WHILE THE WITHDRAWAL of United States Marines from the Caribbean received most of the headlines, the Roosevelt administration moved unsurely into another equally vital area. The Americas had suffered a devastating depression, and the effects of the political actions would have been lessened without some corresponding attempts to develop proposals for economic recovery. Despite this realization, during the worst period of the depression the New Deal moved inconsistently in its efforts to expand hemispheric commerce. The conflict centered on antithetical viewpoints: some domestic groups wanted to protect and expand their share of the market, while at the same time, others called for increased foreign trade to resuscitate the United States economy. Both had the same goal—commercial revival—but their modi operandi were different. Each side placed enormous pressure on administration and congressional leaders to get its position adopted, but neither won a clearcut advantage. As a result, these warring factions caused confusion and limited the United States’ ability to define its hemispheric commercial objectives during most of the 1930s.

American bondholders further clouded the economic forecast. They desperately turned to the government for collection of the debt owed on their bonds when most of the Latin American nations defaulted, but the Hoover administration rejected their pleas: the Latin American governments and private United States citizens had negotiated these loans, and the United States disclaimed any official responsibility for collection. Herbert Feis, the economic adviser in the State Department, objected to this rigid stand. He advocated the formation of an independent association that would try to salvage private investors’ foreign bonds and receive assistance and encouragement from the foreign service. He advanced this plan under the Republican leadership and continued his efforts into the Democratic administration. Finally his activities led to the incorporation of the Foreign Bondholders Protective Council (FBPC) in December 1933.1

Feis’s enthusiasm for the FBPC did not guarantee presidential backing. For example, Roosevelt declared in late 1933 that “the United States is not owed any money by any of the South American republics and it is therefore a matter between those republics and any of the bondholders . . . .”2 Hull
echoed similar sentiments, but unrealistically favored the formation of a bondholders' committee, somehow divorced from speculative banking interests, to collect small investors' debts.\(^3\)

The president and secretary spoke in generalities and allowed their subordinates to fill in the essential details. For Latin America, that charge fell to Welles. Even before he entered the administration he consistently opposed general defaults, but could offer no solution to prevent them. In early 1934 he began working on revised payment schedules for Haiti and the Dominican Republic. The United States controlled both through treaty provisions, and Welles worked out plans for the former to continue paying its full indebtedness and the latter to pay at a renegotiated rate. The assistant secretary hesitated from taking vigorous action in most other nations during the depressed conditions, for those countries did not have the capability for payment.\(^4\)

Welles's refusal to act aggressively, of course, did not inhibit FBPC activities. Its representatives exerted pressure on the diplomatic corps to support their cause. This was not unexpected, for the two leaders of the council were J. Reuben Clark, a former undersecretary of state, and Francis White, previously assistant secretary of state.\(^5\)

While the FBPC met with little success in its campaign, the State Department turned to its own ineffective measures to improve the financial climate in the Americas. During the summer of 1934, for instance, the State Department sent a representative of the banking community to South America for two months to examine the growth of exchange controls that severely restricted United States trade. When he finished this trip, he concluded that only economic recovery would end those forms of protectionism.\(^6\)

The United States also attended meetings like the Buenos Aires commercial conference in May and June of 1935. This dealt primarily with technical issues such as port facilities, customs duties, communications, and tourist traffic. American delegates also used this gathering to reiterate Hull's proposal for reducing tariff barriers. No concrete issues were resolved, but the United States representatives believed that this forum provided an opportunity to promote more cordial relations.\(^7\)

One item on the conference agenda that Welles tried to further was the construction of an inter-American highway. Plans were begun under Coolidge, and his successor had routes surveyed in Central America. Roosevelt also approved of the project and ordered the continuation of the surveys, believing that a connecting roadway between North and South America would be a momentous accomplishment. Many proponents envisioned thousands of tourists traveling in both directions and increasing political, economic, and cultural exchange. These dreams remained unfulfilled throughout the Roosevelt years. During the 1930s Congress refused to appropriate adequate funding, and when money was available during World War II, technicians, equipment, and material were needed elsewhere.\(^8\)
Another vital communication gap was in hemispheric shipping service. Assistant Secretary of State Breckinridge Long welcomed in a new inter-American maritime service in late 1938, but he feared that this new link did not necessarily mean increased trade. To assure success, Long recommended that the United States buy Latin American goods, not for import, but for resale elsewhere in order to provide the American republics with dollar exchange needed to purchase United States products.  

While the State Department vainly tried to improve Pan American economics ties, the Treasury Department naturally became involved. Hull would restrict the role of most government agencies in foreign affairs, but he continually complained about what he regarded as interference by Secretary of the Treasury Henry Morgenthau, Jr. One example of this so-called meddling was the silver issue. The United States and Mexico were the world's largest producers of the metal and American companies owned about half of the Mexican industry. By May 1933 both nations cooperated to bring some stability to the price of silver. Approximately a year later the United States passed the Silver Purchase Act, which gave the treasury secretary broad authority in buying and selling silver on the world market to bolster its price.  

For the rest of the decade Morgenthau used this power to help subsidize Latin American producers. When the Mexican industry needed support, the United States assisted by adjusting the international price of silver or buying Mexican surpluses. The Treasury Department also purchased Peruvian silver; almost two-thirds of the Peruvian silver industry was held by United States firms. Nine other Latin American nations benefited from the program. These purchases did not have a significant impact on the United States economy, but they had a major effect in the Americas, particularly in Mexico and Peru, which heavily depended on silver exports to obtain scarce foreign exchange.  

