POLITICAL CONSEQUENCES OF AMERICAN ECONOMIC NATIONALISM TOWARD SOUTH AMERICA

by

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CHAPTER I

THE PROBLEM

The Importance of the Problem

In 1818 Henry Clay said to the House of Representatives:

> "In the establishment of the independence of Spanish America, the United States have the deepest interest. I have no hesitation in asserting my firm belief, that there is no question in the foreign policy of this country, which has ever arisen, or which I can conceive as ever occurring, in the decision of which we have had or can have so much at stake. This interest concerns our politics, our commerce, our navigation."[1]

In 1941 Sumner Welles said in a public address:

> "In all human probability these present years are the formative years. They will be the years which will determine whether the policy of closer relations between the United States and the other nations of the New World is to grow, to develop, and to culminate in a reciprocal friendly confidence which neither the assaults of force nor of insidious propaganda can undermine, or whether we will once more draw apart, and, consequently perhaps, because 'we do not hang together', hang separately."[2]

In the interim between the making of those statements have passed nearly 130 years of American history. And during most of those years the United States has been concerned with

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[1]Cited in Calvin Colton, The Life and Times of Henry Clay, I (New York: A.S. Barnes and Company, 1845), p. 222.

[2]From Department of State Press Release, XX, no. 508, publication 1345 (June 24, 1941), pp. 546-547.

its sister nations to the South, with the form of their governments, with their relations with non-American nations, and with their relations with the United States. During most of those years that interest was centered mainly upon the nations of Central America and the Caribbean area; but in more recent years, particularly those from 1920 to the present, that interest has come more and more to be focused upon the nations of the continent of South American proper. Since the rise of Adolf Hitler and the growing fascist menace to the United States, northern Americans have become increasingly aware that Natal, on the Brazilian "bulge", is nearer Dakar in French West Africa than it is to the United States; and they have become increasingly aware that there is a military possibility that the United States can be attacked from South American bases.

With this growing appreciation of the military importance of South America to the United States has come a greatly increased popular demand for knowledge about the South American republics which has given rise to a considerable number of books and articles in periodicals upon the history, present characteristics, and political sympathies of the southern nations. The United States has definitely become interested in South America.

In his inaugural address of 1933, President Roosevelt dedicated this nation to following the policy of the "Good Neighbor" in its foreign relations, especially those with the

South American republics. The United States has committed itself to cultivating South American friendship; and at present we are seeking, both officially and unofficially, ways of improving our relations with the South American nations.

One of the first steps in improving those relations must certainly be that of discovering what elements in our policy toward those nations have made and are making for ill-feeling toward the United States so that we may devise ways of correcting those things. Some writers have suggested that the differences between ourselves and South America in cultural background and fundamental outlook and tradition are important elements in blocking closer relations with the southern nations;[1] while others suggest that the past activities of the United States, especially in the Caribbean area, have been the most important factors.[2]

The purpose of this study is to consider a third element in our relations with South America, namely our policies of economic nationalism toward those nations, and to attempt to discover what part they have played in forming the South American attitude toward the United States and in influencing the course of our political and diplomatic relations with the

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[1]For this point of view see J. Fred Rippy, Latin America in World Politics (New York, 1929), and Graham H. Stuart, Latin America and the United States (New York, 1938).

[2]For this point of view see Clarence H. Haring, South America Looks at the United States (New York, 1928), and Scott Nearing and Joseph Freeman, Dollar Diplomacy (New York, 1925).

southern republics. So far as the author knows, no single work has yet been written upon precisely this question.

Delimitation of the Problem

In this study we will restrict our discussion as much as possible to the ten independent nations of the continent of South America: Venezuela, Colombia, Ecuador, Peru, Bolivia, Paraguay, Uruguay, Argentina, Brazil and Chile. These are properly called the South American nations, a narrower term than the more commonly heard "Latin" American, "Hispanic" American, or "Ibero" American.

We make this delimitation for the reason that the nations of Central America and the Caribbean area, because of their geographical proximity to the United States if for no other reason, have assumed a special place in American foreign policy. They are a special subject in themselves and should be considered as such.[1] South America proper presents problems which are peculiar to its location; and while there are many similarities between the two sections of the Americas, there are also sufficiently important differences as to make them better considered apart from Central America and the Car-

[1]Suggested works covering this area are H.C. Hill, Roosevelt and the Caribbean (Chicago, 1927); R.H. Fitzgibbon, Cuba and the United States (Menasha, Wis., 1935); C.D. Kepner and J.H. Soothill, The Banana Empire (New York, 1936); Melvin Knight, Americans in Santo Domingo (New York, 1928); W.D. McCain, The United States and the Republic of Panama (Durham, N.C., 1937); and J. Fred Rippy, The United States and Mexico (New York, 1931).

ibbean area. There will be times in which the term, "Latin" America, will, of necessity, be used in giving certain statistics and observations; but these places will be noted and distinguished from statistics covering only South America.

Whenever the term, "America" or "American", is used with no accompanying qualification, it will refer, for purposes of convenience and common usage, to the United States.

Most of the following discussion will center around the policies and activities of the United States toward South America from 1920 to the present, with previous material brought in only when the author deems its introduction necessary to explain or clarify the factors involved those years from 1920 to 1942.

Much of our discussion will be concerned with the so-called "ABC" powers, Argentina, Brazil, and Chile. This will be so not only because these three nations are the wealthiest and the politically most important nations of South America, but also because one of them, namely Argentina, has traditionally had the most unfriendly relations with the United States.

Organization of the Study

Chapter II will consider the nature of economic nationalism, its ideological development both in Europe and in the United States, and will then discuss the growth and development of economic nationalism and protectionism as a part of the general foreign policy of the United States, particularly since 1920. Attention will be given to the principal internal factors which influenced its development.

Chapter III will give a brief review of the more important characteristics of the economies of the South American nations, with regard to their natural resources, economic development, distribution of foreign trade, and the present nature of their economies so that we may better understand how American economic nationalism came to have its particular effects in South America.

