluding that Germany would have a slight chance of surviving a protracted war. The report implied that Germany would face enough difficulty surviving a long war, let alone planning an invasion of Brazil. Third, Gellman argues that Roosevelt exploited the American public's fears to gain support for his foreign policy before Pearl Harbor. There are other reasons, apart from the ones mentioned here, but they will be discussed later in this paper.

the United States could use during wartime for safely transporting war materials and other supplies to French and British troops stationed in Africa and, following the U.S. declaration of war, for military operations. Latin America, owing to its relative close proximity, was important as a gateway to Africa and beyond it to Europe and the Middle East. To establish naval and air routes to West Africa, the United States therefore required access to bases in the Caribbean and the Brazilian Bulge.²⁰³ Latin America was also important as a supplier of raw materials for U.S. industries, which produced armaments for the U.S. and its allies, Great Britain and later the USSR.²⁰⁴

This chapter examines the Roosevelt administration's effort to seek military cooperation with Latin America in seven sections. In "U.S. Reputation in Latin America Before the Good Neighbor Policy," we learn of the obstacles to U.S.-Latin American military cooperation; namely, the United States' low standing in Latin America that arose from a long history of U.S. military intervention in the Caribbean and Central America. This section will argue that Roosevelt tried to overcome these obstacles by addressing past wrongs, such as military intervention, with the Good Neighbor Policy. The second section, "Another Rationale for the Good Neighbor Policy," contends that the Good Neighbor Policy is best understood not as a series of improvised responses to immediate concerns, but collectively as a strategy for securing Latin America's cooperation in military matters. The next section, "The Omaha Ships Deal," uncovers the origins of U.S.-Latin American

²⁰³ John Child, "From 'Colour' to 'Rainbow': U.S. Strategic Planning for Latin America, 1919-1945," *Journal of Interamerican Studies and World Affairs* 21, No. 2 (May 1979), p. 249.

²⁰⁴ Weinberg discussed Roosevelt's difficulties in acquiring enough raw materials for U.S. armament industries, while at the same time satisfying the wartime needs of Britain and the Soviet Union. See Gerhard L. Weinberg, *A World at Arms: A Global History of World War II* (Cambridge, New York: Cambridge UP), p. 243, 244. David Green argues that Latin America was an integral part of the U.S. war economy, in providing U.S. armament industries with essential raw materials. See David Green, *The Containment of Latin America* (Chicago: Quadrangle Books, 1971), pp. 86-87.

naval cooperation. The fourth section, “The Buenos Aires Conference,” concerns U.S. diplomatic efforts at the Buenos Aires Conference in late 1936. The main conclusion to be drawn here is that U.S. proposals at this Conference were virtually the same as those at the Lima (1938) and Havana (1940) Conferences. This point is significant, because it shows that the Roosevelt administration’s efforts at this Conference were probably in aid of long-term, not short-term, goals in the area of military cooperation. The fifth section argues that “The Decline of German Influence in Latin America” was due to the rise of U.S. influence in Latin America resulting in large part from the Good Neighbor Policy. The sixth section, “The Lima Conference,” develops the line of thought introduced in section 4 by emphasizing the continuities in U.S. diplomatic efforts at the Lima Conference, where the U.S. delegation attempted to achieve the goals it was unable to accomplish in Buenos Aires two years before. The seventh section, “The Role of Economic Aid in Securing Latin America’s Cooperation in Military Matters,” argues that major breakthroughs in U.S.-Latin American military cooperation probably resulted from the Roosevelt administration’s decision to increase economic aid to Latin America. Finally, “Rainbow Plans: Securing Military Bases in Latin America” explores the origins of the Roosevelt administration’s efforts to secure military bases in Latin America.

U.S. Reputation in Latin America Before the Good Neighbor Policy

In 1933, the United States was not popular with Latin Americans, having soiled its reputation by intervening in Cuba (protectorate, 1898-1934), Haiti (1915-34) and Nicaragua (1912-25, 1926-33), not to mention occupying Veracruz (1914) and Honduras

(1926).²⁰⁵ These interventions resulted not only in the decline of U.S. political influence in Latin America, but also in a corresponding rise of German influence in that region. As the Roosevelt administration was well aware, German political influence ensured that few Latin American states sided with the United States during World War I. As the Axis powers rose to prominence in the 1930s, Roosevelt was determined to make sure that history did not to repeat itself.²⁰⁶

This chapter will show that during the 1930s Roosevelt improved relations with Latin America probably with two aims in mind: (1) to establish military bases at key strategic points in Latin America; and (2) achieve a near monopoly over raw material exports coming from Latin America so as to supply the burgeoning war economy. This chapter will, therefore, focus on two issues. First, Roosevelt secured Latin America's cooperation by means of the Good Neighbor Policy, which consisted of diplomatic efforts at four Pan-American Conferences (1933-39),* bilateral negotiations with Brazil (1936-37), and policies designed to improve the U.S. image in Latin America. Second, Roosevelt developed military plans to secure strategic bases in Latin America beginning in November 1938.

²⁰⁵ George B. Tindall and David E. Shi, *America: A Narrative History, Volume II* (New York: W.W. Norton & Co.), p. 816.

²⁰⁶ Sumner Welles implied quite strongly in his 1951 book that one of the Good Neighbor Policy's purposes was to increase U.S. political influence at the expense of German political influence. He pointed out that "The difference between our position in the hemisphere now and during the First World War was striking. In 1917, hatred of the United States had been widespread throughout Latin America. Sentiment favorable to Germany had then been so marked that only a few American republics had stood with the United States and the Allies. A far greater number had refused to modify their policy of strict neutrality. All that had since been changed by the Good Neighbor Policy." See Sumner Welles, *Seven Decisions That Shaped History* (New York: Harper & Brothers Publishers, 1951), pp. 97-98. Later in this paper, there are clear indications – from German embassy reports, discussions about economic aid and other issues – that Roosevelt's intention was to undermine the Axis position in Latin America with the Good Neighbor Policy.

* These Pan-American Conferences were held at Montevideo (1933), Buenos Aires (1936), Lima (1938) and Panama (1939).

Another Rationale for the Good Neighbor Policy

Most historians have described the Good Neighbor Policy as an array of different initiatives addressing immediate concerns, whether they were the expansion of trade, the desire to redress past wrongs, such as military intervention, or to meet external threats. Yet, the Good Neighbor policies complemented one another so well that it is more plausible to view them collectively as a strategy to secure Latin America's military cooperation. Contemporaries certainly believed that such cooperation could not have been secured at the Havana Conference (1940), if the Good Neighbor Policy had not succeeded in improving U.S.-Latin American relations. On 24 May 1940, Peruvian Foreign Minister Alfredo Sol y Muro remarked perceptively to Ambassador Norweb that previous Pan-American Conferences were instrumental in ensuring Latin American military cooperation in the form of Western Hemisphere Defense: "[Western Hemispheric Defense] was a step of transcendental importance and one which could not have been taken were it not for the results achieved at the Montevideo, Buenos Aires, Lima and Panama conferences."²⁰⁷ Welles, who played an important diplomatic role in many Pan-American Conferences, wrote in 1951: "Without the [Buenos Aires] Conference of 1936, there would have been little chance for hemispheric cooperation after Pearl Harbor."²⁰⁸

German diplomats also believed that the Roosevelt administration sought a military alliance with Latin America against Germany and Japan in preparation for war; and they concluded that U.S. efforts in this regard were largely successful. Von Schoen (Germany's Ambassador in Chile) reported (March 8, 1938):

²⁰⁷ Norweb to Hull, Lima, May 24, 1940 – 5 p.m. [Received May 25 – 1:25 a.m.]; In *FRUS: Diplomatic Papers, 1940, Volume 5: The American Republics*, p. 157.

²⁰⁸ Welles, p. 104.

The situation [in Chile] is therefore favorable for the Anglo-American Powers to exert influence directed against us (or Japan) in case of war – more favorable in my opinion than in 1917, when the memory of American encroachment in Mexico, Santo Domingo, etc., prevented the development of a Pan-American feeling embracing the U.S.A.²⁰⁹

Similarly, Von Rudt (The Minister to Mexico) concluded on 8 April 1938:

[Mexico] is so definitely oriented against the authoritarian, or “Fascist” countries, as they are called here, that in all probability even without pressure from the northern neighbor the Government would hardly be able to maintain a neutral attitude in case of armed conflict.²¹⁰

Lastly, a memo from the Cultural Policy Department claimed on 29 April 1938:

Evidently, along with economic warfare, North American diplomacy is attempting with all the means at its disposal to eliminate German political and cultural influence in South America in order to establish a Pan-American bloc – also in the event of war – and for this reason the procedure in Brazil is to point the way.²¹¹

Roosevelt’s intention to create a U.S.-led Pan-American bloc directed against Germany implies that the Good Neighbor Policy’s goals were far more internationalist than many historians are ready to concede. Yet, this internationalist thesis seems the most plausible, because the achievements of the Good Neighbor Policy in the area of military cooperation largely helped to lay the groundwork for the United States’ participation, peaceful* or otherwise, in the upcoming Second World War. To be sure, these Good Neighbor Policies, such as U.S. efforts to establish naval ties with Latin America mentioned in the section below, when viewed in isolation, do

²⁰⁹ The Ambassador in Chile to the Foreign Ministry, Santiago, March 8, 1938 (Received March 15); In *Documents on German foreign policy, 1918-1945*, from the archives of the German Foreign Ministry, Server D, Volume 5 (Latin America) (London, H.M. Stationery Office, 1949), pp. 821-822.

²¹⁰ The Minister in Mexico to the Foreign Ministry, April 8, 1938, *Ibid.*, p. 829.

²¹¹ Consul General Lorenz, Memorandum of the Cultural Policy Department, April 29, 1938, *Ibid.*, p. 833.

* “Peaceful” is defined as U.S. actions during wartime that fall short of waging war. For example, the United States’ policy of sending aid to allied nations, such as Britain and (after June 22, 1941) the Soviet Union.

not appear overly impressive, especially during the mid-1930s. When, however, one sees them as stepping blocks on the road toward much more ambitious goals, then they attain an entirely new significance arguably greater than the sum of their parts.

The Omaha Ships Deal

The first event signaling a move towards long-term military cooperation involving Latin America probably came in early 1936. In January 1936, President Vargas of Brazil, through Ambassador Aranha, requested ten ships of the Omaha class.²¹² Welles, seeing the request as an opportunity not only to sell Brazil ten ships, but also to establish naval ties with that country, convinced Roosevelt and Hull to seize the opportunity that Vargas had offered them. On the surface, the Omaha ships deal was part of the Roosevelt administration's policy of selling older ships and replacing them with new ones. However, the Roosevelt administration hoped that the sale would strengthen naval ties between the United States and Brazil, which could eventually be extended to all Latin America. According to Gellman, "Welles went directly to Roosevelt in early 1936 to convince him that the Brazilian navy should become an auxiliary force to the United States in any potential confrontation between the Old and New Worlds."²¹³ Then Roosevelt explained in a letter to Vargas:

I should have been glad to make available United States naval vessels to such other American Republics as might desire them on similar terms, believing that in this manner closer relations between the navies of all of the American republics would have been

²¹² President Roosevelt to President Vargas, Washington, July 6, 1936; In *FRUS: Diplomatic Papers, 1936, Volume 5: The American Republics*, p. 300.

²¹³ Gellman, p. 128.

encouraged.²¹⁴

Unfortunately for Roosevelt, the Omaha ships deal failed. When Welles pushed for the deal in early 1936, in Irwin Gellman's view, he neglected to consult his colleagues in the State Department. This was a mistake, because several State Department officials opposed selling ships to Brazil, fearing it would spark an arms race in Latin America. Some officials eventually leaked information about the Omaha ships deal to the press.²¹⁵ Later, news of the deal reached Argentina, where U.S. Ambassador Weddel reported:

It is rumored with considerable apprehension in Argentine naval circles that Brazil is to purchase cruisers from the United States Navy.

In view of the certain resentment the general circulation of such rumors would arouse in this country toward both the United States and Brazil and in further view of the effect this might have on the coming peace conference here, I would be grateful to be informed whether there is anything I may say to the Argentine authorities in this connection.²¹⁶

Although the Omaha ships deal failed, it was significant for marking Roosevelt's first direct attempt to secure Latin America's military cooperation. Admittedly, it is difficult to ascertain what U.S.-Latin American naval cooperation would have looked like, if the Omaha ships deal succeeded. Yet, in light of future events, it is probable that Roosevelt wanted U.S. warships, with the consent of Latin America, to occupy waters bordering the South American coast (a strategic aim finally achieved at the Panama Conference of September 1939); and that he saw the Omaha ships deal as the first step toward achieving that goal. After all, it is unlikely that the Roosevelt administration was seeking naval aid from Latin America, as Latin American navies were small and possessed

²¹⁴ President Roosevelt to President Vargas, Washington, July 6, 1936; In *FRUS: Diplomatic Papers, 1936, Volume 5: The American Republics*, p. 300.

²¹⁵ Gellman, p. 128.