Morgenthau understood the political as well as the economic value of closer commercial interaction among the Americas and tried to encourage sound financial practices. In early 1937, for instance, Welles asked him to develop programs for currency stabilization and the establishment of a central bank in Brazil to serve as a hemispheric model. The Treasury Department held lengthy talks with Brazilian experts, and together they formulated proposals to obtain monetary stability, with technical aid and advice from the Treasury Department to draw the Brazilians closer toward United States commercial objectives.  

Toward the end of 1938 Roosevelt invited Oswaldo Aranha, Brazil's foreign minister and probably the strongest and most vocal Latin American advocate of the president's diplomacy, to visit the United States for bilateral discussions. In early 1939, shortly before his arrival, Welles wrote: "I am now trying to have formulated a definite policy with regard to commercial and financial cooperation in the other American republics which I am particularly desirous of having done before Aranha reaches Washing-
The foreign minister held talks from mid-February until mid-March on a wide range of topics. At the start of the discussions, Roosevelt talked to reporters about the South American giant’s economic possibilities: “Brazil has one of the greatest futures for development in the world.” This flattering comment did not help in the conclusion of any major agreement, and the president acknowledged as much when he declared that the negotiations could increase trade and assist in stabilizing bilateral exchange rates. The Brazilians were even less enthusiastic.

Most of the blame for the evaporation of the positive expectations can be placed on Roosevelt’s cabinet members, who were unable to cooperate. The Treasury and State Departments simply could not agree on a united approach. Morgenthau had consented to assist Brazil in its foreign exchange problem and help establish a central bank and a stabilization fund. Before he had an opportunity to move forward on these ideas, Feis blocked any loans or credits until Brazil worked out a settlement with American bondholders. The treasury secretary argued that the State Department’s insistence on a debt payment would prevent any meaningful agreement, but Feis’s view prevailed, even though Morgenthau was right. The Brazilians half-heartedly committed themselves to negotiate with the bondholders and received a loan to assist in these efforts. This inflexible attitude, however, clouded the atmosphere of the entire discussions, and Aranha left the United States without any major commitment. The one trend that continued was the bickering between the state and treasury officials that strained their already unhealthy relations.

Morgenthau, in spite of State Department hostility, continued to urge hemispheric financial order to offset the growing German penetration in the Americas. To cancel a serious Nazi threat, he wanted to study Latin American economic problems and find solutions to assure domestic peace. He tried to win Roosevelt’s backing for his projects, but Hull jealously guarded his prerogatives in foreign affairs and vigorously fought against the treasury secretary’s frequent intrusions.

The State Department’s refusal to follow Morgenthau’s views elicited harsh criticism from Assistant Secretary of the Treasury Henry D. White. Devoted to enforcing his superior’s beliefs, by late 1939 White concluded that the foreign service’s efforts to improve Pan American economic relations had dismal failed and that the Axis had established a secure footing in the Americas. He condemned the diplomatic corps for ineptitude and urged the appointment of a cabinet member, presumably Morgenthau, to establish an inter-American bank that would make loans to stabilize economies and finance United States exports. He felt that Latin American entrepreneurs should direct industrial growth to avoid charges of American penetration. White hoped these proposals would prevent further Axis advances, but his suggestions were never carried out.
As long as economic conditions remained generally depressed, the rivalry between the Treasury and the State Departments proved only a minor embarrassment. However, when the United States expanded its international financial commitments, this unwholesome relationship severely impaired inter-American economic diplomacy. The antagonism between the two departments also grew into personal resentment between Hull and Morgenthau over a wide variety of foreign policy recommendations. Roosevelt did little to end this discord, and may have encouraged it by allowing the two men to compete for his favor. Some of Morgenthau’s ideas had considerable merit, but Hull refused to consider them because of animosity or anxiety lest treasury preempt a role in shaping large policy. By the outbreak of the European war this interdepartmental enmity was ingrained.

Henry Wallace also became interested in Pan American affairs, but without creating friction between the Agriculture and State Departments. Almost as soon as he assumed his secretaryship, he expressed his intention to cultivate better hemispheric relations. Under the Agricultural Adjustment Act and the Jones-Costigan Act, he allocated import quotas to Latin American nations for certain basic farm products such as sugar and tobacco. Wallace also illustrated his heightened interest in the Americas during 1935 by beginning Spanish lessons and learning Latin American customs. A year later he began to suggest improving inter-American trade by having Latin American countries ship tropical items that would not compete with the goods of domestic farmers. He avoided specific proposals during the mid 1930s, but as war drew nearer he became more vocal and definite in his declarations.¹⁹

One other agency slightly influenced Pan American financial matters in the 1930s. Early in Roosevelt’s administration he issued an executive order creating the First Export-Import Bank, which had a five-member board headed by the secretary of commerce and significant State Department participation. The bank was originally established to stimulate trade between the United States and the Soviet Union, and when that failed to materialize, a Second Export-Import Bank was designed to assist any nation except Russia. Cuba received three silver loans designated to pay government employees’ salaries, and a few other loans were concluded. Throughout the 1930s the bank operated under narrow commercial guidelines solely designed to increase United States foreign trade. Some called for the bank’s expansion, but early in 1939 Hull answered them by urging the bank’s continuation on the basis of its restricted confines. To his mind, freer trade, not government lending, was the solution to international financial problems.²⁰