Chapter IV will consider the internal economic and political consequences of American economic nationalism in South America, with special emphasis upon its impact, resulting retaliatory measures instituted by the South American nations, and its effect upon the South American attitude toward the United States.

Chapter V will discuss the external political consequences of American economic nationalism as they were and are demonstrated in the political and diplomatic relations between the South American nations and the United States, chiefly through the channels of the inter-American Conferences since 1920.

Chapter VI will consider the external political consequences of American economic nationalism as they were and are manifested in the efforts of the United States to provide remedial measures for various aspects of the situation, and the resulting effects of those remedial efforts upon the attitude of the several South American nations toward the United

States. It will also suggest some possible future channels into which remedial efforts might fall.

Chapter VII will present a brief summary of the conclusions suggested by the study.

One final word of introduction seems necessary. Though for purposes of discussion we find it convenient to lump the southern nations together as "South America", we must always keep in mind the fact that in reality we are considering ten separate and individual nations with many differences in people, customs, tradition and economies among them. The nature of our study will force us to place much of our attention upon the similarities among those nations; but we would be falling short of the truth if we did not, wherever possible, recognize the many and important differences among those nations. Generalizing about the South American nations is little easier than generalizing about the European nations; and any such generalization which the author makes should be considered with this warning in mind.

CHAPTER II

ECONOMIC NATIONALISM

The Heritage of Mercantilism

In 1664 Thomas Mun, an exponent of English mercantilism, wrote:

> "Although a Kingdom may be enriched by gifts received, or by purchase taken from some other Nations, yet these are things uncertain and of small consideration when they happen. The ordinary means therefore to encrease our wealth and treasure is by Forraign Trade, wherein wee must ever observe this rule: to sell more to strangers yearly than wee consume of theirs in value."[1]

In 1888 Giles B. Stebbins, a defender of American protectionism, wrote:

> "A family pays special regard to the interests of its own members, while not oppressing or abusing others: a nation is a great family. A family earns its own expenses, or more, or decays; a nation sells as much as it buys or decays. This is 'the balance of trade.' When anyone can show how a family can earn $900 and pay out $1,000 yearly, and still prosper, we may see how a nation can export $90,000,000 and import $100,000,000 yearly, and not grow poor."[2]

There is an obvious similarity of argument in these two statements which indicates that at least one basic idea---that to prosper a nation must yearly sell more than it buys---runs

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[1]Thomas Mun, England's Treasure by Forraign Trade, no. 1 of Economic Classics, edited by W.J. Ashley (New York: Macmilland and Company, 1895), p. 7.

[2]Giles B. Stebbins, The American Protectionists Manual (Chicago: Charles H. Kerr and Company, 1888), p. 2.

deep in the thinking of economic nationalists for 400 years. And it gives added pungency to our observation that the strain of mercantilism is still present in the economic thinking of the world.

With the gradual emergence of the new nation-states from the ruins of feudal Europe in the 15th and 16th centuries, there also came a significant economic and commercial expansion in the world started by the opening up of the New World and continuing under its own momentum. Out of the converging of these two basic movements developed mercantilism, which came to be the basic economic policy followed by the new states.[1]

The main elements of mercantilist thought as it emerged in the 17th century appear to be these:[2]

First, there was the idea that the economic activities of a nation must be unified and controlled by the state for the good of the state.

Second, it was held that the purpose of such state control is to give the state power in its external dealings with other nations.

Third, in order to implement the first two tenets, there

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[1]Carleton J.H. Hayes, The Historical Evolution of Modern Nationalism (New York: Richard R. Smith, Inc., 1931), Chs. I-III.

[2]Discussed more fully in Eli F. Hecksher, Mercantilism, translated by Mendel Shapiro (London: George Allen and Unwin, Ltd., 1931), I, pp. 22-26.

must be rigid economic protectionism maintained through the use of restrictions on imports. Corollary to this principle was the mercantilist idea that a nation's true wealth consists of the amount of gold and silver bullion it has on hand, and that only through a favorable balance of trade---only by selling more to foreign nations than it buys from them---can a state accumulate such bullion. Furthermore, in order to make sure that no bullion shall escape unnecessarily, it was desirable to develop a merchant marine and see that all the nation's goods were shipped in its own vessels:

> "The value of our exportations likewise may be much advanced when we perform it ourselves in our own ships, for then we get not only the price of our wares as they are worth here, but also the merchants gains, the charges of ensurance, and fraight to carry them beyond the seas."[1]

Of these three mercantilist principles, for our purposes the last is perhaps the most important. But while centering our attention on the protectionist elements of mercantilist thought, it is desirable to remember that the spirit of strong nationalism itself played an important part in the development of mercantilist policies. Schmoller, indeed, believes that the element of nationalism is by far the most important in mercantilism.[2] We must remember that much mercantilist policy as well as much later economic nationalist

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[1]Thomas Mun, Op. Cit., p. 11.

[2]Gustav Schmoller, The Mercantile System and its Historical Significance (New York: The Macmillan Company, 1914), p. 51.

policies are most intelligible in the light of nationalism itself.

Mercantilism was the dominant economic policy in Europe, roughly speaking, from 1500 until 1800. In France, Colbert guided his nation's economic development under strict state control. Spain followed a consistently mercantilist policy in her dealings with her Latin American colonies from 1500 until the end of the 18th century.[1] England likewise pursued a mercantilist policy toward her own American colonies until 1776. And in the case of both Spain's and England's American colonies, resentment against the mother country's mercantilist policies was a major factor in the colonial independence movements.[2]

Thus with nationalism in the political and cultural worlds came nationalism in the economic realm, a nationalism founded on the idea that a nation's primary concern is looking out for itself, and that the best way to do this is to make sure that the fatherland's industries shall be given every advantage in competition with the industries of any other nation. Ever since that time nationalism in one form has usually been accompanied by nationalism in the other.