²¹⁶ The Ambassador in Argentina (Weddel) to Hull, Buenos Aires, March 18, 1936 – 6 p.m. [Received 7:30 p.m.]; In *FRUS: Diplomatic Papers, 1936, Volume 5: The American Republics*, p. 299.

outdated ships. Moreover, another attempt to secure naval ties with Brazil in 1937 -- which involved the lease, not the sale, of warships, but (like the Omaha ships deal) revealed the Roosevelt administration's stubborn determination to secure naval ties with Latin America -- failed, because Pan American specialist Samuel Inman, reflecting many of Hull's anxieties, claimed that, "Every Latin American, who ever objected to United States dominance, will interpret this as a return to the old program."²¹⁷ This statement suggests that the sequel in 1937 to the Omaha ships deal had implications which gave the mistaken impression that Uncle Sam was trying to dominate Latin America. Certainly, a U.S. naval presence in waters bordering the Latin American coast could give rise to such misguided interpretations of U.S. foreign policy. Lastly, the Roosevelt administration, in early 1938, encouraged U.S. warships to visit waters bordering Latin America to create the impression within the navy that the defense of waters bordering Latin America was as important as defending the U.S. coast.²¹⁸

Lastly, the Omaha ships deal was significant for being the first time Roosevelt used Pan-Americanism -- joint cooperation among American states -- to make U.S.-Latin American cooperation appear more acceptable to his southern neighbors. By claiming to promote Pan-Americanism in Pan-American Conferences, Roosevelt deflected possible criticism that the United States was returning to the old policy of military intervention or interfering politically in Latin America's affairs.²¹⁹ Instead, he gave his own people and

²¹⁷ Ibid., p. 128.

²¹⁸ Ibid., p. 129.

²¹⁹ Langer and Gleason, taking Roosevelt's side in this matter, pointed out that one of the controversies arising from Roosevelt's request for bases in Latin America in 1940 was that these bases would be used exclusively by the United States and therefore constitute an infringement on the sovereignty of those countries which leased these bases. To refute this charge, the Roosevelt administration argued that the bases were open to all American nations (a very Pan-American argument) and, therefore, the United States was not infringing upon the sovereignty of any Latin American nation (Welles stressed this point to reporters in

Latin Americans the impression that Pan-American cooperation in military matters was a reflection of what Professor Samuel Bemis described as the American Republics taking “a stand of all for one and one for all.”²²⁰ Yet, as we shall see later on, Pan-Americanism was more of a myth than a reality.

The Buenos Aires Conference

After the Omaha ships deal, Roosevelt and Welles renewed their efforts to secure Latin America’s military cooperation at the Buenos Aires Conference (December 1-23, 1936). To be sure, Mecham and Haglund have argued that Roosevelt’s goal at Buenos Aires was to commit Latin America to a common neutrality policy if war broke out in the Old World.²²¹ Yet, this seems unlikely, considering that U.S. proposals had more in common with the Roosevelt administration’s later militaristic goals at the Havana Conference (1940) than with any neutrality policy. One of Roosevelt and Welles’ goals at the Buenos Aires Conference was to convince Latin America to agree to the principle that a threat to one American Republic was a threat to all.²²² This principle was the same as Declaration XV of the 1940 Havana Conference that stated: “That any attempt on the part of a non-American state against the integrity or inviolability of the territory, the sovereignty or the political independence of an American state shall be considered as an act of aggression against the

November 13, 1940). See William L. Langer and S. Everett Gleason, *The Undeclared War, 1940-1941* (New York: Harper & Bros. Publishers, 1953), pp. 151-54.

²²⁰ Bemis, p. 368.

²²¹ Mecham believed that FDR wanted to establish a common neutrality front: “It became clear, in the course of the following months before the convening of the conference in December [1936], that the United States government wanted the American nations to organize a common neutrality front in the event of a non-American war. Considering the menacing prospect of a general European war, this was, in the view of President Roosevelt and Secretary Hull, the most important problem to be met by the conference.” See Mecham, p. 122. For Haglund, the Buenos Aires Conference (1936) was “a singular failure of the Roosevelt administration to get the Latin American nations to adopt as their own the isolationist neutrality policy of the United States.” See Haglund, pp. 40-41.

²²² Benjamin Welles, *Sumner Welles: FDR’s Global Strategist* (New York: St. Martin’s Press, 1997), p. 189.

states which sign this declaration.”²²³ Similarly, the Consultative Pact (also agreed to at the Buenos Aires Conference), which called for consultation in the event of an external threat to the Western Hemisphere,²²⁴ proved more useful for hemispheric cooperation during wartime than for maintaining neutrality. Section 13 of the “Convention on the Provisional Administration of European Colonies and Possessions in the Americas,” for instance, made it clear that the Consultative Act remained unchanged and was practiced at the Panama (1939) and Havana Conferences (1940).²²⁵ In short, the Roosevelt administration at the Buenos Aires Conference was laying the groundwork for hemispheric cooperation during wartime.

Unfortunately for Roosevelt, U.S. efforts were not a complete success. The Consultative Pact was not popular with many governments attending the Conference, especially when it was accompanied by a provision that made consultation obligatory. Argentine foreign minister Saavedra Lamas claimed that the United States was trying to gain hegemony over Latin America.²²⁶ His feelings on this subject were understandable. In 1935, U.S.-Argentine relations had been cordial with the result that Argentina accepted Hull’s proposed solution to the Chaco dispute.²²⁷ However, these relations turned sour,

²²³ James W. Gantenbein, (ed.), *The Evolution of Our Latin-American Policy: A Documentary Record* (New York: Octagon Books, 1971), p. 799.

²²⁴ Gellman, *Secret Affairs*, p. 116.

²²⁵ Gantenbein, (ed.), p. 803. Section 13 comes from the official agreement reached at the Havana Conference in 1940.

²²⁶ Welles, *Sumner Welles*, p. 188.

²²⁷ John W. White, “Hull Wins Confidence of South Americans,” *The New York Times*, 12 May 1935, p. E5. The Chaco dispute was a war between Bolivia and Paraguay (1932-35) over the Chaco region, which contained the Paraguay River an outlet (important to Bolivia) to the Atlantic Ocean. The Bolivians were initially successful, but the Paraguayans expanded their army and in a remarkable national effort drove Bolivia out of most of the Chaco region. This war was, naturally, caused considerable concern to the neighbors of Bolivia and Paraguay, who were indirectly affected by the dispute. In the end, the U.S. proposed a compromise that gave Paraguay most of the disputed Chaco region and Bolivia an outlet to the Atlantic via the Paraguay River. See Dupuy, R. Ernest and Trevor N. Dupuy, *The Harper Encyclopedia of Military History: From 3500 BC to the Present* (New York: Harper Collins Publishers, 1993), p. 1149.

when the Argentine government learned of the Omaha ships deal, which in its view gave Brazil an intolerable advantage over their navy.²²⁸ When attending the Buenos Aires Conference, Lamas probably shared many of the suspicions of his government.²²⁹

The other Latin American delegations, meanwhile, were also suspicious of U.S. motives. To be sure, Lamas' blundering and Welles' expert diplomacy contributed to an outcome that was partially favorable to the Roosevelt administration. As Benjamin Welles has asserted, "By patronizing the Central Americans, Saavedra Lamas blundered," and "Welles, who knew the countries' politics, history and culture better than Saavedra Lamas, soon exploited it."²³⁰ Yet, Hull, Welles and the U.S. delegates eventually accepted compromises falling short of what they hoped to achieve. On a favorable note, there was an agreement among all participants that a threat to one American Republic threatened all. Furthermore, all delegates agreed on consultation in the event of an external threat. Yet, consultation was to be voluntary, not obligatory.²³¹ What is more, the Consultative Pact's purpose, if an international war occurred, was not specified. Article 2 of the Consultative Pact stated vaguely that if an international war threatened the Americas, "the signatory states, if they so desire, may eventually cooperate in some action tending to preserve the peace of the American Continent." Article 3 explained that it was not possible to decide upon an interpretation of Article 2 "through diplomatic channels."²³² The cumulative result was only a partial victory for the Roosevelt administration.

²²⁸ Gellman, *Good Neighbor Policy*, p. 128.

²²⁹ Sumner Welles implies that Lamas turned against the United States, at least in part because of the Omaha ships deal, when he writes that, "[Lamas] was firm in his determination, however, that Argentine supremacy as the leader of the Spanish-American nations must be maintained, and that any attempt on the part of the United States to increase its political influence in the hemisphere must be thwarted." See Welles, *The Time for Decision*, p. 207.

²³⁰ Welles, p. 193.

²³¹ Gellman, *Secret Affairs*, p. 116.

²³² Gantenbein, p. 780.

The Decline of German Influence in Latin America

Although Roosevelt was only partly successful at Buenos Aires, U.S. influence in Latin America was quickly pushing Germany aside. In March 30, 1938, the Third Reich's senior counselor Freytag argued that Mexico's German embassy should express "surprise," instead of making a "formal protest," when President Cardenas condemned Germany's annexation of Austria.²³³ In May 19, 1938, Langmann (Germany's minister in Uruguay) concluded that the German position in Uruguay was deteriorating sharply.²³⁴ In Argentina, Ambassador von Thermann warned his superiors that, "The government of Dr. Ortiz has by no means abandoned the idea of possibly taking more severe measures against the Germans here."²³⁵ The German situation in Latin America was so critical that Ambassadors Ritter (Brazil), von Schoen (Chile), von Thermann and Minister Langmann met at Montevideo, where they concluded,

The present anti-foreign and particularly anti-German attitude of most of the South American countries is not a transitory phenomenon produced by isolated occurrences. On the contrary, German policy must reckon with it for a long time to come, at least for a matter of years.²³⁶

The Lima Conference (1938)

With the German position deteriorating, the prospects for U.S.-Latin American military cooperation steadily improved. The latter trend, combined with the Munich crisis

²³³ Memorandum by the Head of Political Division IX, Berlin, March 30, 1938; From *Documents on German Foreign Policy, 1918-1945*, from the archives of the German Foreign Ministry, Server D, Volume 5 (Latin America) (London, H.M. Stationery Office, 1949), p. 823.

²³⁴ The Minister in Uruguay to the Foreign Ministry, Montevideo, April 21, 1938 [Received July 11]; *Ibid.*, p. 832.

²³⁵ The Ambassador in Argentina to the Foreign Ministry, Buenos Aires, June 7, 1938 (Received June 13); *Ibid.*, p. 858.

²³⁶ The Ambassador in Argentina to the Foreign Ministry, Buenos Aires, August 2, 1938 (Received August 20), [Enclosure] Memorandum of the Meeting in Montevideo of the Chiefs of Missions in Argentina, Brazil, Chile and Uruguay, July 28 and 29, 1938; *Ibid.*, p. 863.

(September 1938), spurred the Roosevelt administration to rally support for a binding Consultative Pact at the Lima Conference (9-27 December 1938).²³⁷ In other words, Roosevelt and his aides wanted consultation to be obligatory so that hemispheric cooperation during wartime would be binding on all Latin American Republics.²³⁸ However, Latin America, for the most part, was not willing to agree to obligatory consultation. The new Argentine foreign minister, Jose Maria Cantilo, declared that Argentina would “continue its traditional policy of assisting the sister nations of the continent, but would find it difficult to subscribe to military pacts or engagements which might give the impression of drawing away from friendly European nations.”²³⁹ Uruguay and Chile were also reluctant to agree to a binding consultative pact, since they did not want to antagonize Germany or undermine trade ties with that country.²⁴⁰ The Nazi regime already concluded by early 1938 that Roosevelt was trying to convince Latin America to enter into a U.S.-led military alliance against Germany. In responding to this threat, the Nazis increased embassy staffing and propaganda.²⁴¹ In March 26, 1938, Schmitt (German Minister in Peru) proposed a propaganda ploy to the Foreign Ministry:

The [Peruvian] President wants the 88 mm. guns used in Germany. For this Krupp requires 12 months, with the possibility of sending one battery earlier. I request emphatically one battery being delivered immediately from supplies on hand. It is a question of demonstrating at the Pan-American Conference to be held here in December that in case of necessity Peru is not defenseless against the North American air force.²⁴²

Schmitt hoped that German propaganda would help discredit rumors about Nazi

²³⁷ Gantenbein, (ed.), p. 785.

²³⁸ Frederick C. Adams, *Economic Diplomacy: The Export-Import Bank and American Foreign Policy, 1934-39* (Columbia: University of Missouri Press, 1976), p. 207.

²³⁹ Irwin F. Gellman, *Secret Affairs*, p. 75.

²⁴⁰ Adams, p. 207.

²⁴¹ *Ibid.*, p. 79.