Democrats had traditionally opposed the Republican advocacy of the high protective tariff. During the presidential campaign of 1932, Roosevelt pleased party regulars by calling for lower tariff barriers to stimulate trade. After he entered office, his enthusiasm markedly declined. Hull, the leading administration exponent of lowering trade barriers, ignored the president’s change
of mood and urged him to ask Congress for new tariff legislation. Roosevelt rejected his advice, believing that congressional opposition was too adamant and that the time remaining before adjournment was too short for careful consideration. He would wait until the next session, in January 1934, to present this type of legislation.21

Hull learned about this decision while traveling to the London Economic Conference, and was disappointed. Later, during the conference, Roosevelt’s refusal to cooperate with international currency stabilization raised another serious obstacle to his desire for reducing trade restrictions. During Hull’s absence, the president, probably sympathizing with his secretary’s commitment to this program, directed the State Department to open exploratory talks for bilateral trade treaties. Undersecretary Phillips warily took charge of these initial discussions with five nations. All treaties, he knew, would need approval by two-thirds of the Senate, and winning the necessary votes for significant tariff changes without arousing opposition from vested interests would take much careful maneuvering.22

These bilateral trade discussions failed to produce any treaties. One was signed with Colombia but it never went to the Senate for ratification. Nevertheless, the negotiations helped evolve the State Department’s foreign economics positions. Since the major exports of Colombia and the United States did not compete, both nations might hope to gain major advantages without injuring the other—Colombia for its coffee, the United States for a variety of products. The treaty also included an unconditional most-favored-nation clause, which meant that reductions in this agreement would also be extended to future trade treaties that either nation signed with any other countries. The announcement of the treaty shortly before the Montevideo conference assisted Hull in the passage of his economic resolution there, for during the debates, the Colombian delegate gave his unequivocal support to the United States position. With the passage of the economic resolution, Hull had not only the Colombian treaty but also an inter-American commitment to support his trade policies.23

Roosevelt knew that the secretary would resume lobbying for a still broader program on his return, and he remembered his own promise to ask Congress for tariff legislation during the next session. More realistically, he recognized the powerful sentiment for reducing trade barriers within his own party. During December 1933, still uncertain after considering alternatives, Roosevelt hesitantly allowed Hull to draft legislation, and on March 2, 1934, the reciprocal trade agreements bill went to Congress for debate. Hotly contested, its provisions delegated tariff regulation to the executive, permitting the president to negotiate agreements that raised or lowered tariff duties by as much as one-half. Congress also specified a three-year term for the law to gauge its effectiveness, giving Hull enough time to translate his ideas into a practical program. Using the primary argument that this act
would provide new foreign markets, resulting in additional jobs, the Demo-
cratic majority passed the bill into law over vehement Republican congress-
ional opposition.24

The secretary never relaxed his belief that somehow freer trade insured
world peace. To translate this ideal into practice, the secretary brought Francis
Sayre, Wilson's son-in-law and a Harvard law professor, into the State Depart-
ment as an assistant secretary. Sayre shared the secretary's beliefs and worked
to promote reciprocity. Others in the department were less enthusiastic, but
Hull's determination demanded allegiance. There was no room for skeptics.25

Outside the State Department other influential Democrats promoted the
program. Secretary of Commerce Daniel Roper favored reciprocity, especially
in the Americas. Since the United States and many Latin American nations
had noncompetitive exports, he reasoned that such negotiations would pro-
duce prompt and beneficial results. On this foundation, agreements with
other countries with more complicated commercial policies might be erected.
Albert Burleson, who was postmaster general under Wilson and active in
Texas banking, was more doctrinaire. He held dogmatically to the principle
that immediate free trade with all countries would end the depression.
Employment must be stimulated, and trade expansion was the panacea.
Burleson wanted to sign agreements with every western hemispheric nation,26
for to him, "the day of the Protective Tariff is gone. It was not the tariff
which made our country the richest and most powerful in the world, but the
untrammeled free trade which has existed between the sovereign states
making up this Union."27

Several powerful Republican spokesmen blunted their party's opposition.
At the height of the congressional debate over the bill Henry Stimson spoke
over the radio to a nationwide audience, supporting the proposed legislation
and condemning congressional logrolling to determine tariff rates. His one-
time undersecretary, William Castle, concurred but also implied that the
Democrats would mismanage the program. William Culbertson, ambassador
to Chile under Hoover, believed that artifically high tariff duties retarded
recovery, and therefore he backed Hull's approach. Even the staunch Republi-
can journalist from Emporia, Kansas, William Allen White, supported the
measure as a means to provide more jobs for the unemployed.28

Hoover and many other Republicans opposed the act because it gave
too much power to the president and infringed upon congressional preroga-
tives. Hull's most formidable threat, however, came from George Peek, whom
Roosevelt had appointed foreign trade adviser in the State Department while
Hull was at Montevideo. Peek advocated dumping United States surpluses on
foreign markets, preferential treatment for farm commodities, and barter
arrangements—all contrary to Hull's program. Because of these irreconcilable
differences, Peek and Hull continually clashed. Nevertheless, Hull persevered,
for Peek offered criticism but no workable alternative. Finally, toward the
end of Roosevelt's first term, Peek resigned in disgust to conduct a futile public attack from the outside on the administration's foreign trade activities.29

Neither Peek nor any other critic shook Hull's determination to prove the program's merits. By the time of Roosevelt's reelection, the Democratic platform claimed that the act was assisting domestic recovery and helping to bring world peace. In 1937 Hull obtained the act's renewal without presidential endorsement, but in 1940 the secretary won Roosevelt's blessings. Even this belated White House support did not bring dramatic results. Too many international complications inhibited trading efforts. The Japanese developed their economic sphere of influence in the Far East; Germany relied heavily on barter arrangements; and the British had a system of commonwealth preference. These measures significantly restricted the flow of trade, and the outbreak of the European war destroyed any remaining possibility of success.30

While Hull set the general guidelines, Welles directed the reciprocity effort in Latin America. Less dogmatic than his chief, Welles was primarily concerned with constructing a firm hemispheric alliance, and regarded closer economic cooperation as merely one part of the desired whole. In practice the reciprocal trade agreements with many of the Latin American nations did not bring conclusive commercial expansion, but the agreements unquestionably moved the signatories toward greater understanding in other endeavors.