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[1] J. Fred Rippy, Historical Evolution of Hispanic America, 2nd edition (New York: F.S. Crofts and Company, 1941), Chs. IV-VI.

[2] Laurence B. Packard, The Commercial Revolution, 1400-1776 (New York: Henry Holt and Company, 1927), pp. 83-85.

Adam Smith and the Manchester School

When, in 1776, Adam Smith published his Wealth of Nations, one of his prime purposes in writing the book was that of attacking the whole mercantilist philosophy. In his arguments against the mercantilists Smith laid down a case for free trade to which little of argumentative importance has been added since. His attack on the mercantilists was centered around these main arguments:

First, Smith held that a nation's true wealth consists not of the gold and silver bullion in its coffers, but rather of the total amount of consumable goods available to its citizens. In his own words:

> "It would be too ridiculous to go about seriously to prove that wealth does not consist in money, or in gold and silver, but in what money purchases, and it is valuable only for purchasing. Money, no doubt, makes always a part of the national capital; but it has already been shown that it generally makes but a small part, and always the most unprofitable part of it."[1]

Second, he argued that giving an artificial monopoly of the domestic market to home producers is both costly and unjust to the consumers of any nation. Said he:

> "To give the monopoly of the home market to the produce of domestic industry, in any particular art or manufacture, is in some measure to direct private people in what manner they ought to employ their capitals, and must, in all cases, be either a useless or a hurtful regulation. If the produce of a domestic can be brought there as cheap as that of a foreign in-

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[1]Adam Smith, An Inquiry into the Nature and Causes of the Wealth of Nations, edited by James E.T. Rogers (Oxford: at the Clarendon Press, 1880), p. 10.

dustry, the regulation is evidently useless. If it cannot, it must generally be hurtful. It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy."[1]

Third, Smith pointed out the principle of comparative advantage as applied to nations. Due to international division of labor, he said, some nations can produce certain goods cheaper than can other nations. In view of this fact, he maintained, the idea of setting up barriers to imports in order to maintain a favorable balance of trade is wasteful and costly. Free trade must always, in the long run, be advantageous to all nations:

> "Nothing, however, can be more absurd than this whole doctrine of the balance of trade, upon which not only these (protectionist) restraints, but almost all the other regulations of commerce are founded. When two places trade with one another, this doctrine supposes that, if the balance be even, neither of them either loses or gains; but if it leans in any degree to one side, that one of them loses and the other gains in proportion to its declension from the exact equilibrium. Both suppositions are false. A trade which is forced by means of bounties and monopolies, may be and commonly is disadvantageous to the country in whose favor it is meant to be established, as I shall endeavour to show hereafter. But that trade which, without force or constraint, is naturally and regularly carried on between any two places, is always advantageous, though not always equally so, to both."[2]

Finally, not only do negative restraints against foreign goods mean injury to the domestic consumer, but bounties and subsidies paid by the government to bolster weak home industries so that they may better compete with foreign enterprises con-

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[1] *Ibid.*, p. 29.

[2] *Ibid.*, p. 63.

stitute a double tax upon the domestic buyer:

> "I answer, that whatever extension of the foreign market can be occasioned by the bounty, must, in every particular year, be altogether at the expense of the home market; as every bushel of corn which is exported by means of the bounty, and which would not have been exported without the bounty, would have remained in the home market to increase the consumption and to lower the price of that commodity. The corn bounty, it is to be observed, as well as every other bounty upon exportation, imposes two different taxes upon the people: first, the tax which they are obliged to contribute, in order to pay the bounty; and secondly, the tax which arises from the advanced price of the commodity in the home market, and which, as the whole body of the people are purchasers of corn, must, in this particular commodity, be paid by the whole body of the people."[1]

Following in Adam Smith's line of thought on these issues were such later economists as Thomas Malthus, David Ricardo, and J.R. McCulloch, known collectively as the Manchester School of economists. For the next hundred years their ideas on free trade became increasingly dominant in England and to a lesser extent throughout the rest of the world. The significance of this school for our purposes is that they most clearly represent the ideological and actual opposition to the ideas of the mercantilists who preceded them and the neo-mercantilists or economic nationalists who were to follow them in the 19th and 20th centuries.

The Development of Economic Nationalism in America

It is not without significance that the same year in which *Wealth of Nations* was published also saw the publication

[1] *Ibid.*, p. 82.

of another document which was to have great influence on the lives of men and the policies of nations, the Declaration of Independence of England's American colonies. Both of them were cut from the same ideological cloth, that of 18th century rationalism and individualism. And both of them found much of their purpose in combatting ideas of mercantilism. It was resentment against England's mercantilist policies toward her colonies which did much toward bringing about actual revolt.[1] And it was against these same mercantilist policies that the young nation had to struggle for its place in the economic sun.

Alexander Hamilton, in his capacity as our first Secretary of the Treasury, followed a somewhat vaguely protectionist policy. His ideological and political opponents, Madison and Jefferson, believed in tariff-for-revenue-only; but the issues were not clearly drawn, and other more immediately important questions than protectionism occupied men's minds.

The real beginnings of American economic nationalism came around 1815 when the Treaty of Ghent had ended America's second war with England. It was primarily inspired by England's activities in dumping goods indiscriminately upon American markets in an effort to tie up her trade.[2] This pur-

[1] Benjamin Williams, Economic Foreign Policy of the United States (New York: McGraw-Hill Book Company, Inc., 1929), pp. 245-246.

[2] Ibid., p. 354.

pose was made clear in a speech made in Parliament by one Henry Brougham in 1816:

> "It is well worth while to incur a loss upon the first exportation, in order, by the glut, to stifle in the cradle those rising manufactures in the United States which the war had forced into existence, contrary to the natural course of things."[1]

The only answer to this British policy of stifling America's infant industries seemed to be protectionism. That was exactly the answer which Henry Clay advanced in his concept of "The American System", which was so often to be referred to by protectionists following Clay. This system was to embrace the United States and those areas immediately dependent upon her, and throw up around them a tariff barrier sufficient to protect the young industries within its limits from the dumping of cheap goods by foreign nations.