²⁴² The Minister in Peru to the Foreign Ministry, Lima, March 26, 1938 – 1:52 p.m. [Received March 26 – 8:30 p.m.]; *Documents on German foreign policy, 1918-1945*, from the archives of the German Foreign Ministry, Server D, Volume 5 (Latin America) (London, H.M. Stationery Office, 1949), p. 822.

plans to attack Latin America, but he was to be disappointed. He informed his superiors that “North America’s plan of forming the entire continent into a military coalition under its own leadership has failed,” but added, “On the other hand, the United States was successful in further inciting the continent against ideological influences and other external threats.”²⁴³ Schmitt’s comments were not far off the mark. To be sure, Welles wrote in 1944 that the Lima Conference “accomplished little beyond implementing the basic principles adopted at Buenos Aires.”²⁴⁴ Yet, U.S. efforts at Lima bore fruit in one important respect. According to Gellman, “Consultation and cooperation moved ahead” and “Pan Americanism was steadily gaining confidence and maturity.”²⁴⁵ With the United States and Latin America establishing closer ties, the prospects for military alliance between the two were steadily improving

*The Role of Economic Aid in Securing Latin America’s
Cooperation in Military Matters*

In 1939, the Roosevelt administration added another important element to make hemispheric cooperation a reality – money. As we have seen, U.S. economic aid was not only useful in convincing Latin America to trade with the United States, instead of Germany; it also resulted in growing U.S. political influence in those countries that borrowed money from the United States. One example of this trend was Haiti, which surrendered control over part of its finances to the United States after receiving a loan from

²⁴³ The Minister in Peru to the Foreign Ministry, Lima, December 27, 1938 – 12:16 p.m. (Received December 28 – 9:30 a.m.), *Ibid.*, p. 885.

²⁴⁴ Welles, *The Time for Decision*, pp. 208-209.

²⁴⁵ Gellman, *Good Neighbor Policy*, p. 79.

that country in 1938.²⁴⁶ According to Frederick Adams:

In the case of Haiti in 1938, Washington policymakers moved one step further, concluding that the best way to retain U.S. dominance was to deny Germany the opportunity to gain an economic foothold. This decision [to lend Haiti money] produced side effects that contradicted some principles of Roosevelt's Latin American policy. As part of the attempt to become a good neighbor, State Department officials had decided that the U.S. government should not become involved in the internal affairs of other countries. In Haiti, the department initially resolved not to serve as a patron for the loan or to have any responsibility for the public works program. As the situation became more complex, however, the department brushed aside these reservations and followed a course that entailed significant political involvement. This episode... implied that United States policymakers had a series of priorities in which the protection of American dominance took precedence over all else.

Other examples were Brazil, Paraguay, Chile, Panama and Nicaragua.²⁴⁷ But there were nations, such as Peru, which were willing to enter the U.S. camp for the right price.²⁴⁸

Of course, it is not always possible to make direct correlations between economic aid and military cooperation; still, it is probably not a coincidence that the major breakthrough in hemispheric cooperation at Panama Conference (23 September – 3 October 1939) came after several months during which the Roosevelt administration handed out economic aid packages to several Latin American Republics.²⁴⁹ This program of economic aid not only gave Latin American Republics, who already received aid, the incentive to cooperate, but it also created expectations among other American Republics of future economic rewards in the event they aligned themselves with the United States.

Furthermore, the start of the Second World War, which because of the economic embargo prevented Latin American exports from reaching the European market, increased the likelihood of hemispheric cooperation, since many Latin American nations saw U.S.

²⁴⁶ Adams, pp. 202-204.

²⁴⁷ Ibid., p. 213-214, 215, 220, 223. See also Hull to Bowers, Washington, September 19, 1939 – 8 p.m., *FRUS: Diplomatic Papers, 1939, Volume 5*, p. 452. Economic aid was extended to these countries in 1939.

²⁴⁸ See pages 58-59.

²⁴⁹ See chapter 5.

economic aid as the only way out of their economic troubles. Not surprisingly, the U.S. delegates at Panama agreed to Resolution III, entitled, “Economic Cooperation,” which contained several U.S. economic concessions. Among those that figured most prominently were Section 2 (b), containing a promise “to study the most practical and satisfactory means of obtaining the stability of the monetary and commercial relationships between the American Republics.” Then there was Section 2 (d) which sought to “study and propose to the governments the most effective measures for mutual cooperation to lessen and offset any dislocations which may arise in the trade of the American Republics and to maintain trade among themselves.” Lastly, Section 2 (f) called for a study of “the necessity of creating an inter-American institution which may render feasible and insure permanent financial cooperation between the treasuries, the central banks and analogous institutions of the American Republics...”²⁵⁰ Section 2 was by all appearances Pan-American, in that it committed all American Republics to help each other. In reality, however, monetary stability, improvements in Pan-American commerce during wartime and financial cooperation were unattainable without economic aid from the United States.

However, the U.S. delegation only agreed to promises of economic concessions after receiving strategic concessions in return. Before the Panama Conference began, Roosevelt created the naval patrol for the Atlantic and Pacific Oceans – which was probably part of his naval strategy dating back to the Omaha Ships deal, alluded to earlier. He also drew, with Welles’ help, a line along the western and eastern coasts of the Western Hemisphere which became the borders of the new “security belt,” to be patrolled by hundreds of U.S. warships. Welles, as head of the U.S. delegation attending Panama,

²⁵⁰ Gantenbein, (ed.), pp. 790-791

wanted the other Latin American nations to agree to the security belt and thereby allow U.S. warships to situate themselves off their coasts. By offering economic concessions and precedents for the security belt,* Welles won over all the American Republics without having to compromise his position. The administration, after this conference, had its own naval patrol and, in Gellman's words, established a "hemispheric justification to keep combatants from engaging in warfare within a definite region."²⁵¹ Admittedly, the security belt was not always successful in keeping the German navy away. There were a few German-British skirmishes off the Latin American coast. However, the security belt did enable the Roosevelt administration to provide Britain with useful intelligence on German naval movements²⁵²; and, over time, the expansion of the security belt – which the growth of the U.S. navy helped facilitate – gave the United States a very important strategic advantage over the Axis powers at sea.²⁵³

Rainbow Plans: Securing Military Bases in Latin America

One goal remain unachieved, however – the leasing of strategic military bases in Latin America. In November 1938, the Roosevelt administration directed the U.S. Army- Navy Joint Board to prepare military plans to deal with the rising Axis powers. These military plans became known as the "Rainbow Plans." The Rainbow plans, from the very beginning, emphasized the need to establish bases in strategic areas of Latin America. In

* Before the Panama Conference, State Department officials searched for possible precedents to the security belt and found proposals of Argentina, Brazil, Chile, Peru and other American Republics, who suggested measures during World War I to prevent belligerent countries from reaching their shores.

²⁵¹ Gellman, *Secret Affairs*, pp. 84-85.

²⁵² Dallek, pp. 205-206

²⁵³ According to Gellman, the security belt expanded until it covered four-fifths of the Atlantic Ocean by July 1941. This fact reveals how quickly the security belt became a tool for achieving U.S. naval dominance over most of the Atlantic Ocean. See Irwin F. Gellman, *Secret Affairs*, p. 257.

January 1939, Welles argued for the acquisition of bases in Brazil apparently to prevent the Nazis from invading that country.²⁵⁴ Moreover, the Rainbow plans saw Latin America's importance primarily in terms of providing bases – namely, Natal, Recife, Belem and Bahia in Brazil; the Guayaquil and Galapagos Islands of Ecuador; the Gulf of Nicoya and the Cocos Islands of Costa Rica; and airfields in Nicaragua, Honduras and Guatemala.²⁵⁵

Interestingly, the Rainbow plans envisaged no role for Latin American governments in strategic planning, even though the Roosevelt administration publicly emphasized the Pan-American character of his “defense” plans. The multilateral Inter-American Defense Board, for example, was created presumably for the purpose of enabling the United States and Latin America to work together in military planning. Yet, John Child has noted: “The Inter-American Defense Board was not permitted to have a multilateral planning role until the Cold War.”²⁵⁶ It was also true that Roosevelt masterminded Western Hemispheric Defense, whose apparent purpose was to convince all American Republics to form a defensive pact against the Axis. But according to John Child,

The hemisphere defense concept was militarily unrealistic and was advocated by the U.S. State Department as the essential military facet of the unified diplomatic-political-economic-cultural approach to hemisphere solidarity favored by the Good Neighbor Policy in World War II.²⁵⁷

In other words, Pan-Americanism was largely window dressing. The concept was useful in helping facilitate hemispheric cooperation; but few high-ranking policymakers in the Roosevelt administration ever took Pan-Americanism or Western Hemispheric Defense seriously.

²⁵⁴ John Child, p. 247, 249. John Child was Lieutenant Colonel of the U.S. Army in May 1979 and on the Inter-American Defense College's Board.

²⁵⁵ *Ibid.*, p. 248.

²⁵⁶ *Ibid.*, p. 256.

²⁵⁷ *Ibid.*, p. 236.

Roosevelt and his aides, furthermore, probably felt that their intelligence showing an Axis threat was not convincing enough to persuade Latin America to lease bases to the U.S. military. For this reason, the Roosevelt administration contemplated the possibility of military intervention to acquire bases in Latin America. A June 1940 War Department General Staff memorandum considered the following courses of action to secure strategic bases in northeastern Brazil:

Lines of action for gaining admission into the vital areas:

- a. By means of diplomacy.... Provided the price is not too high, admission by this means would mark a major victory for the U.S. This means should be exploited to the maximum without delay.
- b. By subsidizing the existing regime. Before resorting to political or economic pressure, careful consideration should be given to the possibility of gaining admission by certain arrangement which would better serve our interests.... If we should gain admission by this means, we should quietly proceed to organize Brazil in such a way that it would serve our military and economic interests for years to come.... If the existing regime will not agree to these arrangements, a coup might be arranged which could be synchronized with direct political pressure and the intervention of armed forces.
- c. Political pressure accompanied by force. If the lines of action outlined in 'a' and 'b' above should fail, we should resort to political pressure and direct action to gain admission into the vital area.²⁵⁸

Similarly, U.S. strategic planners contemplated military intervention in Mexico in the event President Cardenas refused to lease ports off the Pacific Ocean. Even after Cardenas agreed to cooperate, the Roosevelt administration remained interested in plans to intervene militarily in Mexico in case Cardenas reneged on any of his commitments. As John Child has written,

Uncertainty over the degree of Mexican cooperation probably contributed to continuing U.S. interest in unilateral plans for offensive action in Mexico... Thus, even while Mexican-U.S. military cooperation was at its closest during World War II, U.S. military planners were still preparing for possible unilateral contingencies.²⁵⁹

²⁵⁸ Ibid., pp. 251-252.

²⁵⁹ Ibid., p. 253.

These were hardly the actions of a Good Neighbor, but then again the Good Neighbor Policy had become by this date more about smoke and mirrors than anything else. That said, Roosevelt, Hull and Welles, through their wizardry, almost convinced everyone that the illusory Good Neighbor Policy was real. To be sure, the use of economic aid was crucial in motivating Latin America to support Roosevelt's strategic aims; but many of these aims would have been unattainable, if the Roosevelt administration had not used the Good Neighbor Policy to improve the standing of the United States in Latin America.²⁶⁰ During World War I, the Wilson administration could count on the support of only a few Latin American states. For the Roosevelt administration, the combination of Pan-American amity, resulting from the Good Neighbor Policy, and economic aid had led to, by late 1939, a number of notable successes. Hemispheric consultation, by the time of the Panama Conference, had become standard practice. The "security belt," consisting of U.S. warships patrolling the Latin American coast (among other places), was in place and accepted by all Latin American states. Lastly, military plans to acquire strategic bases in Latin America were approaching completion.

²⁶⁰ The Roosevelt administration's efforts to improve the image of the United States with the Good Neighbor Policy began at the Montevideo Conference in late 1933. There, the U.S. delegation renounced military intervention and political interference in the affairs of Latin America; Gantenbein, p. 761. Subsequent to this Conference, the Roosevelt administration increased the Good Neighbor Policy's popularity further through other initiatives. In 1933, the Roosevelt administration withdrew marines from Nicaragua. See George B. Tindall and David E. Shi, *America: A Narrative History, Volume II* (New York: W.W. Norton & Company, Inc.), p. 993. It also pursued a hands-off policy concerning that country thereafter. In 1934, Roosevelt withdrew troops from Haiti. The Roosevelt administration also abrogated the Platt Amendment in the same year with the result that the United States could no longer use political instability in Cuba as an excuse for military intervention. Welles, *Sumner Welles*, p. 193. In 1935, the Roosevelt administration helped find a peaceful resolution to the Chaco dispute (explained in quote below). The results were impressive. On 12 May 1935, columnist John W. White wrote, "A suggestion by Secretary of State Cordell Hull this week put an end to the long-drawn-out Chaco peace imbroglio and started proceeding which, it is hoped, will terminate the three-year war between Bolivia and Paraguay by the end of this month. *The alacrity with which Mr. Hull's suggestion was accepted and acted upon by Brazil, Chile, Peru and Argentina is new evidence of the close and friendly cooperation that has been developed between the United States and South American governments under Mr. Hull's handing of President Roosevelt's "good-neighbor" policy.*" See John W. White, "Hull Wins Confidence of South Americans," *The New York Times*, 12 May 1935, p. E5.