The first agreement was signed with Cuba in August 1934. Although Hull favored the unconditional most-favored-nation clause, this agreement omitted this provision and, indeed, stipulated exclusive preferential rate reductions. Cuba directly linked its sugar and tobacco exports to United States quotas, which guaranteed producers a portion of the market on the mainland. Once growers knew their allotment, uncertainty ended and economic conditions on the island improved. At the same time the United States received concessions on a tremendous variety of items that severely inhibited diversification efforts. Under the terms of the agreement the United States had bound the island's commercial activity closer than ever before to American-made decisions over which the Cubans had no control.31

Another country in which the United States did not reach its stated objectives was Brazil. While the two nations traditionally had close economic bonds, negotiations for a reciprocal trade agreement proved extremely difficult. Complicating the bargaining was the fact that Brazil and Germany signed a commercial agreement in late 1934 that included restrictive sections. Since Brazil had granted Germany special reductions, some in the State Department wanted to abandon the reciprocity principle and threaten to place duties on coffee imports if the Brazilians did not grant the United States the same concessions the Nazis had won. Hull refused to consider this alternative and instead tried to persuade the Brazilians to cancel their barter
deal with the Germans in favor of his reciprocity concept. During these negotiations the Brazilians realized that the State Department would not retaliate commercially to win adherence to reduced tariffs, and as a result the United States lost a major bargaining point. In mid-1930s the Nazis provided the greatest incentives to the opportunistic Brazilians. The United States and Brazil did sign an agreement that did not substantially change trading patterns but drew the two nations toward closer cooperation.\(^{32}\)

Other negotiations also illustrated how a variety of factors affected bargaining. The Colombian treaty was replaced by an executive agreement under the new act. Few provisions were changed, but internal Colombian politics delayed approval until 1936. An agreement of the same year with Guatemala provided minimal concessions, basically preserving the status quo. Problems over oil competition stalled Venezuelan talks, but with the outbreak of World War II, the insatiable demand for petroleum products ended the oil problems and made the signing of an agreement relatively easy. The bargaining with Argentina was another graphic example of competing goods. While the depression lasted, neither nation was able to export all of its farm surpluses. When the war increased demand, new markets emerged, and the two nations concluded an agreement in 1941.\(^{33}\)

During the Latin American negotiations economic improvement was the major concern. However, in countries such as Brazil, Guatemala, and Argentina, an integral role went to political considerations—the desire to draw these nations closer to American international policies. The United States signed fifteen agreements with the Latin American nations from 1933 through 1945, eleven of them before 1940. The six mentioned above show that each situation contained a unique combination of commercial and noncommercial factors. At first Latin Americans welcomed Hull's initiative, but later some complained about their inability to develop diversified economies under the restrictions of the agreements. The act worked best where reductions were based on noncompetitive goods; it had to overcome serious obstacles from nations exporting products similar to those of the United States. Cuba won its quota over bitter opposition from United States sugar beet growers because of the island's strategic importance. Venezuela and the United States did not sign an agreement until oil consumption rose. To the end Argentina faced unyielding antagonism from American cattlemen.\(^{34}\)

In spite of these troubles, Welles saw considerable merit in Hull's initiative, and praised his efforts: "The greatest positive achievement of the first Roosevelt Administration in the realm of international co-operation lay in the trade agreements policy [for] which Secretary of State Hull is wholly responsible, and which he has furthered with a single-minded and indefatigable devotion. . . . It greatly assisted in establishing the good neighbor policy in the Western Hemisphere."\(^{35}\)
Welles later criticized Hull for insisting that the administration's influence plus a series of trade agreements would halt the Axis advance. The secretary advertised reciprocity as a measure to restore prosperity and later as a means to maintain international peace. Neither goal was reached. According to the undersecretary, Hull never understood the limited scope of his economic program.  

Certainly Hull was unrealistic and overzealous in his commitment to reciprocity. In the 1930s no trade program would have deterred the Axis. Yet he did succeed in removing tariff logrolling from the congressional arena. Since the New Deal, Congress has accepted Hull's legislation as the basis for its tariff policies.  

Just as the reciprocal trade agreements program dwarfed the other economics initiatives taken toward Latin America in the 1930s, oil disputes were the most perplexing commercial dilemma to which the United States struggled to respond. The first dispute faced by the Roosevelt government arose in Bolivia over a Standard Oil of New Jersey subsidiary operating some Bolivian concessions since the early 1920s. Throughout their association, the company and the Bolivian government argued over production figures and royalties, and this disagreement was magnified in the Chaco War because of Bolivia's desperate need for revenue. The Bolivian officials, furthermore, requested a loan from the company on future production to help finance the war, but Standard Oil refused. It had decided that this business venture was unprofitable, intended to cancel its concession, and began shipping equipment to the company's Argentine oil fields.  