This idea became more and more popular in America as the growth of the infant cotton, pig iron, and wool industries after 1815 made such a policy advisable. By 1824 all of the leading Presidential candidates, Clay, John Quincy Adams, and Andrew Jackson were advocates of protectionism.[2] In 1828 came the famous "Tariff of Abominations" which caused some rumblings about nullification in the agricultural South. It was modified in 1832 and 1833, and for the next two decades the idea of tariff-for-revenue-only became gradually accepted.

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[1]Fred Shannon, Economic History of the People of the United States (New York: The Macmillan Company, 1934), p. 226.

[2]Ibid., p. 238.

Treasury surpluses in 1846 and 1847 caused the tariff to be further lowered.[1]

Protectionism proper, however, first got under way in the Civil War. The Morrill Tariff of 1861 was the highest the United States had yet seen, and while the reason for its institution then given was the necessity of higher revenues for the prosecution of the war, nevertheless by 1864 all pretenses of revenue-only were dropped, and frank and avowed protectionism became the American tariff policy.[2]

Coincident with the development of protectionism in America and with her last great struggle to form a unified nation came a revival of nationalistic ideas and policies in almost all the nations of the western world. Such writers as Treitschke, Hegel and Nietzsche in Germany, deMaistre and deBonald in France, and Thomas H. Green in England all in one way or another glorified the national state and made of it the most significant institution in human life.

As a part of this general revival of nationalism came the criticism by a number of economists directed at the Manchester School's principles of free trade. Curiously enough, the three outstanding representatives of this new neo-mercantilist school were all Americans. The first of these was Friederich List, who was born in Germany and became a naturalized American citizen in 1825. In 1832 he returned to Germany as

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[1] Ibid., p. 244.

[2] Samuel Flagg Bemis, A Diplomatic History of the United States (New York: Henry Holt and Company, 1936), p. 732.

American consul at Leipzig, where he helped create sentiment favorable to the Zollverein, or customs union, of the several German states. In 1841 he embodied his ideas in his famous book, Das Nationale System der Politischen Okonomie. This book was widely read all over the world, and especially in the United States, where it became the Bible of the growing group of protectionists.

In this book List reemphasized the necessity of state control over the nation's economic activities.[1] This, it will be recalled, was one of the first principles of mercantilism. Having done this, List laid special emphasis upon the desirability of high tariff and other import restrictions for the purpose of bolstering weak domestic industries. As his criterion of just how weak an industry must be before it is no longer worth protecting, List laid down this rule:

> "It may in general be assumed that where any technical industry cannot be established by means of an original protection of forty to sixty per cent, and cannot continue to maintain itself under a continued protection of twenty to thirty per cent, the fundamental conditions of manufacturing power are lacking."[2]

This, of course, means a very high degree of protectionism, but it was just the sort of thing that the rising American industrialists of the 1860's and 1870's were ready to believe.

The second great American protectionist thinker was the

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[1]Friederich List, The National System of Political Economy, translated by Sampson S. Lloyd (London: Longmans, Green and Company, 1916), Chs. XI-XXIV.

[2]Ibid., p. 251.

New England economist, Mathew Carey. He spoke much in terms of Clay's "American System", and maintained that adequate protection was "such a governmental regulation, by duties or prohibitions, as saves any class of our citizens, whether farmers, manufacturers, or merchants, from being undermined by foreign rivals."[1] He emphasized the importance of calculating the relative cost of producing a given article at home with the cost of production of the same article abroad; and when this was figured, any advantage to the foreign producer should be more than made up by a tariff levied on the foreign producer's products. This "equality of cost of production" principle became very popular as a theoretical basis of tariff levies. Mathew Carey's influence was perhaps greatest in that he took Clay's American System, gave it a respectable backing of economic theory, and defended it untiringly.

But perhaps the most important American protectionist, at least from the standpoint of actual influence upon the policies followed by the United States from the Civil War on, was the economist, Henry C. Carey. Most of his life was spent publishing a long series of pamphlets and books defending a system of tariff subsidies and levies on foreign goods to protect domestic manufactures.[2] He even went so far as to

[1] Kenneth W. Rowe, Mathew Carey, A Study in American Economic Development (Baltimore: the Johns Hopkins Press, 1933), pp. 56-57.

[2] Vernon Louis Parrington, Main Currents in American Thought (New York: Harcourt, Brace and Company, 1930), III, p. 108.

propose a system of national currency, which was to be non-exportable and based upon the credit of the government with the people, and not liable to interference from abroad.[1] He was often quoted in Congressional debates over tariff policy, and became the recognized American authority on the question. Therefore, his influence became the most direct if not the greatest of the three main American protectionist thinkers.

While we could not say that the writings of these three men, coming when they did, <u>caused</u> the development of protectionism in America after the Civil War, we can say that their influence in attacking the position of Adam Smith and in defending the growing American protectionist system was by no means inconsiderable.

In the latter third of the 19th century, United States manufactured goods, under the shelter of the growing protective wall, had rather good control of the domestic market. As yet, however, they were unable to compete with European products in European markets. Constant improvement in manufacturing techniques was beginning to produce annual surpluses in more and more goods, and American manufacturers began to cast about for new markets where these surpluses could be sold. The most likely field for developing new markets appeared to be Latin America; but here the Europeans, especially the British, were already firmly entrenched econ-

[1] *Ibid.*, p. 109.

omically, so the American industrialists began to ask for special trade advantages to overcome the lead Europe had taken.[1]

In 1881 James G. Blaine became Secretary of State under President Garfield, and the "plumed knight" brought with him certain definite ideas as to how those Latin American trade advantages might be obtained. He sent out invitations to the Latin American nations to come to Washington for an inter-American conference on various problems, among them trade being the foremost. It seems quite probable that Blaine's motives in initiating this proposed conference were primarily those of desiring to secure trade agreements with the Latin American nations whereby American goods might compete with European goods in the southern republics.[2] But Garfield was assassinated, and his successor, Chester A. Arthur, was not sympathetic to the general idea. So Blaine resigned, and for nine years the inter-American conference was sidetracked and the invitations withdrawn.