Chapter 8. Bilateral Negotiations and the Havana Conference

By 1940, the Roosevelt administration had made important strides toward hemispheric cooperation. Yet, one aim remained unachieved – the acquisition of bases in Latin America. In 1940, the Roosevelt administration, in order to acquire these bases, continued a practice that had proven so successful a year before; namely, the use of economic aid. To illustrate this point, this chapter shows that the examples of Mexico, Peru, Colombia, Brazil and Ecuador are instructive. After discussing these, this chapter will show how economic aid contributed to success of U.S. diplomatic efforts at the Havana Conference.

Mexico

As noted before, U.S.-Mexican relations were not always cordial. Cardenas' decision to nationalize the oil industry had created complications for the Good Neighbor Policy. In 1940, Roosevelt, recognizing the strategic importance of Mexico's coastline in a Pacific war against Japan, decided that the time had come when the differences arising from the oil crisis had to be resolved. Of course, Roosevelt (as noted before) did not shy away from the possibility of intervening in Mexico militarily, but such an action would be of last resort. As the State Department learned from negotiations with the Cardenas regime, frightening Mexico into supporting Hemispheric Defense with warnings of an alleged totalitarian threat had proven ineffective. Speaking with U.S. diplomats, Dr. Najera, the Mexican ambassador in the U.S., was prepared to go only part way with Washington's

propaganda. He described the threat as a possibility and, according to Seldon Chapin, a State Department liaison officer, claimed that it “*might* even be classified as a probability in the years to come if the American republics were not prepared to defend themselves adequately.”²⁶¹ Najera’s remarks were hardly an enthusiastic endorsement of Western Hemispheric Defense, whose premise was based on the belief that an Axis threat was imminent. Moreover, Najera’s claim that he was reflecting “the views of President Cardenas”²⁶² indicates that Mexico’s president was not taking the alleged threat seriously either.

The objective situation of whether or not there was a threat to Mexico, however, turned out to be irrelevant. According to Bryce Wood, Najera probably wanted to convey to his American counterparts that his government would not lease bases to United States, unless it received significant concessions in return. The most important of these was a resolution to the oil crisis on terms favorable to Mexico. What followed was a U.S.-Mexican informal understanding that a satisfactory resolution would eventually be reached with Mexico.²⁶³

Peru

While Cardenas refused to cooperate until the Roosevelt administration accepted his nationalization of the oil industry, President Prado of Peru supported Western Hemispheric Defense from the very beginning. According to Norweb (the U.S. Ambassador), Alfredo

²⁶¹ Memorandum of Conversation, by Chapin, Washington, 11 June 1940; in *FRUS: Diplomatic Papers, 1940, Volume 5: The American Republics*, p. 137.

²⁶² Same Memorandum, *Ibid.*, pp. 137-138.

²⁶³ Bryce Wood. *The Making of the Good Neighbor Policy* (New York: Columbia University Press, 1962), p. 250. Of course, it was only in early 1942, when a settlement of the oil dispute was finally reached with Mexico.

Solf y Muro (Foreign Minister) claimed that the defense of the American Republics was so important that he “will place it before the President this afternoon and will arrange for me to see President Prado tomorrow.”²⁶⁴ In May 25, 1940, Norweb received assurances from President Prado that,

The Peruvian government was unreservedly prepared to cooperate to the best of its ability in the suggested conversations. He referred to Peru’s vital interest in the security of the Panama Canal and in the general problem of continental defense against any aggression and welcomed the farsightedness of the initiative taken by the United States.²⁶⁵

By September 20, 1940, the State Department and the Prado government reached an agreement on all issues pertaining to Peru’s defense. Peru was, from that moment on, in full support of Western Hemispheric Defense.²⁶⁶

The reason for Prado’s endorsement of the American position was economic aid. Two days before discussing Hemispheric Defensive with Solf y Muro, Norweb reported to the State Department that:

[Solf y Muro] yesterday requested me to meet with him and the Minister of Finance relative to the deterioration of the exchange and trade situation resulting from British trade and financial pressure. The Finance Minister stated: (a) That it is expected that Great Britain within a few days will block surplus exchange for Peru; (b) that the disappearance of free sterling exchange would result in such a depreciation of the sol that unrestricted imports would be impossible... and (d) that the Peruvian Government hopes that some plan for immediate assistance can be developed.²⁶⁷

The “immediate assistance” the Finance Minister had in mind was a credit worth \$5 million set against 160,000 bales of the 1940 cotton crop.²⁶⁸ The Finance minister’s request for

²⁶⁴ Norweb to Hull, Lima, 24 May 1940 – 5 p.m. [Received May 25 – 1:28 a.m.]; in *FRUS: Diplomatic Papers, 1940, Volume 5: The American Republics*, p. 157.

²⁶⁵ Norweb to Hull, Lima, May 25, 1940 – 1 p.m. [Received 4:55 p.m.], *Ibid.*, pp. 157-158.

²⁶⁶ Norweb to Hull, Lima, September 20, 1940 – 11 a.m. [Received 1:10 a.m.], *Ibid.*, p. 161.

²⁶⁷ Norweb to Hull, Lima, May 22, 1940 – 5 p.m. [Received 10:45 p.m.], *Ibid.*, p. 1135.

²⁶⁸ Same telegram, *Ibid.*, pp. 1135-1136. According to Norweb, “The Minister of Finance also observed... (b) that he recognizes the difficulty raised by Peru’s debt default.”

credit was a tall order, because Peru had defaulted on its debt, making it less than creditworthy. However, the prospect of Peruvian support for Hemispheric Defense probably led the State Department to overlook Peru's defaulted debt. Hull informed Norweb that Peru's problems were "receiving the active and careful consideration of officials of this Government," and that, "Betran took up this question in general terms with the President of the Export-Import Bank last Saturday."²⁶⁹ On 31 May 1940, Hull sent another telegram, proposing that Peru make "some sort of a temporary arrangement with regard to the dollar debt" so "to place this Government on more solid ground with respect to domestic reaction within the United States..."²⁷⁰ In other words, a temporary settlement would create the impression that Peru was creditworthy and therefore eligible for economic assistance.

However, Hull's call for even a temporary settlement was unrealistic, as Norweb revealed in his reports to the State Department. Norweb still recommended a credit of \$1-\$2 million to "be made available on a trial basis with further credits dependent upon the successful operation of any plan development." But he added that "the Peruvian Government has no intention to make even a temporary arrangement in the near future with respect to the dollar debt..." and "an offer* made when Peru was more prosperous was rejected by the bondholders as inadequate. Any offer that might be made now would be no better."²⁷¹

Based on this advice, in 10 June 1940, the Export-Import Bank extended a credit to Peru worth \$2 million, with a tame condition being "the understanding that [a] study will

²⁶⁹ Hull to Norweb, Washington, May 24, 1940 – 4 p.m., *Ibid.*, p. 1136.

²⁷⁰ Hull to Norweb, Washington, May 31, 1940 – 7 p.m., *Ibid.*, p. 1137.

* Referring to a temporary debt settlement.

²⁷¹ Norweb to Hull, Lima, June 1, 1940 – 6 p.m. [Received 11:26 p.m.], *Ibid.*, pp. 1138-1139.

be undertaken on a more comprehensive longer-term program of cooperation which would include consideration of the dollar debt situation.”²⁷²

Norweb later reported that the Finance Minister appreciated the \$2 million credit, but wanted to hold the money in reserve, because his government had already cooperated with the banks, business and gold producers in bringing the exchange situation under control “at least temporarily.” This was the first sign that the Finance Minister, in his pursuit of credit, was less than honest about his country’s economic difficulties. As Norweb made clear,

Apparently the Minister now foresees the possibility that the fund* may not be wholly required for the purpose for which it was originally granted and desires to use it for the development of new enterprises which he believes will be productive of export commodities which in turn will increase the volume of foreign exchange.²⁷³

Yet, the Peruvian Finance Minister’s dishonesty did not bother the State Department, because Peru was supporting Western Hemispheric Defense by 20 September 20 1940. On 26 November 1940, J.F. McGurk (U.S. Charge in Peru) reported that, “The Ministry of Finance informed us that Beltran is now negotiating with the Export-Import Bank for credit of \$13 million to support exchange.” McGurk argued that since Peru’s reserves increased to \$1.2 million, not including the \$2 million, it made little sense to offer Peru credits of \$13 million immediately:

Considering that the reserve fund now amounts to the appreciable total of \$1,200,000 over and above the \$2,000,000 credit which had not been touched no reason is seen for hasty action without reference to such a large credit. It will be recalled that this request of last June for \$5,000,000 was satisfied by a grant of \$2,000,000 at a time when circumstances were as uncertain as they are at present.²⁷⁴

²⁷² Hull to Norweb, Washington, June 10, 1940 – 7 p.m., *Ibid.*, p. 1140.

* The fund consisted of the \$2 million credit.

²⁷³ Norweb to Hull, Lima, June 13, 1940 – 2 p.m. [Received 9:30 p.m.], *Ibid.*, p. 1140.

²⁷⁴ McGurk to Hull, Lima, November 26, 1940 – 6 p.m. [Received 8:19 p.m.], *Ibid.*, p. 1141.

However, the State Department ignored McGurk's advice. The Export-Import Bank extended a credit to Peru worth \$10 million with an interest rate of 4%. The rate of interest incidentally was remarkably low, considering Peru's poor debt record.²⁷⁵

Colombia

In Colombia, the State Department also used financial inducements to gain the support of a government that, judging from the occasional indiscretions of its officials, doubted whether Germany threatened the Americas. In a telegram to Hull, Spruille Braden, the U.S. Ambassador in Colombia, recounted the Foreign Minister's assessment of an Axis threat to the Western Hemisphere:

[The Foreign Minister] agreed as to [the] seriousness of [the] situation if German victory [gained] possession of allied navies but recognized as more reasonable that Germany would initiate economic rather than military warfare against the Americas; He deprecated ideas of any "fifth" column activities in Colombia beyond a certain proselytizing to convert Colombians to Naziism.²⁷⁶

In the same telegram, Braden wrote that the Colombian president was also "inclined to [the] view [that] American Republics could live peacefully isolated from the rest of the world" and it was only on a moment's reflection that "he admitted the impossibility of doing so."²⁷⁷ What brought about this dramatic change in the Colombian president's mind? Perhaps, it had been Braden's persuasiveness, but it is more likely that negotiations

²⁷⁵ Hull to McGurk, Washington, December 16, 1940 – 8 p.m., *Ibid.*, pp. 1141-1142. It should be noted that the \$10 million credit replaced the \$2 million credit that the Export-Import Bank previously awarded to Peru. Usually, countries with a bad debt record (i.e. with a debt in partial and complete default) usually can only borrow more money at higher interest rates, since creditors, fearing they would not receive the principle back, would try to earn as much in interest in the meantime before the debt defaults.

²⁷⁶ Braden to Hull, Bogota, June 11, 1940 – 10 p.m., From *Foreign Relations of the United States: Diplomatic Papers, Volume 5: American Republics*, p. 61.

²⁷⁷ *Ibid.*, p. 61.

concerning Colombia's debt problem and the resumption of U.S. credit convinced the president to accede to Braden's claims. Colombia had scarce foreign exchange, a defaulted debt and a trade deficit; problems for which U.S. credit presented a temporary solution. Yet to receive credit, Colombia had to prove its credit-worthiness by resuming debt payments, increasing exports and building greater foreign exchange reserves. In short, Colombia faced an insoluble problem. Hoping to work toward some solution, Colombia discussed the possibility of resuming debt payments with the U.S. government in February 1940.²⁷⁸ For the first half of 1940, negotiations went nowhere. Yet, three weeks after the Minister of War assured Braden that "he recognizes [the] 'fifth column' peril," and that "Colombia would cooperate with [the United States] to the limit of her abilities,"²⁷⁹ the Export-Import Bank extended a \$10 million loan to Colombia's central bank.²⁸⁰ Soon afterwards, Colombia's ambassador to the U.S., Gabriel Turbay, Welles and others reached an agreement by which Colombia would exchange old bonds in arrears, earning 6% interest, for new bonds that carried 3% interest.²⁸¹ Like Peru, Colombia was to pay a 3% interest rate, an unusually low given its recent history of debt defaults.

Brazil

While Colombia was more candid about its doubts concerning an Axis threat, Brazil kept these doubts secret. During preliminary negotiations with Caffery, Aranha had used the Axis threat as a ploy to gain economic and military concessions from the United States. Caffery also tried to use the Axis threat to his advantage, by convincing the Vargas regime

²⁷⁸ Morgenthau to Welles, Washington, February 7, 1940, *Ibid.*, p. 695; Memorandum by Mr. Ellis O. Briggs of the Division of the American Republics, Washington, May 29, 1940, *Ibid.*, p. 702.

²⁷⁹ Braden to Hull, Bogota, June 12, 1940 – 5 p.m., *Ibid.*, p. 65.

²⁸⁰ Braden to Hull, Bogota, July 5, 1940, *Ibid.*, p. 705.