What the company had not anticipated was the government's reaction. On March 13, 1937, Bolivia annulled Standard Oil's contract and confiscated its holdings on the grounds that the company had avoided taxes and sent illegal oil shipments to Argentina. The government did not mention its bitterness over the scant oil production or the loan rebuff. Bolivian leaders hoped that they would gain political and economic advantages over Paraguay if the United States property was turned over to Argentina, a potentially powerful wartime ally. Standard Oil ignored these emotional and political considerations and focused on the purported charges. The company had already admitted to owing taxes and was awaiting a court decision to determine its penalty. As far as illegal transportation, Standard Oil denied that allegation. In any eventuality such protestations were inconsequential. Bolivians of all persuasions welcomed this action as a nationalistic triumph at a time of despair after a disastrous war.  

No Latin American country had ever confiscated an American oil company's holdings. Since the seizure came as a result of illegal operations, the Bolivians asserted that Standard Oil was not entitled to compensation. The company refused to accept this judgment; it requested and received
State Department assistance in support of its case. At first Welles suggested exhausting local legal remedies, but Bolivian judges, coerced by threats of violence if they found for the company, could not fairly determine the merits of the case. Both sides then rejected arbitration. In the midst of these bargaining efforts, the State Department felt that Bolivia seemed inflexible. It had seized United States property and refused to pay for it. As a result the department decided to withhold any loans and financial aid until the issue was resolved. To Welles and his colleagues, Good Neighbor diplomacy required fair treatment on both sides.

The Roosevelt administration held to this policy until July 1941, when an allegedly Nazi-inspired coup d'état appeared to shake Bolivian domestic peace. Faced with the United States’ policy of fair treatment and the necessity of hemispheric tranquility, Welles worked out an arrangement in early 1942 to achieve both goals. The Bolivians paid the company $1,500,000 for the sale of its property. At the same time Bolivian gained $25,000,000 in economic assistance from the United States. Each side was satisfied and so was the State Department. The dispute had been localized and had not affected any other bilateral or multilateral relationships.38

While the relatively small-scale production in the Bolivian fields limited adverse repercussions, bilateral disagreements with Mexico seriously disturbed relations with the United States. The Roosevelt administration had avoided a potentially explosive situation when American Catholics tried to embroil Congress in Mexican religious policies, but the issue of land ownership touched on the much more basic conflict—private property rights versus Latin American nationalistic aspirations. Mexico suffered from insufficient arable land. Those few who had the money to purchase acreage naturally chose the best, and the remainder went to the poor. Lázaro Cárdenas pledged in his presidential campaign to redistribute the land to more Mexicans, and he began fulfilling this promise almost as soon as he entered office in 1934 by dividing large estates into smaller units. The government sometimes expropriated United States-owned property, and the titleholders demanded State Department protection.39 By early 1937 these agrarian claims reached the White House, at which time Roosevelt issued a statement that if any government seized American-owned land, then the United States expected “prompt and effective compensation to be paid to the owners on not less than the same basis than payments are made to the nationals of the country making the expropriations.”40

The president had taken an unrealistic position toward Mexico’s land expropriation. Its government did not have the necessary funds to comply, and furthermore, Cárdenas had no intention of interrupting a nationally popular program to please the American president. The United States ambassador to Mexico, Josephus Daniels, realized that the agrarian expropriations would continue even without adequate capital for compensation. Under
these circumstances he pressed for payment on what he considered especially valid claims. These usually involved smaller landholders, for more owners of large estates had vastly exaggerated their properties' worth, and this created unnecessary antagonism between themselves and the Mexican officials. 41

Welles sought to find grounds for compromise. In a letter to the Mexican ambassador to the United States, Francisco Castillo Nájera, Welles, on November 4, 1937, expressed his desire to assist Mexican aspirations, but added that American residents must not suffer unduly in the land expropriations. Welles cautioned: "Unless we can show our own people that the good neighbor policy is responded to wholeheartedly by our neighbors, it can hardly be assumed that the people of the United States and the Congress which represents them will favor indefinitely a continuation by this Government of any policy which proves to be one-sided." 42

While Welles mainly considered agrarian claims, he also mentioned the growing conflict between the oil companies and the Mexican government. At the turn of the twentieth century, foreign petroleum interests began developing concessions. However, after the Mexican Revolution, the nationalistic sentiment opposing foreign exploitation came out in an article of the Constitution of 1917, vesting subsoil rights to the state. The provision's enforcement caused bilateral troubles during the 1920s, but each time Republican administrations found ways to preserve the private companies' holdings. Thus, rather than addressing fundamental problems, these agreements maintained an uneasy status quo.

When Cárdenas assumed office, he advanced labor union organization and supported efforts to win higher wages and improved living standards for workers in the oil fields. The companies refused to discuss these issues, and as a consequence, the petroleum unions threatened to strike. Cárdenas decided to intervene in this labor-management struggle. After examining the existing conditions within the industry, the president sided with the workers and ordered salary increases and added fringe benefits. Rather than comply, the companies vainly sought court relief. After they exhausted their legal remedies, they still refused to accede to the president's directives. The companies began withdrawing large sums of money from Mexico in the hope that this form of economic coercion would force the government's capitulation. 43

Instead of responding as desired, Cárdenas shocked the oil industry by unexpectedly expropriating their holdings on March 18, 1938. The British government, whose nationals owned 70 percent of the industry, quickly broke relations and enacted strong economic sanctions. The United States, whose citizens controlled most of the remaining fields, took a longer period to respond because of a split within the diplomatic corps. Many wanted to follow the English example, but Ambassador Daniels argued that such a harsh policy would destroy generally improving bilateral bonds. The United
States, he urged, must recognize the expropriation’s legitimacy and insist on prompt, adequate, and effective compensation for its nationals.44