The election of 1888 between Grover Cleveland and Benjamin Harrison was fought mainly over the issue of protectionism, and Harrison, the champion of the protective tariff,

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[1]Benjamin Williams, Op. Cit., pp. 256-257.

[2]For a fuller discussion of Blaine's motives and designs for the proposed conference, see Samuel Flagg Bemis, Op. Cit., p. 736, and Thomas A. Bailey, A Diplomatic History of the American People (New York: F.S. Crofts and Company, 1941), Ch. XXIX.

was the victor. With his inauguration in 1889, Blaine again became Secretary of State just in time to be host at the inter-American conference to which his predecessor, Bayard, had issued the invitations the previous year.[1]

Blaine seized the first opportune moment after the conference convened, and presented his pet plan for an American zollverein, or customs union, to give all members advantages in mutual trade. The Latin American nations, led by the Argentine delegate, Senator Roque Saenz Pena, feared that the union would become an instrument of "Yanqui Imperialism", and they did not wish to do anything which might harm their necessary trade with Europe; so they turned the proposition down flatly.[2]

With this outlet closed, Blaine then turned to the thus-far relatively neglected machinery of reciprocal trade treaties to attempt to gain advantages in Latin American trade. In 1890 and 1897 laws were passed giving the President power to bargain in tariff rates with foreign nations. He was empowered to raise the rates of duties on imports from given nations in order to compel those nations to give United States goods better treatment, and to lower duties in order to persuade given nations to permit relatively free entry of American goods.[3]

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[1]Fred Shannon, Op. Cit., p. 577.

[2]For a fuller discussion of why the southern nations rejected the proposed customs union, see Benjamin Williams, Op. Cit., p. 258.

[3]Ibid., pp. 259-262.

Under reciprocity provisions treaties had been signed and ratified by the Senate. These were treaties with Canada (1854), Hawaii (1875), and Cuba (1902). In the Senate, however, there began to develop considerable opposition to any breach in the protective wall, however small. A large number of reciprocity treaties were signed only to be rejected in the Senate. These included: Great Britain for Newfoundland (1890), Great Britain for Barbados, British Guiana, Turks and Caicos Islands, Jamaica and Bermuda (1899); Denmark for the Danish West Indies (1899), the Dominican Republic (1899), Nicaragua (1899), Ecuador (1899), Argentina (1899), and France (1899).[1]

After the turn of the century, the reciprocity idea as a means of adjusting tariff walls died out and was not revived, as we shall see, until the Roosevelt-Hull agreements of 1934 and after.

The next significant date in American tariff history was 1919, just after the end of the World War. It is commonplace to assert that the United States had, in four short years, changed from a debtor nation to a creditor nation. And yet the magnitude of that change and its fundamental significance for American tariff policy is shown in these figures on the balances of total United States foreign debits and credits, both government and private, with the pre-war situation con-

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[1] *Ibid.*, p. 285.

trasted to the post-war situation:[1]

Table 1

UNITED STATES FOREIGN DEBITS OR CREDITS

Date	Debit	Credit
1914 (July 1)	$3,000,000,000	
1922 (Dec. 31)		$16,305,000,000
1929 (Dec. 31)		18,877,000,000
1934 (Dec. 31)		18,429,000,000

This situation quite obviously meant that foreign nations owing money to the United States must sell their own goods in great quantities in order to obtain enough wealth to pay these debts. And this meant, so many Americans thought, a flood of cheap European goods on the American market. Then too, the productive facilities of the United States had been expanded by the war effort to a peak which they had not known before. Markets for American goods, therefore, were absolutely necessary, whether those markets were domestic or foreign. Because of these two reasons, Congress decided, whether rightly or wrongly, that it would be suicidal to permit a flood of cheap European goods to come into the country and take the domestic market away from American producers.

Added to this situation was the virulent nationalist sentiment produced by the war, and the strong isolationist feeling of wanting to return to "normalcy" and to keep out of foreign entanglements, economic or otherwise. Upon these

[1]Taken from a special report to the President, made by George N. Peek, August 30, 1934, cited in Samuel Flagg Bemis, Op. Cit., p. 746.

bases were constructed a series of tariff acts raising a higher and higher protective wall around American industry. It was a program designed to succor the home market, and few were the men during the opulent twenties who dared criticize the rationale or the success of that program.[1]

With the advent of the depression in 1929, the reasons for protecting the home market became redoubled in the minds of American legislators, and the long trend of protectionism came to its climax with the passage of the Smoot-Hawley Tariff Act of 1930, which raised tariff rates to a new all-time high in the United States.[2] This, again, was a purely domestic approach to what was thought to be the purely domestic problem of protecting the home market; its international implications were distinctly a secondary consideration.

By the end of the twenties, this whole general trend toward a high degree of protectionism in America was being shaped and bolstered by the development in Europe of policies of neo-mercantilism and autarchy which led many Americans to believe that foreign trade henceforth was strictly dog-eat-dog and that in that struggle the United States must, in order to survive, follow as rigid a policy of protectionism as the other nations of the world.[3]

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[1]For a fuller discussion of the rationale behind America's post-war tariff policy see Frank W. Taussig, The Tariff History of the United States, 8th edition (New York: G.P. Putnam's Sons, 1931), pp. 449ff.

[2]Ibid., pp. 489ff.

[3]William S. Culbertson, International Economic Policies (New York: D. Appleton and Company, 1925), pp. 479-480.

The extreme of this point of view, and, indeed, one of the most extreme protectionist points of view ever expressed by an American author is found in Samuel Crowther's amazing book, America Self-Contained.[1] Cited below are three more or less typical statements from that book to show the lengths to which American protectionist thought has gone in some quarters in the post-war era.