²⁸¹ Memorandum by Welles, Washington, July 6, 1940, *Ibid.*, p. 706.

that it needed U.S. military protection and should, therefore, lease bases to the U.S. military. In the end, Caffery's bluff foundered, as Aranha devised schemes that threatened to derail the talks altogether.

In May 24, 1940, Caffery reported that Aranha "says that Brazil is ready to 'cooperate 100% with the United States in plans for military defense or to repel aggression, and even to cooperate with the United States in war.'" That was the good news. Then Aranha added a condition to the effect that Brazil "does not want to get tied up with any other country or countries."²⁸² Since Western Hemispheric Defense depended on Pan-American solidarity, Aranha's clause was a setback for the Roosevelt administration. In response, the Roosevelt administration took a hard-line, hoping that the alleged Axis threat was sufficient to convince Brazil to cooperate. Yet, Caffery's telegram of May 29, 1940 revealed that Aranha had not changed his position: "Aranha says that Brazil will not be interested in discussing matters of continental security and continental self-defense as such; they are prepared to discuss only military matters interesting our respective countries."²⁸³

That Aranha took such a stance strongly suggests that he doubted U.S. claims about an Axis threat to Latin America. If he believed in them, he would not have played games with his American counterparts by agreeing to a military alliance, while remaining aloof from a continental one. Aranha explained his opposition to continental defense by pointing to "the presence of huge German-descended populations in this country and to the existence of the undercover Nazi-minded Integralista party and also to the fact that a good many officers in the army have very high admiration for the German military machine."²⁸⁴

²⁸² Caffery to Hull, Rio de Janeiro, May 24, 1940 – 5 p.m., *Ibid.*, pp. 42-43.

²⁸³ Caffery to Hull, Rio de Janeiro, May 29, 1940 – 4 p.m., *Ibid.*, p. 44.

²⁸⁴ Caffery to Hull, Rio de Janeiro, May 24, 1940 – 5 p.m., p. 43.

Yet, there is a problem with this explanation. If one is to follow Aranha's logic, the German community and Brazilian officers' admiration for Germany should have discouraged Brazil from military cooperation with the United States. Yet, Aranha supported military cooperation with the United States. Aranha's argument about the Integralist threat, lastly, was insincere, given that Vargas cracked down on the Integralists in 1938. The crackdown destroyed the Integralists and forced their leader, Plinio Salgado, into exile.²⁸⁵

However, if Aranha had prevented the Roosevelt administration from reaching an understanding with Brazil on continental defense, this did not mean he was determined to derail talks. Instead, he tried to force the Roosevelt administration into a position where it would have to offer concessions. This became clear to Caffery, when:

[Brazil's] Minister of War referred again to the arms they are getting from Germany and that they are getting them under extremely advantageous conditions and terms. The Ministers of War and Navy then referred to the difficulties they experience in acquiring material in the United States; they referred to 'our cash and carry policy' and to our high prices. The Minister of War said that he has been unable to get ammunition for the 99 6-inch guns Brazil recently acquired in the United States; the 7-inch guns acquired at the same time lack propelling carriages; and it would take 2 years to build the carriages, et cetera, for the 7-inch guns then acquired.²⁸⁶

In case Caffery had failed to appreciate the implications of the Ministers of War and Navy's comments -- i.e., that Brazil would cooperate, in exchange for armaments at advantageous prices -- Aranha laid the whole matter down with some precision before him:

"Now the other side of the picture is this," said Aranha: "The Brazilian Army and Navy people are skeptical about receiving from you the only thing they need, and

²⁸⁵ Thomas E. Skidmore and Peter H. Smith, *Modern Latin America*, 5th edition (New York: Oxford UP, 2001), pp. 158-159.

²⁸⁶ Caffery to Hull, Rio de Janeiro, June 7, 1940 – 9 p.m.; From *FRUS: Diplomatic Papers, Volume 5: American Republics* (Washington: United States Government Printing Office, 1961), p. 45.

that is armament"... He remarked to me: "You hold conversations with us and the Germans give us arms." Aranha went on to say that in his opinion it is vital for us to do everything to prevent a Nazi or near Nazi overturn in this country and he feels that the best possible thing that we can do to prevent such an overturn is to let the army and navy here have arms on advantageous terms... Aranha said that Miller should talk over the situation with Dutra and Goes, remarking that the Brazilian Army had given a list of their defense needs to General Marshall last year. He added that as soon as an agreement had been reached between the United States and Brazil they would gladly take up the matter of better cooperation with at least the Argentine also.²⁸⁷

Thus, Aranha's stance was that Brazil, in return for U.S. weapons, would be willing to enter into a military alliance with Argentina as well as the United States. It is very important to note Aranha's use of the alleged Nazi threat to justify his request for weapons. Since Caffery could not deny that this threat existed, he was unable to argue against Aranha's rationale for American-made arms. Later in June, General Dutra, the Minister of War, specified the military equipment Brazil wanted: air planes, harbor defense material and motorized equipment.²⁸⁸ In sum, Brazilian cooperation was linked to the Roosevelt administration's ability to provide Brazil with weapons at low prices along with the credits necessary to purchase them.²⁸⁹ In July 1940, Aranha demanded yet another concession from the United States: funding for a steel plant.²⁹⁰ For Vargas, the construction of a steel plant in Brazil was of the utmost importance, since it would serve as showcase for his regime's success in industrializing Brazil. Vargas, in short, saw a new steel plant as a symbol of Brazil's membership in the community of developed nations. For this reason, Vargas was very disappointed when U.S. Steel refused to build the steel mill. Herbert Feis, the State Department's economic adviser, recounted in a memorandum that:

²⁸⁷ Same telegram, *Ibid.*, p. 46.

²⁸⁸ Caffery to Hull, Rio de Janeiro, June 10, 1940 – 6 p.m., *Ibid.*, p. 47.

²⁸⁹ Caffery to Hull, Rio de Janeiro, June 18, 1940 – 4 p.m., *Ibid.*, p. 48.

²⁹⁰ Caffery to Hull, No. 3285 Rio de Janeiro, July 16, 1940, *Ibid.*, p. 49.

The Brazilian Ambassador called upon the Secretary [of State]... to convey to the Secretary the sharp disappointment of President Vargas that the decision of the United States Steel was not to go ahead with the plan for development of the iron and steel industry in Brazil [and] to see if he could arrange, according to instruction from President Vargas, to see President Roosevelt.... He explained further that President Vargas had expressed views to him to the effect that the achievement of this seemed to him to be a most important test of the good neighbor policy, and that further, the President had stated he would greatly prefer to have this thing carried out with the assistance of American enterprise and capital but that if this were not forthcoming, he would turn in other directions.²⁹¹

Initially, Brazil made little initial progress in trying to convince the Roosevelt administration to fund the steel mill. Yet, the preliminary negotiations of June and July 1940 changed the situation considerably – enabling Brazil to acquire weapons and funding for its steel mill. On August 2, Cordell Hull informed the Brazilian government through Caffery that the United States would despatch automotive and aviation equipment to Brazil over the next few months.²⁹² On September 24, Caffery informed Hull that, “the Brazilian Chief of Staff gave Colonel Miller yesterday assigned 4-page statement regarding Brazil’s willingness to cooperate with the United States in hemispheric defense.”²⁹³ A few hours later, Hull sent a telegram to Caffery confirming that the Roosevelt administration, through the Export-Import Bank, had agreed to loan Brazil \$20 million “for the purchase in the United States of materials and equipment for the [steel] mill and for the hiring of engineering and professional talent.”²⁹⁴

Ecuador

In Ecuador, preliminary negotiations were more straightforward. In May 24, Boaz Long, the U.S. Minister to Ecuador, informed Hull that Ecuador’s provisional president

²⁹¹ Memorandum of Conversation by Feis, Washington, January 22, 1940, *Ibid.*, p. 600.

²⁹² Hull to Caffery, Washington, August 2, 1940 – 5 p.m., *Ibid.*, p. 50.

²⁹³ Caffery to Hull, Rio de Janeiro, September 24, 1940 – 2 p.m., *Ibid.*, p. 51.

²⁹⁴ Hull to Caffery, Washington, September 24, 1940 – 7 p.m., *Ibid.*, p. 611.

would welcome emissaries to his country.²⁹⁵ On 20 June, Long told Hull that “The Foreign Minister [of Ecuador] reasserted Ecuador’s intention to stand by conference agreements and both Tobar and Plaza asserted the disposition of their government to cooperate in every practical way.”²⁹⁶ In the next few months, Long and other diplomats worked out the details of Ecuador’s contribution to Western Hemispheric Defense.²⁹⁷

Why had Ecuador been so cooperative? Perhaps, Ecuador believed in an Axis threat to Latin America, but economic assistance was probably a more important factor. While U.S. diplomats negotiated with the Ecuador government in May, Long reported that Ecuador’s labor unions were demanding higher wages because inflation was eroding their savings. The cause of inflation was the sucre’s depreciation against the U.S. dollar, which resulted from the failing cacao harvest that, in turn, caused a decline in exports. For this reason, the president of Ecuador requested \$1,000,000 to meet the costs of merchandise orders and “arrange its internal economy.”²⁹⁸ Four days later, Hull informed Long that, “Federal Loan administrator, Jesse H. Jones, today announced that the Export-Import Bank of Washington had approved a loan to Ecuador in the amount of \$1,150,000...”²⁹⁹

The Havana Conference: The Use of Economic Aid

At the Havana Conference, in 21-30 July 1940, the link between military cooperation and economic aid was clearly stated. In 24 June 1940, Roosevelt, referring to economic aid to Latin America, remarked cynically to Chief of Staff George Marshall: “To keep them sweet, we will have to give them a few tiny dribblets which will not amount to

²⁹⁵ Long to Hull, Quito, May 24, 1940 – 8 p.m., *Ibid.*, p. 105.

²⁹⁶ Long to Hull, Quito, June 20, 1940 – 10 a.m., *Ibid.*, p. 105.

²⁹⁷ See telegrams for August 4 (p. 106), September 13 *Ibid.*, pp. 107-108.

²⁹⁸ Long to Hull, Quito, May 31, 1940 – 5 p.m., *Ibid.*, p. 874.

²⁹⁹ Hull to Long; Washington, June 4, 1940, *Ibid.*, p. 875.

anything to us.”³⁰⁰ As Blum (editor of the Morgenthau diary) has observed, Hull also thought along these lines:

At the Havana Conference of July 1940, Hull invited the Latin American governments to approach the Treasury for currency loans or credits. This opportunity, as he explained, was but one part of the broader objective of hemispheric defense. By implication, only those states prepared for inter-American cooperation against the Axis would be eligible for assistance ...³⁰¹

To finance these commitments, Roosevelt had early on 22 June 1940 asked Congress to increase the Import-Export Bank’s borrowing capacity from \$200 million to \$700 million. In explaining the increase, Roosevelt claimed that Latin America required economic aid to ward off “fifth” column infiltration. With France having fallen to the Nazis, Congress was not willing to debate the issue of the “fifth column” with FDR.³⁰²

With \$700 million at his disposal, Roosevelt rewarded all the Latin American countries that supported his strategic aims. We have already seen the examples of Mexico, Peru, Colombia, Brazil and Ecuador; but there were other Latin America nations, outside of their number, who received economic aid once they agreed to support Western Hemispheric Defense. Chile received \$5 million in currency exchange; Uruguay acquired \$5 million to purchase American supplies and an additional \$2,500,000 “for useful public works projects”; Paraguay obtained \$400,000 to expand agricultural production; Nicaragua borrowed \$2 million for highway construction;³⁰³ and Costa Rica received a loan worth \$4.6 million, carrying 4% interest, for the construction of a Pan American highway.³⁰⁴

In return, Latin America for the most part supported the Havana resolutions that the

³⁰⁰ Haglund, p. 205.

³⁰¹ John Morton Blum, ed. *From the Morgenthau Diaries: Years of Urgency, 1938-1941* (Boston: Houghton Mifflin Company, 1965), p. 321.

³⁰² Bemis, p. 162.

³⁰³ Gellman, *Good Neighbor Policy*, p. 162.

³⁰⁴ Hull to Hornibrook, Washington, September 25, 1940 – 7 p.m., In *FRUS: Diplomatic Papers, Volume 5: American Republics*, p. 736.

U.S. delegation put forward. Here, it should be noted that the U.S. delegation's demands were not new. Declaration XV, which stated that a non-American state's attack on one American state will be regarded as an act of aggression against all the signatories of this declaration³⁰⁵ was, as already indicated, based on a very similar resolution agreed to at Buenos Aires, which, in Benjamin Welles' words, in effect stated "that a threat to one republic threatened all."³⁰⁶ Similarly, the U.S. delegation had every intention of making consultation in the event of an attack obligatory. The difference at the Havana Conference was that the U.S. delegation finally gained Latin America's support for an obligatory consultative pact. The phrase "if they so desire,"³⁰⁷ which was present in the Consultative Pact agreed to at Buenos Aires, was dropped at Havana. As a result, the second part of Declaration XV stated the following:

In case acts of aggression are committed or should there be reason to believe that an act of aggression is being prepared by a non-American nation against the integrity or inviolability of the territory, the sovereignty or the political independence of an American nation, the nations signatory to the present declaration will consult among themselves in order to agree upon the measure it may be advisable to take.³⁰⁸

The only compromise in Declaration XV was that not all American states were obliged to cooperate with one another in their own defense.³⁰⁹ The Roosevelt administration had to secure the military cooperation of individual states through bilateral negotiations, some of which have been mentioned earlier in this chapter.