Daniels basically aligned himself with the Mexicans. The oil concerns had rejected the reasonable requests of Cárdenas, according to the ambassador, but he added that the companies were not totally at fault. Daniels admitted that the Mexican chief executive had acted imprudently and impetuously—a course of action to which the United States must not succumb.45 He repeatedly wrote Roosevelt, urging patience and reminding the president that the Good Neighbor policy was “of the highest consideration in a mad world where Pan American solidarity may save democracy. Oil ought not smear it.”46

Morgenthau supported Daniels by objecting to strong measures against the Mexican government. When the State Department considered using reduced purchases of Mexican silver as a diplomatic weapon, the Treasury Department tried to have the scheme aborted. The treasury secretary viewed such actions as antagonistic, further alienating the Mexicans and forcing them to trade with the Nazis. When Hull asked Morgenthau to lower the price of silver in treasury purchases, the latter not only refused but also bought Mexican silver on the world market, which helped Cárdenas in his efforts to obtain foreign exchange.47

State Department leaders in Washington preferred a much firmer approach. Assistant Secretary Berle thought that Daniels made his embassy reports reflect his own arguments instead of showing the actual situation. In early 1939 he confided to his diary: “Daniels is as bad an Ambassador as we have ever had...”48 Berle also blamed Cárdenas for precipitating the crisis; after all, he had expropriated and had an obligation to compensate. These hasty actions, according to Berle, had brought forth bitter resentment within the oil companies. When several of their representatives approached him with the idea of fomenting a revolution to topple the Mexican government, he tried to dissuade them.49

Counselor to the department Moore had other objections. He believed that Cárdenas was taking advantage of the Good Neighbor’s overly ambitious declarations. Nonintervention, to Moore, was meant to cancel the Nicaraguan and the Haitian military occupations. The pledges at Montevideo against intervention were “a pretty unwise Christmas gift.” As a result, “If Mexico... should take over American oil interests in that country, without being checked, the same can occur in Bolivia, where it has already occurred, and Columbia [sic], Argentina, Ecuador and Venezuela.”50 Assistant Secretary of State George Messersmith concurred. Expropriation must be stopped in Mexico to prevent its spread.51

Industrialist Bernard Baruch also feared the Mexican precedent. He acknowledged the right of expropriation and was not even overly alarmed at the loss of United States capital. What seriously troubled him was his trepida-
tion that this action would concurrently jeopardize America's international trade and its national security. Baruch held that the original owners had explored, developed, and managed the properties. Since Latin American nations lacked managerial skills in petroleum production, the American oil companies should continue to be treated preferentially. If this did not happen, these developing nations might employ Nazi technicians, giving Germany control over critical supplies of raw materials, virtually assuring a lower United States trading volume, and ultimately decreasing the standard of living.52

Others, like William Borchard, an international lawyer who was teaching at Yale University, and John Moore, an international legal expert with a distinguished record in the diplomatic corps, aligned themselves with the oil companies because of their antipathy toward Roosevelt and their defense of property rights. Both men felt that the United States should refuse to recognize the expropriation's validity and deal firmly with Cádáenas. By rejecting this course, the oil companies lost their bargaining power to negotiate a favorable settlement.53

The Americans seemed split evenly over the oil controversy. In September 1939 an opinion poll asked, "Should the United States use force to protect American property if Mexico or any other Latin American nation seized it?" Approximately 39 percent responded both for and against, with the remainder undecided.54

Roosevelt listened to a variety of opinions, and in early 1939 offered his own solution. He reasoned that expropriation was justified only when accompanied by fair compensation. Since the Mexicans were unable to provide this, the president felt that the companies and the Cádáenas administration should sign a long-term contract to manage the oil properties. The two parties would share the profits until the business firms recouped their investment. Roosevelt naively believed that this was an equitable solution; he never perceived the deep animosity that existed between the opposing forces.55

When the oil firms did negotiate, they did so halfheartedly. In 1939 Standard Oil hired Donald Richberg, a well-known lawyer and prominent New Dealer, to reach an agreement with the Mexicans. Richberg tried to get both sides to compromise,56 but by early 1941, he quit in disgust because of the firm's inflexibility: "The underlying policy of 'no compromise' was unwise in 1938 and has become abhorrent in 1941. Until recently I had assumed it was only supported by a small minority. Since it has now apparently obtained a majority sanction, I am glad to disassociate myself publicly from a policy which I have never been willing to support."57

The State Department throughout the crisis stood in favor of private property rights. Hull strongly supported this position and so did Welles, who felt that, once the oil companies decided to cooperate in reaching a settlement, Mexico must offer prompt, adequate, and effective compensation. This
situation never arose; the firms remained intransigent during the entire affair.  

With the failure of this approach, other means were used to try to end the impasse. In early 1940 Hull unsuccessfully called for arbitration. Later in the year, when Sinclair Oil broke the united front by signing a separate agreement with Mexico, the others held ranks. The Mexican presidential election was upcoming and the oil companies hoped that the victor would support them. This bitterly contested election matched the government candidate, Avila Camacho, against a determined opponent who allegedly had significant financial assistance from the oil companies. When Camacho was officially declared the winner, rumors of election fraud circulated and encouraged the opposition to make plans for a possible revolution to oust the incoming president.