Crowther opens his book with this remarkable statement:

> "We in the United States have today no friends among the nations of the earth, but we have many bitter enemies---the more bitter because they are presently without the power to harm us. . .Fortunately we need no friends; fortunately we need fear no enemies. . . Forty international economic conferences have convinced us that we have a set of primary principles which the world at large neither shares nor desires to share."[2]

Then he holds that America can be free only if she is absolutely independent economically of any other nation:

> "Through bitter suffering the world has learned. It has learned that political liberty may mean only the privilege of starving---that no nation is free if its daily bread can be given or withheld in war or in peace according to the needs or pleasure of some other nation. The world has learned that political liberty without economic liberty is only an empty shell."[3]

And finally, this is his dictum on the fate of international trade generally:

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[1] Samuel Crowther, America Self-Contained (Garden City, New York: Doubleday, Doran and Company, 1933).

[2] Ibid., p. 1.

[3] Ibid., p. 3.

> "The export trade of the world is going the way of the whaling trade, and there is just as much chance of restoring it as there is of restoring the whaling trade by cutting out electricity and decreeing the world-wide use of sperm oil."[1]

Obviously Crowther's attitude is not typical, even of those who today advocate a high protective tariff for the United States. Nevertheless, that attitude is indicative of the fruits of certain ideas of economic protectionism and jingoistic nationalism which seem to have engulfed the world since Versailles, and which the United States apparently has been unable to avoid.

Under the Roosevelt administration beginning in 1933 there has been no general lowering of the tariff. We have returned to the reciprocal trade treaty program of Blaine, with certain differences which we shall note later along with the extent and effects of the Roosevelt-Hull trade agreements. As a whole, the United States tariff wall stands very much as it was constructed by the Hawley-Smoot Act of 1930.

The Methods of Economic Nationalism

By now it should be clear that the end of economic nationalism in general and American economic nationalism in particular is that of securing the domestic market to the business of domestic producers by barring imports and promoting exports by primarily political means. There may be the added purpose of attempting to make the nation independent of the goods of

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[1] *Ibid.*, p. 14.

any other nation in time of war, but this is not a necessary part of the sort of economic nationalism with which we will be dealing in the course of this study.

It would be of little value for the purposes of our study to present a detailed discussion of the methods and workings of economic nationalism. Such a discussion can be found in various other works.[1] It will be the author's purpose merely to list and explain briefly the major methods by which economic nationalist policies are implemented.

There appear to be five major categories of methods. The first of these is protection affecting commodities by negative measures. In this category we find such measures as customs duties placed so high that, when added to the price of an imported good, they make its cost higher than that of the competitive domestic good; freight-rate protection by which domestic goods are given lower prices than competitive foreign goods; administrative protection, which we will discuss more thoroughly below; and protection by popular boycott, neither widely used nor highly effective, but nevertheless employed in such movements as the "Buy British" and "Buy American" campaigns of the early 1930's.

The second major category of methods is that of protection affecting commodities by positive measures. Among these methods

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[1]An excellent discussion of this subject, from which much of this material is drawn, is found in Josef Grunzel, Economic Protectionism (Oxford: at the Clarendon Press, 1916), pp. 135-303.

are bounties on exports, by which economically weak domestic industries are shored up and encouraged to export by governmental subsidy; freight-rate concessions; and measures for the encouragement of shipping.[1]

The third group of methods is that of protection affecting capital by negative measures, including such weapons as obstacles placed in the way of foreign enterprise such as special licenses, special taxes, special regulations, etc.; the discouragement of capital importation, both through official warnings and special taxes laid upon foreign capital; and the discouragement of the denationalization of capital by allowing entrance into foreign capital combinations.

A fourth category is that of protection affecting capital by positive measures, the main method being the encouragement of the emigration of domestic capital, while retaining domestic control over that capital.

And finally there is the protection afforded labor by the discouragement of immigration, such as was carried on in the United States against oriental immigration in the latter part of the 19th century at the behest of domestic labor groups.

These, then, are the major methods of economic nationalism. As we shall see, certain of them have been employed widely by the United States, while others have hardly been

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[1]For an interesting comparison of this principle with those of mercantilism, see Thomas Mun's argument, as quoted above, p. 10.

used. Of America's recent trend toward economic nationalism, the most striking fact seems to be that of the increasing significance of the administrative controls mentioned in connection with the first category. Among the more important weapons employed under the general power of administrative control of imports are these:[1] laws requiring the identification of foreign goods by "marks of origin"; antidumping legislation and regulations; laws applying countervailing duties to bounty-fed imports; prohibition of imports of the products of convict labor and forced labor; laws penalizing imports from countries that discriminate against the American commerce in their markets; prohibitions and penalties on unfair competition in general; and sanitary regulations.

The significance of administrative controls lies in the fact that, while it is necessary to have Congressional debate over and approval of changes in rate schedules, the use of any of these administrative controls requires only the approval of the administrator. And this, of course, means that the United States has a much more flexible weapon with which to engage in economic war with other nations.

It is Percy Bidwell's opinion that these administrative controls, which he has dubbed "The Invisible Tariff", have become even more important weapons of American economic nat-

[1]Percy W. Bidwell, The Invisible Tariff: A Study of the Control of Imports into the United States (New York: published by the Council on Foreign Relations, 1939), p. 7.

ionalism than tariff schedules and export subsidies.[1] Certainly they will loom large in our discussion; for just one item, that of sanitary regulations, has played a large part in our relations with at least one South American nation, namely Argentina, where, under discretionary sanitary regulations, the United States has barred the importation of Argentine beef on the grounds that Argentine cattle are subject to the "hoof and mouth" disease, and that all Argentine beef and beef products, therefore, are in danger of spreading the disease to American cattle. This controversy will be discussed at length in Chapter IV.

We have seen, then, how economic nationalism developed side by side with political and cultural nationalism. We have seen its development in the United States as a part of our industrial development in the late 19th and 20th centuries. And we have seen the nature of the major weapons it employs to advance its cause. We know that, considered from a purely domestic and national point of view, there is a definite body of reasoning behind its policies which cannot merely be laughed off as stupid.