Another important agreement reached at Havana was Declaration XX, which justified the U.S. occupation of islands and regions of the Americas belonging to European

³⁰⁵ James W. Gantenbein (ed.), p. 799.

³⁰⁶ Welles, *Sumner Welles*, p. 189.

³⁰⁷ James W. Gantenbein, (ed.), p. 780.

³⁰⁸ *Ibid.*, p. 799.

³⁰⁹ *Ibid.*, p. 799.

nations that had been or might become victims of aggression. Thanks to this declaration, Roosevelt was able to establish his first new military bases in the Caribbean and South America with the agreement of most Latin American nations.³¹⁰ Thus, the bilateral negotiations and the Havana Conference had the combined effect of not only ensuring hemispheric cooperation during wartime, but of gaining Latin America's consent for the establishment of bases in the Caribbean and South America. These bases, as we shall learn shortly, helped to secure a network of supply routes that covered much the globe.

Chapter 9. The Network of Bases

In 1940, the Roosevelt administration may have been committed to a policy of neutrality, but the United States was almost fully prepared for the Second World War. If the U.S. economy had not completed the transition to a war economy in 1940, it certainly succeeded in doing so on the eve of the Pearl Harbor attacks. Furthermore, the Roosevelt administration had, through countless bilateral negotiations and Pan-American Conferences, succeeded in establishing a vast network of U.S. bases on several Caribbean islands, on the Brazilian coast and even in Liberia (Africa). This network proved invaluable not only for aiding the victims of totalitarian aggression, but also for facilitating U.S. military operations after Pearl Harbor.

In the following sections, this thesis will discuss the extent of the network of bases and its purpose. The first section, "The Mahanian Network in Latin America," explores the idea that the Roosevelt administration, when constructing this vast network, was putting

³¹⁰ Ibid., pp. 801-802.

Mahanian principles (consciously or subconsciously) into practice. In “Military Bases in Liberia,” this thesis advances the view that the bases in Latin America were established for the purpose of controlling strategic routes to Africa. Thus, the Roosevelt administration’s negotiations to gain access to bases in Latin America coincided, as we shall learn shortly, with negotiations to establish military bases inside Liberia. Lastly, “The Importance of Supply Routes During Wartime,” explains how these supply routes, arising from bases established in Latin America and Liberia, enabled the Roosevelt administration to send military supplies to the enemies of the Axis powers; and how the network contributed to the expansion of the security belt (which consisted of U.S. warships) until it covered fourth-fifths of the Atlantic Ocean.

The Mahanian Network in Latin America

Whether Roosevelt was consciously putting Mahanian principles into practice, when he established bases in the Caribbean and South America, is difficult to say. On the one hand, I have not yet found any record, dated in the 1930s or 1940s, which proved that Mahanian theory influenced the establishment of bases in Latin America. On the other hand, however, the influence of Mahanian theory cannot be wholly discounted. The U.S. Naval establishment had been schooled in Mahanian principles, which made up a vital part of their curriculum, since the beginning of the twentieth century.³¹¹ Referring to one member of that establishment -- General Douglas MacArthur -- Conrad Black wrote, “The Longstanding U.S. strategic judgment, expressed by Admiral Mahan, of which MacArthur was well aware, from his term as army chief of staff from 1930 to 1935, was that the

³¹¹ Richard Challener, *Admirals, Generals and American Foreign Policy, 1898-1914* (Princeton, N.J.: Princeton UP, 1973), pp. 12-14.

Philippines could not be successfully defended against a full-scale Japanese assault.”³¹²

Roosevelt himself read Alfred Thayer Mahan’s seminal work, “The Influence of Sea Power upon History,” and had a correspondence with Mahan until the latter’s death in 1914.³¹³

Professor Louis M. Hacker of Columbia University has also argued that Roosevelt was putting Mahanian theory into practice, when he began naval construction in 1933.³¹⁴

Regardless of whether Mahan was the inspiration or not, it is clear that the layout of the network of bases was consistent with Mahanian theory. One of Mahan’s lessons was:

If the war, as in the present instance, extends to distant parts of the globe, there will be needed in each of those distant regions secure ports for shipping to serve as secondary, or contingent, bases of the local war. Between these secondary and the principal, or home, bases there must be reasonably secure communications, which will depend upon military control of the intervening sea.³¹⁵

A nation could control the intervening sea with a navy strong enough to clear the strategic area of enemy warships or by establishing bases to secure strategically important routes.

According to Mahan, “... the communications will doubtless be strengthened by the military holding of good harbors, properly spaced yet not too numerous, along the routes.”³¹⁶ Interestingly, the naval and air bases extending from the United States to the Brazilian bulge were all closely spaced. In 1939, Roosevelt had ordered the construction of a base in Puerto Rico and thereby extended, albeit modestly, the strategic supply route to that island.³¹⁷ Subsequently, U.S. naval and air routes were extended further to Bermuda, the Bahamas, Antigua, St. Lucia, Trinidad and Tobago, British Guiana and Dutch

³¹² Black, p. 715.

³¹³ Ibid., p. 21.

³¹⁴ Alfred T. Mahan, *The Influence of Sea Power upon History, 1660-1783* (New York: Hill and Wang, 1957), p. vi.

³¹⁵ Ibid., 460.

³¹⁶ Ibid., p. 460.

³¹⁷ Stetson Conn and Byron Fairchild, *The Western Hemisphere: The Framework of Hemisphere Defensive* (Washington, D.C.: Department of the Army, 1960), P. 249.

Guiana.³¹⁸ Once the United States acquired bases in South America, the strategic routes reached Belem, Bahia, Natal, Recife (all along the Brazilian coastline)³¹⁹ and Fernando do Noronha (a Brazilian island).³²⁰ At this point, it appears that Roosevelt was adhering to the defensive “Quarter Sphere” approach (with U.S. bases situated only in Mexico, Ecuador and Brazil).³²¹ However, as will become apparent, he had every intention before Pearl Harbor of extending these air and naval routes to Liberia and beyond.

Military Bases in Liberia

The Roosevelt administration was aware of Liberia’s strategic importance since early 1939. In 3 January 1939, Lester A. Walton (minister in Liberia) observed that Liberia was located “midway between Europe and South America”; and he asserted that, “It is no cry of the alarmist to assert that for any totalitarian state to gain a strong foothold on the West Coast of Africa would undoubtedly menace the Good Neighbor Policy of the United States in South America.”³²² For these reasons and others, Walton argued for the establishment of air and naval bases in Liberia “to safeguard our sea lanes.”³²³ Although taking some time to reply (a telegram only came back to Walton in 2 March 1939), the Roosevelt administration was interested in Walton’s telegram. Hull, Welles, State Department officers and even the Naval Department examined them.³²⁴ There was also a hint that the State

³¹⁸ Samuel F. Bemis, p. 372.

³¹⁹ Child, p. 248.

³²⁰ Caffery to Hull, Rio de Janeiro, June 7, 1940 – 9 p.m., From *FRUS: Diplomatic Papers, Volume 5: American Republics* (Washington: United States Government Printing Office, 1961), p. 46.

³²¹ Child, p. 236.

³²² Walton to Hull, Monrovia, January 3, 1939 [January 27.]; From *FRUS: Diplomatic Papers, 1939, Volume 4: The Far East, The Near East and Africa* (Washington: United States Government Printing Office, 1955), p. 556.

³²³ Same telegram, *Ibid.*, p. 557.

³²⁴ See caption below (1a), March 2, 1939, *Ibid.*, p. 558.

Department was considering some course of action, which explains why its Division of Near Eastern Affairs wanted to verify whether Liberia would allow bases on its soil:

We assume, of course, that you would not have offered these suggests, however tentatively, without considering Liberia's sensibilities; and that the Liberian Government has made its anxiety so plain in regard to the menace of aggression by certain European powers that it would be willing to risk the alternative of virtual American domination along the lines you mention.³²⁵

Thirteen days later, there arose the possibility of establishing bases in Liberia.

Walton informed the State Department in 15 March 1939 that he was forwarding an aide-memoir containing a plea from Liberia (which was apprehensive about European demands for a repartitioning of Africa) for the United States to establish naval and air bases on its soil.³²⁶ For the next week, Roosevelt and his aides discussed the possibility of U.S. bases in Liberia, but in the end they ruled out any course of action. Welles' memorandum to Murray, Chief of the Division of Near Eastern Affairs, stated: "The President shares the views which you and I hold in this matter. This Government cannot consider discussing the establishment of naval or air bases in Liberia."³²⁷

In 1940, however, the State Department reconsidered its position and Hull began discreet efforts to secure bases on Liberian soil. In a telegram to Clifton R. Wharton, Charge in Liberia, dated 26 August 1940, Hull wrote,

The Liberian Government may be interested to know that an American air transport company has made [an] application to the Civil Aeronautics Board for permission to operate a transatlantic route from the United States to Africa via Puerto Rico and Brazil... Without any assurances on the part of this Government that a Liberian terminal would be deemed either expedient or practical by the American company, we should be glad to transmit any suggestion on the part of the Liberian Government to the appropriate quarters.³²⁸

³²⁵ Same caption, *Ibid.*, p. 558.

³²⁶ Walton to Hull, Monrovia, March 15, 1939 – 3 p.m. [Received March 15 – 2:05 p.m., *Ibid.*, p. 558.

³²⁷ Memorandum by Welles to the Chief of the Division of Near Eastern Affairs (Murray), Washington, March 22, 1939, *Ibid.*, p. 560.

³²⁸ Hull to Wharton, Washington, August 26, 1940 – 8 p.m.; From *FRUS: Diplomatic Papers, 1940, Volume 3: The British Commonwealth, the Soviet Union, the Near East and Africa* (Washington: United States Government Printing Office, 1958), pp. 761-762.

On the surface, Hull's proposal for a transatlantic route under the management of Pan American Airways (PAA) suggests that his intention was to promote U.S. commercial aviation. Yet, this proposal, in reality, had a very different purpose. In July 1940, Roosevelt secretly commissioned PAA to expand and modernize air bases in the Caribbean and South America and then build additional air fields. Subsequently, Roosevelt used these bases for military purposes.³²⁹ Similarly, the State Department sought first to establish a commercial airline to Liberia and then build a military base in that country later on. In this context, it becomes understandable that while plans were underway for a commercial airline to Liberia, Harvey Firestone -- president of the Firestone Tire and Rubber Company -- and Henry Villard -- member of the Division of Near Eastern Affairs, a State Department division -- made the connection between the new transatlantic route and Liberia's strategic importance to the United States (September 30, 1940). Firestone "inquired whether there was any possibility of an American airline running a service to Africa and stated that in his opinion such a service, using Liberia as first point of contact on the African continent, would be of very great value from the point of view of national defense and general strategy".³³⁰ Later in the memorandum, Villard discussed with Firestone the possibility of using Fisherman's Lake in Liberia as a possible landing site, thereby implying that he too gave some thought to Liberia's strategic importance.³³¹

³²⁹ Deborah W. Ray, "The Takoradi Route: Roosevelt's Prewar Venture beyond the Western Hemisphere," *The Journal of American History* 62, no. 2 (September 1975), p. 343

³³⁰ Memorandum of Conversation, by Mr. Henry S. Villard of the Division of Near Eastern Affairs, Washington, September 30, 1940; From *FRUS: Diplomatic Papers, 1940, Volume 3: The British Commonwealth, the Soviet Union, the Near East and Africa* (Washington: United States Government Printing Office, 1958), p. 763.

³³¹ Same memo, *Ibid.*, p. 764.

In the next three months, everything went according to the State Department's plans. According to a memorandum dated 22 November 1940, PAA agreed to run a shuttle service from Bolama (Portuguese Guinea)* to Monrovia once a week; and "a contract for this purpose had been offered to President [Edwin J.] Barclay of Liberia."³³² In 24 December 1940, Barclay approved the contract and the resulting air service -- over which PAA had a 10-year monopoly -- brought Monrovia within three days of New York.³³³

With the airline established, the Roosevelt administration proceeded to urge Barclay to allow an air base in Liberia. In 21 June 1941, Hull instructed Walton to "give immediate and favorable consideration to any request [Barclay] may make for the establishment of an American air base in Liberia."³³⁴ Then Hull made the significant claim that "The President [FDR] attaches the utmost importance to the establishment of the proposed base and you will therefore spare no effort in endeavoring to induce President Barclay to make a request in the sense desired."³³⁵ In 25 June Barclay responded favorably to suggestions for an air base in his country.³³⁶ Then in 7 July Barclay "indicated that the Government of Liberia agrees to lease to the Government of the United States areas required for the establishment on Liberian territory of two or more air bases..."³³⁷

However, problems started to emerge when Barclay discovered that the new air

* Bolama was PAA's first stop in Africa from across the Atlantic. The proposal was to extend PAA's route to Monrovia, Sierra Leone.