In the midst of this uncertainty, Roosevelt decided to demonstrate his support for the new Mexican administration. Shortly after winning his third term, he selected Vice President Henry Wallace to attend Camacho's inauguration. This was the first official vice-presidential trip to any Latin American nation, but, more critically, this overt symbol of backing pleased the Mexican leaders. Wallace left Texas on November 26, received a warm welcome in Monterrey, and next attended the inauguration at Mexico City. Afterwards, Camacho praised his guest before the chamber of deputies, and later, addressing the same body in Spanish, Wallace equalled his host's performance.

The trip was much more than an excellent public relations campaign. Wallace personally heightened his own interest in Pan American affairs. He saw the need for industrialization to reduce the region's European dependence; he also wanted to find ways to diminish agricultural surpluses and raise living standards. Besides forming these general impressions, Wallace gained insight from a number of private talks he held with Camacho. After the vice-president returned to Washington, he reported that rather than settling just the oil dispute, the United States and Mexico could solve a broad range of problems. Roosevelt and Welles responded positively to this suggestion; they would try to use this new initiative in the ongoing bilateral discussions.

While Welles worked on this idea, Daniels informed the president on October 31, 1941, that he was resigning because of his wife's poor health. He had gone to his post to incarnate the spirit of understanding and believed that he had accomplished that mission. Roosevelt acknowledged that achievement and declared that Daniels "perhaps, more than anyone else, has exemplified the true spirit of the good neighbor in the foreign field."

Before he retired, Daniels met with Hull at the State Department in mid-November and helped complete the final agreement. Within an hour after that meeting, the secretary decided to conclude the "global" agreement. Mexico agreed to pay $40,000,000 on general and agrarian claims to American nationals; a reciprocal trade agreement was signed; the dollar-peso rate was stabilized; and the United States pledged to purchase newly minted Mexican
silver and finance Mexico's portion of the Pan American Highway. As for the oil controversy, Hull decided to act without the oil companies' consent. Each nation chose an expert to determine the compensation for the expropriation. The United States oil concerns had originally valued their properties at over $260,000,000, but after the experts evaluated the holdings, this figure was reduced to a little more than $29,000,000! Rather than compromise, the companies remained obstinate in their defense of property rights and grossly exaggerated the worth of their claims at a time of deteriorating world conditions and State Department pleas for cooperation.

While this agreement effectively brought about wartime cooperation, the relationship between the Mexican oil industry and United States private business remained cloudy. During the war Mexico wanted economic assistance to expand its oil industry. A United States mission surveyed the petroleum industry’s potential and recommended aid to build a high-octane gasoline factory and improve several existing refineries. Secretary Ickes, who directed the Petroleum Reserve Corporation, strongly supported the plans. Roosevelt concurred and even discussed oil development with the Mexicans through the use of intergovernmental loans. The State Department, led by United States ambassador to Mexico George Messersmith, objected and defeated the proposal. In spite of the oil companies' dismal performance during the 1938 crisis, the State Department never changed its basic position on private property rights, and placed continual pressure on the Mexican government to allow American companies to return to the oil fields.

Other nations, like Colombia, had granted petroleum concessions to United States business during the 1930s. After the Mexican confrontation, the Colombian administration announced its opposition to expropriation, but at the same time insisted on a larger share of the petroleum revenues. In a cooperative atmosphere, the companies, the ruling oligarchy, and the American embassy worked to find a consensus—each, assuredly, for its own reasons. The firms wanted the oil, the government promoted foreign investment, and the embassy assisted in maintaining this working arrangement.

Unlike its neighbor's minimal production, Venezuela had huge oil deposits. Juan Vicente Gómez gave foreign companies advantageous grants. In addition, the dictator supplied order, laborers, and favorable petroleum legislation; the companies brought capital and technical skills. After Gómez died in 1935, his successors proposed changes in the concessions. Venezuela did not follow the expropriation precedent because the government depended on oil exports for revenue and could not afford any interruption. However, it demanded increased profits, which the companies grudgingly surrendered.

The State Department closely watched the Venezuelan situation to avoid a repetition of the Mexican conflict. American diplomats encouraged oil firm representatives to sign contracts more favorable to the Venezuelans. The companies complied; they had a substantial investment and realized the folly
of intransigence. At the end of 1939 United States Ambassador to Venezuela Frank Corrigan evaluated petroleum trends. The companies believed that their investments brought prosperity to Venezuela. The businesses had also built schools and hospitals and conducted other public services. For these reasons, the oil interests believed that they deserved a continuation of the status quo in contractual rights and current tax levels. The Venezuelan administration did not have the same feelings. The government wanted a greater share of the profits, new public projects to keep pace with the peoples’ needs, and assistance with agricultural diversification. The administration did not threaten seizure, for most officials deplored Mexico’s action. Corrigan still warned: “There is, however, a nationalist element in the country which may in time gain sufficient force to make expropriation in some form a possibility. Attacking the oil companies is good popular politics in Venezuela.”

Welles recognized the chance of a confrontation and acted before any dispute arose. In early 1941, for instance, he personally helped to settle a controversy involving Gulf Oil. Two years later Venezuela drafted new oil legislation that gave the government higher royalties. The companies knew that the State Department participated in the drafting of the laws and did not object to them upon their passage.