It now becomes the purpose of this study to change that point of view from the purely domestic and national in order to discover what political consequences, and what effects on our relations with the nations of South America American

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[1] *Ibid.*, p. 2.

economic nationalism has had.

In doing so, we will be considering purely the international implications of a policy which, as we have seen, was conceived from an almost wholly domestic and national point of view. It is hoped that by now the rationale behind the institution of American economic nationalism, especially since 1920, is sufficiently clear and fully expressed that the discussion to come will not be wholly one-sided.

CHAPTER III

ECONOMIC SOUTH AMERICA

Before we can properly study American economic nationalism as it has operated in South America, we must first provide ourselves with a broad background of information about the economy of the southern continent. Certain questions inevitably present themselves which must be answered before we may arrive at any true picture of the problems involved in this study. Among the more pertinent of these questions are: what is the general nature of the South American economy? Is her economy complementary to or competetive with that of the United States? What are the possibilities for achieving a truly industrial economy in South America? What is the position of the United States in South American trade? How has the present war affected that position? It will be the purpose of this chapter to suggest answers to these questions. It will not be the purpose as it certainly will not be the result of this chapter to present an exhaustive study of the South American economy.[1] That discussion can be found in

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[1] Two excellent works on the general economic nature of South America are R.H. Whitbeck and F.E. Williams, Economic Geography of South America, 3rd edition (New York, 1940), and C.F. Jones, Commerce of South America (New York, 1928).

other, better places. Only enough of the facts necessary to provide a background for subsequent discussion will be presented here.

South American Economic Development

The colonial period in South American history stretched roughly from 1500 to 1808. During that period the Spanish government, both under the Hapsburgs and the Bourbons, pursued a sufficiently consistent policy that it is possible to make certain generalizations about that policy.[1] Operating under the principles of mercantilism, much as we have discussed them in Chapter II, the Spanish policy was based first of all on rigid royal control over all the economic activities of the colonies from New Spain in the north to the regions of the Rio de la Plata in the south. Directly under the control of the Spanish monarch was the Board of Trade. This body designated the port cities both in Spain and in the New World through which colonial trade might pass, and laid down certain conditions and specifications which had to be observed in all trading activities.

The second characteristic of Spanish colonial economic policy was that of monopoly over the colonial trade. Under the Hapsburgs it was almost impossible for foreign nations to dip into the wealth flowing from the new world; and there was

[1] The bulk of this material is drawn from J. Fred Rippy, Historical Evolution of Hispanic America, Chs. III-IV.

almost no smuggling or other violations of the regulations laid down by the Board of Trade. Under Bourbon rule in the 18th century smuggling increased somewhat, but it never became a major threat to the Spanish mercantilist system.

A third characteristic was that of the extreme emphasis upon the extraction of raw materials, especially precious metals, from the colonies for the enrichment of the mother country. There appears to have been a minimum of concern for the long-range development of the colonies themselves and a maximum emphasis upon garnering gold and silver for Spain's treasury, just as the dictates of a mercantilist policy required. There was no trading by the independent merchant, as there was in the English colonies to the north, to break down somewhat this mercantilism. Consequently the Spanish South American colonies were more plundered and exploited economically than they were developed.

A fourth characteristic was the development of the landholding system, by which Spanish-born gentlemen, the _peninsulares_, and their American-born descendents, the _creoles_, were given large tracts of land, or _haciendas_, for their own. And to work these holdings there developed a system of pseudo-slavery known first as the _repartimiento_ system and later as the _encommiendas_ system.

These, then, were the important characteristics of Spanish colonial economic policy in South America. That they still can be found exercising a certain influence over the evolution of the South American economy today will be seen in our subsequent discussion of that economy. By and large these same characteristics may be asserted of the Portugese policy toward its great American colony, Brazil.

The economic story of the South American nations during the 19th century after the achievement of their independence is largely one of the production of agricultural commodities. By the nature of their trade position with the European powers and with the United States, the southern republics were kept producing raw materials and exchanging them for the processed and manufactured articles of the foreign nations---those articles ranging from actual manufactured goods to processed foodstuffs. The middle of the century saw the beginning of the development of railroads and other modern modes of transportation in South America together with the start of certain embryonic industrial developments.[1] But for our purposes the significant fact to be noted about the South American nations during the 19th century and the first decade of the 20th century is that they were engaged primarily in the production of certain raw materials required by the rest of the world. The influence of European and Northern American trade policies in keeping the South American nations producing these raw materials and little else will be discussed subsequently. To

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[1]Wallace Thompson, Greater America (New York: E.P. Dutton and Company, 1932), pp. 29-45; in those pages will also be found a rather thorough discussion of how South America was kept producing raw materials instead of being allowed to advance economically by the nations with whom she traded.

note the fact is sufficient for the present.

When the world war came in 1914, South America experienced the greatest trade boom in its history. The belligerent nations began to purchase Chilean nitrates in great quantities, both for explosives and for fertilizers. Argentine beef and wheat, and Brazilian wheat were very much in demand for the feeding of British and French soldiers. And perhaps for the first time, the European nations began to consider South American trade as one of their most important problems.

After the war, both Europe and the United States were left with over-expanded productive facilities which demanded some sort of outlet. Therefore, for a period of several years after 1918, South America became the depositing place for what has been described as "a glorious dumping party", and soon found herself with huge stocks of goods which she could neither pay for nor find customers for.[1] This unhealthy situation was aggravated by the post-war tariff policies of both the United States and most of the European nations which, as we shall see, eventually began to bring about certain changes in the South American economy.

Hence, we may observe that South America, for three centuries, had been kept producing raw materials and exchanging them with foreign nations for most of the goods she needed to maintain even her own low standard of living. This is per-

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[1] *Ibid.*, pp. 37-44.

haps the most significant single fact for our purposes which can be derived from such a brief sketch of South American economic development. But it provides us with the necessary background for a survey of the modern South American economy.