³³² Memorandum of Conversation, by Mr. Henry S. Villard of the Division of Near Eastern Affairs, Washington, November 22, 1940, *Ibid.*, p. 769.

³³³ Walton to Hull, Monrovia, December 24, 1940 -- noon [Received December 24 -- 11:20 a.m.], *Ibid.*, p. 770.

³³⁴ Hull to Walton, Washington, June 21, 1941 -- 3 p.m., From *FRUS: Diplomatic Papers, 1941, Volume 3: The British Commonwealth, the Near East and Africa* (Washington: United States Government Printing Office, 1959), p. 532.

³³⁵ Same telegram, *Ibid.*, p. 533.

³³⁶ Walton to Hull, Monrovia, June 25, 1941 -- 5 p.m. [Received June 26 -- 6 a.m.], *Ibid.*, p. 533.

³³⁷ Walton to Hull, Monrovia, July 7, 1941 -- 1 p.m. [Received July 9 -- 5:20 p.m.], *Ibid.*, p. 535.

bases, far from serving a defensive purpose, were part of a transportation route to the Middle East. According to Walton (October 22, 1941), who discussed this issue with Liberian Secretary of State Clarence Simpson, “President Barclay is at a loss to understand why, if published reports [and] rumors emanating from Firestone Plantations are authentic, our Government had not directly informed the Liberian Government that Pan American Airways base is constructed at the instance of the United States to facilitate ferrying planes to [the] Middle East.”³³⁸

Although Barclay’s belief that he was tricked created obstacles for the State Department, they were not insurmountable ones. Five days later, Hull instructed Walton to inform Barclay that while the War Department considered using an airfield in Liberia to ferry aircraft to the Middle East, there was “no present intention to use the Liberian airport for [that] purpose.” Hull added that “if events should subsequently make such a step desirable, the Liberian Government would of course be approached with a request for the necessary permission.”³³⁹

Less than two weeks later (8 November 1940), Hull informed Walton that “Recent developments indicate that in addition to the commercial purposes for which the Pan-American airport is intended, it may be necessary to use this landing field as an alternative to Bathurst or Freetown in the ferrying of aircraft from the United States to the Middle East.” Significantly, Hull indicated in that same telegram that the situation, regarding bases, was an urgent one. “In view of the interest which the War Department has in the speedy construction of the airport,” Hull wrote, “it seems likely desirable to bring the

³³⁸ Walton to Hull, Monrovia, October 22, 1941 – 9 p.m. [Received October 22 – 12:57 p.m.], *Ibid.*, p. 538.

³³⁹ Hull to Walton, Washington, October 27, 1941 – 6 p.m., *Ibid.*, p. 540.

present negotiations for the Pan-American lease to an early conclusion.”³⁴⁰ Moreover, Hull, to expedite matters, was willing to use economic aid to convince Barclay to go along with the Roosevelt administration’s plans. Hull informed Walton that, “You may also state to President Barclay that the Department is giving consideration to the means by which additional compensation may be made available to Liberia, possibly in the furnishing of assistance to the country’s road building program.”³⁴¹ As history would show, the United States handsomely rewarded Barclay for his cooperation. Liberia received a generous outpouring of Lend-lease funds, part of which was devoted to the road building program.³⁴²

With Liberia in his pocket, Roosevelt now had a U.S. link to the African continent. Of course, there were other bases, such as the British colonial outposts of Bathurst (Gambia) and Freetown (Sierra Leone), where U.S. airplanes could land; but plan to establish U.S. bases in Liberia was significant in demonstrating that the bases in Brazil served not so much a defensive purpose, but rather were one of the several transit points to bases in West Africa.

These linkages, furthermore, did not end in West Africa. On the contrary, the Roosevelt administration had every intention of connecting the strategic supply routes to West Africa (which the bases in Latin America and Liberia helped secure) with the Takoradi Route going from Ghana to Cairo, Egypt via Fort Lamy, Chad and Khartoum, Sudan. This explains why the Roosevelt administration’s efforts to secure bases in Liberia almost coincided with its interest in helping the British develop the Takoradi Route in April 1941. As Deborah W. Ray observed, “[The] air bases [in Latin America] were not an aerial

³⁴⁰ Hull to Walton, Washington, November 8, 1941 – 6 p.m., *Ibid.*, p. 541.

³⁴¹ Same telegram, *Ibid.*, p. 542.

³⁴² Deborah W. Ray, “The Takoradi Route: Roosevelt’s Prewar Venture beyond the Western Hemisphere,” *The Journal of American History* 62, no. 2 (September 1975), p. 354.

Maginot Line. They were available for use as stepping stones in a worldwide system of communication and transportation.”³⁴³

The Importance of Supply Routes During Wartime

With strategic routes from Latin America to the Middle East secure, the Roosevelt administration was able to deliver military supplies, particularly aircraft, to British forces in Egypt and Libya, where they were engaged in a bitter conflict with the Axis. Here was the first instance where Roosevelt indirectly projected U.S. power into North Africa. FDR’s intention was to help the British drive Axis forces out of North Africa and transform this region into a huge base from which to launch attacks against southern Europe -- the soft underbelly of the Third Reich.³⁴⁴

When German forces invaded the Soviet Union in June 22, 1941, the Takoradi route became significant in another way. Since U.S. aircraft had the benefit of safe passage to the Middle East – where several British bases were located -- it was feasible to extend the supply routes further to the Soviet Union. Thus, the Takoradi route helped supply not only the British, but the Soviets as well. This is not to say that the supply route, as Deborah W. Ray claims, “changed the course of the war in Russia...”³⁴⁵ There were other important factors at play as well. However, the new route contributed to the Soviet victory in the sense that military aid helped the Soviets to conduct more effective military operations against the Germans.

Of course, these supply routes would not have proven as effective in providing

³⁴³ Ibid., p. 343.

³⁴⁴ Ibid., p. 342.

³⁴⁵ Deborah W. Ray, “The Takoradi Route: Roosevelt’s Prewar Venture beyond the Western Hemisphere,” *The Journal of American History* 62, no. 2 (September 1975), p. 356.

military aid, if the Latin American economy had not contributed so much to the U.S. war economy. The United States possessed vast supplies of raw materials herself. However, the Second World War, like the first, made tall demands on various sectors of the U.S. economy. Consequently, the production of U.S. raw materials, while helpful, would fall short of enabling the war economy to produce enough armaments for the United States and its allies. In Weinberg's words, "Difficulties in the production process and the problem of reconciling United States and British needs with those of the Soviet Union kept down actual shipments in 1941, but the fall of that year saw the beginnings of a vast flow."³⁴⁶

In increasing overall shipments, Latin America played an important role. The Roosevelt administration signed several bilateral purchasing agreements, involving strategic war materials, with Brazil (May 14, 1941), Bolivia (May 21, 1941), Mexico (July 14, 1941), Chile (January 20, 1942), Nicaragua (April 8, 1942), Costa Rica (June 16, 1942) and others,* thereby tying these countries to the U.S. war economy.³⁴⁷ In many respects, these agreements were beneficial to Latin America, since the Reconstruction Finance Corporation (RFC) agreed to buy exports from the American Republics in significant quantities and at high and stable prices; and the Republics, in exchange, only had to agree not to sell their produce to nations outside the hemisphere.³⁴⁸ Rosenberg writes, "These accords accumulated needed materials under United States control, denied them to Germany, and helped stabilize Latin American economies."³⁴⁹ However, these bilateral

³⁴⁶ Weinberg, p. 244.

* Cuba, Dominican Republic, Haiti, Paraguay, Uruguay (all before Pearl Harbor); Colombia, Ecuador, El Salvador, Honduras, Peru and Venezuela (after Pearl Harbor).

³⁴⁷ Samuel Flagg Bemis, *The Latin American Policy of the United States: An Historical Interpretation* (New York: Harcourt, Bruce & World, Inc., 1943), p. 369.

³⁴⁸ Rosenberg, p. 187.

³⁴⁹ *Ibid.*, pp. 187-188.

arrangements also came with disadvantages. In May 10, 1941, Inter-American Development Commission (IADC) projects director informed Office of the Coordinator of Inter-American Affairs (OCIAA) official Joseph Rovensky that the needs of the U.S. war economy were conflicting with Latin America's development needs; and that consequently economic development in Latin America would have to be delayed for the war's duration.³⁵⁰ Memorandums dated June 1941 also indicated that the White House was only willing to invest in development projects that related to the U.S. war effort.³⁵¹

Aside from facilitating military aid shipments, U.S. bases in Latin America also helped maintain and expand the security belt (consisting of U.S. warships), which Latin American delegates had agreed to at the Panama Conference in 1939.³⁵² The relationship between the bases and the security belt was mutually beneficial. On the one hand, U.S. warships were essential in protecting U.S. bases from attack or possibly -- in the case of bases in Africa or Iceland -- capture. On other hand, the U.S. navy could not expand further into the Atlantic without access to nearby bases for refuge and supplies. It was not a coincidence, therefore, that as the security belt expanded its reach to encompass, by July 1941, four-fifths of the Atlantic, the Roosevelt administration was establishing bases in Liberia, Greenland and Iceland (July 19, 1941).³⁵³ Thanks to these outposts, the U.S. Navy had gained control over most of the Atlantic.

On the eve of Pearl Harbor, popular mythology – which Sumner Welles played no small role in promoting – held the United States to be vulnerable to Axis infiltration. However, considering the Good Neighbor Policy's successes in the area of military

³⁵⁰ David Green, pp. 85-86.

³⁵¹ Ibid., p. 86.

³⁵² See MA Thesis Text pages 92-94.

³⁵³ Irwin F. Gellman, *Secret Affairs*, p. 257.

cooperation, it seems that this view is not entirely correct. U.S. diplomacy, from the time of the failed Omaha ships deal in early 1936 right up to the crowning U.S. achievement at Havana in 1940, ensured that Latin America would be a staunch supporter of the United States by the time of Pearl Harbor. The acquisition of bases in Latin America, furthermore, enabled the Roosevelt administration to secure strategically important supply routes to Africa. As we learned earlier, these supply routes enabled the United States to send military hardware to the British and the Soviets. However, that unexpectedly had another purpose – after Pearl Harbor, they facilitated U.S. military operations against Nazi Germany and Italy. Since the United States had little trouble sending heavy military equipment to West Africa via Latin America and then to Egypt via the Takoradi route, it was feasible to use these same routes to transport U.S. military personnel to distant theatres of war. What is more, the U.S. security belt's success -- thanks to the establishment of bases in Latin America – in gaining control over four-fifths of the Atlantic Ocean gave the United States a significant strategic advantage over the Axis powers at sea. This is not to say that it was the Roosevelt administration's intention to create this vast network of bases to conduct military operations; but the reality remains that this vast strategic infrastructure proved invaluable in enhancing the United States' own war-making capabilities.

CONCLUSION

If this thesis demonstrates anything, it is that the Good Neighbor Policy was far more complicated than most historians had imagined. There were Good Neighbor policies that were in tune with isolationist public opinion, while others were probably more

internationalist. Taken as a whole, the Good Neighbor Policy consisted of diverse and sometimes contradictory policies; and for this reason, the Good Neighbor Policy era must be studied and reassessed endlessly, if we are to attain a better understanding of it.

This thesis does not claim to offer a comprehensive account of the Good Neighbor Policy era (1933-1945); but instead focuses on two internationalist components from that period. To be more precise, this thesis deals with Latin American policies that were part of a U.S. campaign of economic warfare against the Axis (Part 2); and a second set of policies related to U.S. military preparation (Part 3). In the first Chapter, Roosevelt was established as the mastermind of these internationalist Good Neighbor Policies. Since his first term, Roosevelt intended to take his foreign policy in an internationalist direction; and this is reflected in his political appointments, in his early contemplation of anti-Japanese measures and in a gradual increase in military spending. Roosevelt's internationalism also shaped some of the Good Neighbor Policies. Although he largely left the running of the Good Neighbor Policy to his subordinates, FDR was involved with Latin American affairs at important junctures – especially, when the issue was U.S.-Latin American military cooperation. The image that we have of Roosevelt then was of a president who supported and was involved in internationalist-oriented Good Neighbor Policies.

The second chapter – the beginning of Part 2 -- acts, in part, as a corrective. Often historians have assumed that the Roosevelt administration's antagonism toward Axis trade with Latin America resulted from the belief that German -- and, to a lesser extent, Italian and Japanese -- exports competed unfairly with U.S. exports. Chapter 2 argues that it would be more plausible to situate Roosevelt's opposition to Axis-Latin American trade in the broader context of his more global trade offensive, which was motivated by a strong

antipathy towards the Axis plans for rearmament. For example, Roosevelt cancelled the U.S.-German commercial agreement in 1934, because he believed that Germany would use a trade agreement for rearmament purposes.