Throughout the period of oil confrontation, the United States government was unable to formulate any consistent policy. Events, rather than leadership, tended to dictate solutions. Roosevelt offered little direction. When he did get involved, he offered simplistic answers that were insensitive to the nationalist forces that had created the expropriation mood. Secretaries Morgenthau and Ickes objected to diplomatic tactics for various reasons, while Ambassador Daniels bypassed superiors to present his opinions directly to the White House. Witnessing the struggles within government circles and between the companies’ and Latin American desires, Welles ultimately resolved these issues during World War II. He prevented a repetition of the sudden and unexpected Bolivian and Mexican seizures by closely watching petroleum trends in Colombia and Venezuela. The State Department never abandoned its defense of private property. When settlements were reached, they resulted from the Roosevelt administration’s commitment to hemispheric solidarity taking priority over the interests of the oil companies in a period of international tension. Even then, the United States tried to satisfy all parties. Bolivia paid off Standard Oil for a lucrative governmental assistance package, and Mexico followed a similar course on a grander scale.

These events, which ended in wartime cooperation, did not solve the problems of the late 1930s. The controversy generated by the oil disputes in Mexico and Bolivia merely added to the already perplexing confusion. An inability to determine direction seemed to grip the country.
Congress reflected the confusion over trading with Latin America; congressmen wanted more commercial interaction, but they differed on how best to achieve it. Representative John Murdock of Arizona in early 1938 called for expanded trade, but added that the Good Neighbor policy hurt domestic agriculture and industry. United States was paying for foreign labor, while domestic workers were unemployed. By late 1939 other congressmen tried to find ways to help both local and Latin American economic growth. Resolutions in both Houses were introduced for a joint committee to improve commercial bonds. Since the war’s outbreak, the United States had an unexpected opportunity to enlarge its trade. Democratic Congressman Joe Henricks from Florida wanted to exploit this advantage: “The future of the United States lies to the south, and if we bend our efforts to effecting closer relationship with Latin America we will never worry about getting entangled with the petty quarrels of old Europe.”

Outside of government circles, similar divergent viewpoints existed. Businessmen recognized the potential Latin American markets as the European war drew nearer. American financial leaders established committees in various American republics to promote commercial intercourse. Even while moving forward on these initiatives, some financial experts sounded a cautious note. William Culbertson, a prominent Republican interested in Latin America since his ambassadorship in Chile under Hoover, argued that the industrialized nations should only supply less-developed countries with capital if the latter guaranteed stability and security for foreign investment. Seizing private property, he asserted, retarded any cooperative ventures. Capital sent abroad would remain low unless the State Department took a firm stand in behalf of its nationals’ rights. An equitable agreement in the Mexican expropriation case, according to Culbertson, was “almost a prerequisite to the development of confidence in further Latin American investments.”

Not all internationally minded Republicans agreed with this position. By the end of 1939 William White editorialized in the Emporia Gazette that the United States needed to lead the Americas through the remainder of the century. Hull’s reciprocity program was beneficial to the Democratic party. White reasoned that if his party were to win the presidency, it must provide bolder economic initiatives: “The United States can well afford to make concessions that will stimulate trade and industry in South America. We can well afford to take some risks. We can well afford to make heavy grants to put these South American countries on their feet. For a good neighbor is a customer. The industrial United States of the Western Hemisphere, may easily be a reality.”

Events, however, seemed to shape trading patterns instead of national politics. Trade statistics for 1939 illustrated trends that the threat of war
and the actual fighting foreshadowed. United States exports to Latin America rose from an average of 18.3 percent from 1936 to 1938 to 19.9 percent in 1939, while imports moved from 23 to 23.7 percent. In the same time period, Latin American figures reflected a far greater dependence on United States markets. Latin American exports to the United States increased from 30.3 to 34.9 percent, while they dropped slightly to the United Kingdom and Germany. Latin American imports from the United States jumped from 32.8 to 40.5 percent and began to fall from the United Kingdom and Germany. These commercial movements clearly demonstrated that, while the United States was maintaining a slight rise in its Latin American trade, those nations saw their European markets shrinking, and this forced them to rely more on United States markets. 75

The European war and the early Democratic efforts to promote inter-American commerce illustrated the lack of coordination and sophistication in the development of United States foreign economic policy. Hull's fixation on reciprocity forced the State Department to devote too much time to a program of limited value. To win a broader base of support, Hull naively claimed that acceptance of his trade program and world peace were synonymous.

Welles supported the reciprocal trade agreements program, but viewed it as part of a larger scheme. He understood the difficulties in translating broad concepts into specific proposals, but tried to bridge the gap, changing details to suit the case. As a result the agreements with the American republics did not follow a consistent pattern. Primary considerations were always bilateral; multilateralism played a secondary role.

The State Department never learned how to combine the talents of many agencies into a united foreign economic policy. Hull and Welles shared responsibility for this failure. The one jealously guarded his prerogatives and overemphasized the importance of reciprocity while the other, though less rigid, considered Latin American diplomacy his private domain that no one might enter without his leave. In spite of their shortsightedness, some outside departments had an impact on hemispheric financial affairs. In each case, however, the ability to influence came from special legislation, and even in these instances the State Department played a crucial role.

Internal rivalries and diversity of sources brought about the fragmentation of the United States' foreign economic policy during the 1930s. Hull's hopes came from his outdated Wilsonian free trade beliefs, but Welles's negotiations in the Americas significantly altered the secretary's original intent. Others, like Morgenthau and Wallace, offered suggestions for particular problems. Over them all Roosevelt devoted fitful attention to hemispheric commerce. The depression created most of this confusion and inconsistency. Only with its passing and the coming of World War II would the Americas establish comprehensive economic proposals.