In the third chapter, two conclusions are drawn about the U.S. trade offensive in Latin America. First, economic self-interest probably did not influence the Roosevelt administration to oppose German compensation trade with Latin America. Second, Roosevelt and his advisors wanted Germany to be dependent on compensation trade so that when the U.S. State Department's efforts to curb German compensation trade with Latin America met with greater success, Germany's trade difficulties would worsen considerably. For this reason, the Roosevelt administration concluded a compensation trade agreement with Germany, while preventing the possibility of a Reciprocal trade agreement involving hard currency with the same country.

In Chapters 4 and 5, the Roosevelt administration's trade offensive met with greater success first in Brazil and eventually in the rest of Latin America. As a result, Germany was in dire economic straits on the eve of the Second World War; only the trade provisions of the Nazi-Soviet Pact enabled the Third Reich to sustain its war effort. The last section of Chapter 5 concludes that the Roosevelt administration probably launched the trade offensive against the Axis to curb their war-making capability. Lastly, in chapter 6, we learn how the U.S. trade offensive in Latin America shifted focus from Germany to Japan and helped, in part, to weaken Japan's economic strength, and hence her ability to wage war, by late 1941.

After bringing together conclusions from all five chapters, one thing becomes apparent. The economic component of the Good Neighbor Policy was internationalist,

because the U.S. trade offensive in Latin America had an impact – significant in the case of Germany, but less important as concerns Italy and Japan – on the economic strength, and consequently on the war-making capability, of the Axis powers. The trade offensive was probably not motivated by economic self-interest, because even in the years that German compensation trade prospered, U.S. exports were doing well in every major Latin American market. Lastly, it is important to note that the U.S. trade offensive succeeded, because German compensation trade with Latin America was in free fall by 1939 and Japan's efforts at improving trade relations with the same region of the world largely failed.

In Part 2, this thesis deals with a set second set of Good Neighbor policies aimed at achieving U.S.-Latin American military cooperation. Since the mid-1930s, Roosevelt and his advisors wanted the United States to be in a strategically advantageous position – in relation to military bases in Latin America and strategic war materials – in the event that war broke out in Europe and the Far East. What Part 2 does is explain how the United States made the transition from a country that was mistrusted and despised in Latin America to one that was able to forge a military alliance with its southern neighbors, gain access to their bases, and integrate the Latin American economy into the U.S. war economy.

The seventh chapter examines this transition up to 1939. When Roosevelt took over as president, the United States' reputation in Latin America had reached its lowest ebb. Decades of U.S. military intervention and high tariffs created an atmosphere of mistrust and hatred toward the United States. With the Good Neighbor Policy, the Roosevelt administration sought to overcome this poisoned atmosphere and replaced it with one of Pan-American amity. By doing this, Roosevelt and his advisers were able to eventually

achieve U.S.-Latin American military cooperation. In subsequent sections, this thesis makes the contention that the years' 1936-1940 saw a consistent effort, on the Roosevelt administration's part, to achieve specific foreign policy objectives. At the Buenos Aires Conference in late 1936, for example, the U.S. delegation tried to gain Latin America's support for the Consultative Pact which obligated its signatories to consult if there was an external threat to the Americas. The U.S. delegation continued to pursue that objective at the Lima Conference two years later. Furthermore, a compromised Consultative Pact was put into effect at the Panama (1939) and Havana (1940) Conferences; and it made hemispheric cooperation possible after Pearl Harbor. Similarly, the Roosevelt administration was interested in establishing a naval presence off Latin America's coastline since early 1936. For this reason, Roosevelt and Welles hoped that the sale of Omaha ships to Brazil would lead to naval ties with that country that could eventually be extended to all Latin America. When the Omaha ships deal failed, they diligently pursued the same objective in 1937; and eventually, they succeeded at the Panama Conference (1939), where most Latin American governments consented to a security belt consisting of U.S. warships.

Aside from emphasizing the consistency of U.S. foreign policy objectives, Chapter 7 discusses the role of economic aid in achieving hemispheric cooperation. Although the Roosevelt administration could not have achieved U.S.-Latin American military cooperation without the Good Neighbor Policy's popularity, economic aid was also important in convincing Latin America to support U.S. objectives. At the Panama Conference, the Roosevelt administration made the greatest strides in hemispheric cooperation, largely because it promised to help Latin America cope with the economic fallout from the Second World War.

Lastly, Chapter 7 briefly discusses the origins of plans to establish U.S. military bases in Latin America. In late 1938, the War Department began formulating the Rainbow plans, which set out a strategy for establishing bases in such countries as Mexico and Brazil. What is interesting about these plans is that the Roosevelt administration first contemplated economic aid and, failing that, military intervention to gain access to bases in Brazil and Mexico. These expedients suggest that Roosevelt and his advisors probably did not believe that their own intelligence, concerning the threat of Axis infiltration in the Americas, was persuasive enough to convince Latin America to support Western Hemispheric Defense. For this reason, the Roosevelt administration considered subsidizing Latin American regimes with economic aid or resorting to military intervention to gain access to bases in Latin America.

In Chapter 8, this thesis continues the discussion of two themes raised at the close of Chapter 7 – namely, the role of economic aid in furthering U.S. military objectives and the Rooseveltian ambition to establish bases in Latin America. The main contention in this chapter is that the Latin American Republics allowed the United States to establish bases on their soil, after receiving economic aid packages in return.

In Chapter 9, we see the cumulative effect of U.S. diplomatic efforts to achieve U.S.-Latin American military cooperation. By 1940, the United States had obtained access to bases in the Caribbean and South America which acted as transit points in a global system of communications. Indeed, as the Roosevelt administration negotiated the lease of bases in Latin America, it was also involved in talks with the Barclay government to establish bases in Liberia. In 1941, Roosevelt and his advisers extended the supply routes further by helping the allies develop the Takoradi route -- which extended from Ghana to

Egypt via Fort Lamy, Chad and Khartoum, Sudan. Subsequently, the U.S.-Brazil-Liberia supply route was linked to the Takoradi route, with the result that the United States had control over supply routes going as far as the Middle East. Along these routes, the Roosevelt administration sent military supplies to its allies, the British and the Soviets, before and after Pearl Harbor.

Latin America, however, was not only significant as a mid-way point between the United States and West Africa. As a cog in the U.S. war economy, Latin America exported strategic raw materials to the United States and helped the Roosevelt administration balance the wartime demands of its own military with those of its allies, the British and (after June 22, 1941) the Soviets.

Apart from serving as a conduit for wartime exports, the supply routes were significant in another respect; they helped the United States extend the security belt – consisting of U.S. warships -- until it encompassed four-fifths of the Atlantic Ocean. As noted earlier, the Roosevelt administration gained Latin America's support for the security belt at the Panama Conference in September 1939. In the beginning, the security belt was not particularly effective in keeping away German warships. In the long run, however, the security belt – aided by the U.S.-Brazil-Liberia supply route, U.S. bases in Canada, Greenland and Iceland, and the rapid expansion of the U.S. navy – was able to extend its jurisdiction to four-fifths of the Atlantic by July 1941. Consequently, the United States enjoyed a significant strategic advantage over the Axis at sea before Pearl Harbor.

The final observation made in chapter 9 was that the supply routes and the expanded security belt also enhanced – albeit unexpectedly – the war-making capacity of the United States. The infrastructure of bases that enabled the United States to send war

materials to its allies proved as valuable in sending U.S. military personnel, along with their equipment, to distant theatres of war following Pearl Harbor. What is more, the expansion of the security belt gave the U.S. navy an enormous strategic advantage over the German navy in the Atlantic and probably simplified the task of planning for an invasion of continental Europe. This, of course, is not to say that Roosevelt, before Pearl Harbor, anticipated using this network of bases to fight a war against the Axis. However, the fact remains that the supply routes, the expansion of the security belt and the integration of Latin America into the U.S. war economy all served to enhance the United States' ability to wage war; and as a consequence, the United States was militarily prepared for the Second World War at the time of Pearl Harbor.

In summary, the internationalist components of the Good Neighbor Policy were designed for the purpose of enhancing the United States' strategic position, as an economic and military power, vis-à-vis the Axis. The trade offensive ensured that the Roosevelt administration's Axis counterparts would be economically weakened at the time they declared war. Roosevelt's hope, which proved partly ill-founded in the German case, was that the economic weaknesses of the Axis would undermine their ability to wage war. Then there was the military component of the Good Neighbor Policy which (as planned) eventually gave the United States a significant and arguably indisputable strategic advantage in relation to bases and strategic raw materials; as well as control over four-fifths of the Atlantic Ocean.

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BRAZIL (ECONOMIC COOPERATION)

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- (2) 832.6511/154: Telegram; The Secretary of State to the Ambassador in Brazil (Caffery), Washington, September 24, 1940 – 7 p.m., p. 611.

COLOMBIA (MILITARY COOPERATION)

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COLOMBIA (ECONOMIC COOPERATION)

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COSTA RICA

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ECUADOR (MILITARY COOPERATION)

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ECUADOR (ECONOMIC COOPERATION)

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MEXICO (MILITARY COOPERATION)

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PERU (MILITARY COOPERATION)

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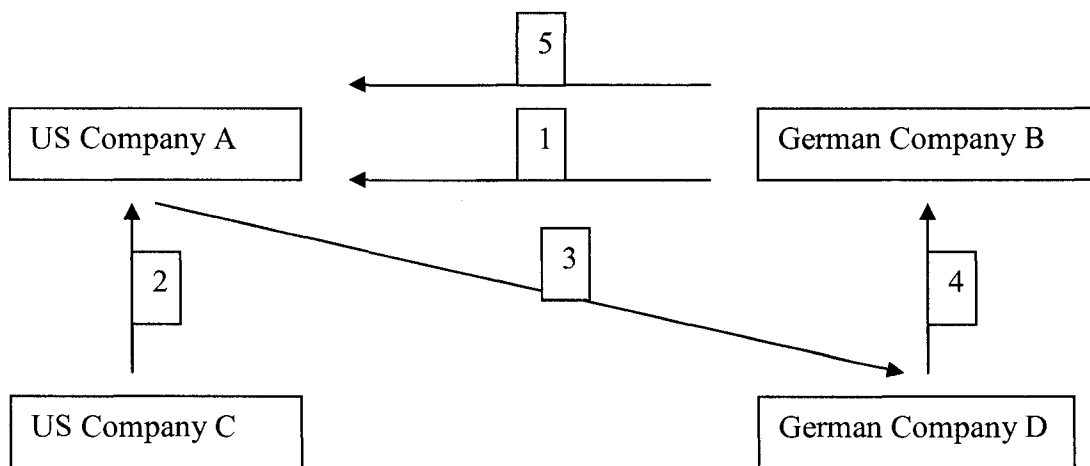
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APPENDIX**Figure 1.1**

1. U.S. Company "A" orders chemicals from "B"
2. US Company "A" buys cotton from US Company "C"
3. US Company "A" sells cotton to German Company "D" for 9000 aski marks
4. Germany Company "D" deposits deposits 9000 aski marks into the account of German Company "B" on behalf of US Company "A"
5. German Company "B" delivers chemicals to US Company "A"

Figure 1.2 (See Wireless, "Reich Loses Trade in Western World," *The New York Times*, 23 June 1939, p. 35.)

| Country | 1938 (1 st Quarter) | 1939 (1 st Quarter) |
|-------------------------------|--------------------------------|--------------------------------|
| Brazil | 45,861,000 | 34,327,000 (- 25.1%) |
| Chile | 16,671,000 | 11,274,000 (- 32.4%) |
| Argentina | 43,306,000 | 30,932,000 (- 28.6%) |
| Mexico | 14,952,000 | 11,886,000 (- 20.5%) |
| Colombia | 11,510,000 | 11,240,000 (- 2.3%) |
| Uruguay | 9,462,000 | 7,754,000 (- 18.1%) |
| Peru | 9,611,000 | 5,997,000 (- 37.6%) |
| Venezuela | 10,841,000 | 9,319,000 (- 14.0%) |
| Bolivia | 2,671,000 | 2,593,000 (- 2.9%) |
| Cuba | 3,467,000 | 2,016,000 (- 41.9%) |
| Guatemala | 3,609,000 | 2,601,000 (- 27.9%) |
| Salvador | 994,000 | 1,002,000 (+ 0.8%) |
| Costa Rica | 1,595,000 | 1,730,000 (+ 8.5%) |
| Figure 1.2 (Continued) | | |
| Panama | 508,000 | 1,020,000 (+ 100.8) |
| Honduras | 567,000 | 651,000 (+ 14.8%) |
| Dominican Republic | 579,000 | 650,000 (+ 12.3%) |
| Haiti | 304,000 | 172,000 (- 43.4%) |
| Nicaragua | 170,000 | 615,000 (+ 216.8%) |
| Ecuador | 3,384,000 | 1,282,000 (- 62.1%) |
| Surinam | 1,639,000 | 1,099,000 (- 32.9%) |

Fig. 1.3 The Security Belt as it was agreed to at the Panama Conference, September 1939