The South American Economy Today

From the preceding discussion, we would quite naturally expect that South America today would be engaged in mainly agricultural productive pursuits. And that is precisely the case. The emphasis is no longer so much on the purely extractive industries of mining and lumber as it was from the 16th to the 19th centuries; but her main products are such items as coffee, beef, hides, wheat, cotton, and other products of the fields.[1] This is nowhere more clearly shown than in a survey of South America's principle exports, usually a good barometer of the nature of the main productive activities of any given area. In the northern South American countries the important exports are coffee and cacao. Cotton is an important export commodity for Brazil; petroleum for Venezuela (accounting for more than 80 per cent of her total exports); platinum, gold and petroleum for Colombia; and petroleum and gold for Ecuador.[2]

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[1]R.H. Whitbeck and F.E. Williams, Economic Geography of South America (3rd ed.; New York: McGraw-Hill Book Company Inc., 1940), p. 5.

[2]The bulk of this material is drawn from Latin America as a Source of Strategic and Other Essential Materials, Report no. 144, second series, published by the United States Tariff Commission, 1941.

The economies of the west-coast countries of South America are influenced greatly by the production of minerals. The chief export for Bolivia is unrefined tin; for Peru, petroleum and copper; and for Chile, copper and nitrates. about 90 per cent of Bolivian exports consist of minerals; the ratio is 75 per cent for Chile and 65 per cent for Peru. Chile also exports wool, meats, and regetables, and Peru ships long-staple cotton, sugar, wool and other fine animal hair.

The countries in the temperate zone on the eastern coast of South America are dependent largely upon the production of pastoral and agricultural commodities; their principal exports are meats, wool, hides and skins, wheat, corn and flaxseed. Argentina and Paraguay are the world's only suppliers of quebracho extract, an important tanning material; and they are becoming increasingly important producers of cotton. South America, then, is clearly a basically agricultural economy.

The second element of South America's economy which we must note is the fact that most of her nations have one-crop economies; that is, most of them have their economies based largely upon the production of a single important crop, and their prosperity is dependent upon the price that crop commands in world markets. Venezuela depends upon her exports of oil; Brazil eats well only when the rest of the world drinks coffee; Argentina and Uruguay depend largely on wheat and cattle;

Bolivia must sell tin and wolfram; and Chile, even today, bases her economy on nitrates and copper.[1]

The most important implication from the fact of the one-crop economies is that South America is very dependent upon foreign trade. The reason for this situation may be illustrated by this hypothetical example: Venezuela centers most of her productive efforts in producing oil. When the international price of oil goes down, Venezuela neither produces many of the things which she normally gets from the nations to whom she sells her oil nor does she have her usual amount of foreign exchange from the higher price of oil with which to buy those commodities. Hence, she gets less of those commodities and her standard of living inevitably declines. The same situation is true, in varying degrees, of all the other South American nations which are largely dependent on the exporting of a single basic commodity for obtaining her foreign exchange and the necessary goods which that foreign exchange buys. It is far from being a healthy economic situation. And it is this characteristic of South America's economy more than any other perhaps which helps us understand how anything which might hurt the southern republics' ability to garner foreign exchange, including the economic nationalism of the nations with whom she trades, becomes of primary con-

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[1]Carleton Beals, America South (Philadelphia: J.B. Lippincott Company, 1937), p. 39.

cern to her leaders and her people.

A third characteristic to be observed is South America's lack of adequate transportation facilities. In only four sections of South America are there railways sufficiently numerous to serve the needs of the regions even fairly well. These regions are: (1) the Argentine Pampas, (2) the coffee-growing sections of Brazil, (3) Uruguay and (4) the central valley of Chile through which passes most of the nitrate and copper ore. Highways are even fewer, and the three great river transportation systems, the Amazon, the Rio de la Plata, and the Magdalena and Orinoco system of northern South America carry very little traffic.[1] This lack of necessary cheap transportation inevitably cripples any efforts South America may make toward bettering herself economically. It is not so much the fact that most of her railroads are owned by foreign capital as it is the sheer lack of adequate transportation of any kind which has contributed much to South America's relative lack of economic advancement.

Fourth of the distinguishing characteristics of South American economic life is a holdover from the colonial era: her relative domination by large land-holdings. Carleton Beals notes that even in Argentina, as economically advanced a nation as South America can boast, some 4,000 square miles of land are being held idle in blocks of from 154 to 309

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[1] R.H. Whitbeck and F.E. Williams, Op. Cit., pp. 422-424.

square miles, and 12,000 square miles in blocks larger than 25,000 acres. And as a native Argentinian, Luis E. Heysan, has observed:

> "The large landholder---a survival from medieval times through 120 years of the republic is with us more than a reality; he is a perennial menace for the economic future of the country. The whole land regime, practically, is dependent upon his hegemony. We have public lands, but their sacrifice sale does nothing more than contribute to the strengthening of the large landholder."[1]

In Brazil, about 10 per cent of the people possess 77 per cent of the land. In Chile four-fifths of the arable land is owned by 3,000 people. And approximately the same landholding proportions are found in Peru, Bolivia, Ecuador, Colombia, and Venezuela.[2] The implications of such a situation for any sort of unified national programs for economic advancement are as obvious as they are serious to the South American nations.

The fifth basic characteristic of the South American economy, and a most important one from our point of view, is the dominance of the southeastern area. Roughly 70 per cent of all South America's exports come from the southeastern part of the continent between 20 and 54 degrees of latitude south.[3] This area includes Argentina, Uruguay, the southern

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[1] Cited in Carleton Beals, Op. Cit., p. 248.

[2] Ibid., pp. 247-258.

[3] Clarence F. Jones, Commerce of South America (New York: Ginn and Company, 1928), p. 3.

part of Brazil and most of Paraguay. And this area produces 65 per cent of the world's coffee exports, 21 per cent of the world's wheat and wheat flour exports, 72 per cent of its export flaxseed, 66 per cent of its export corn, 54 per cent of its export beef, 25 per cent of its export mutton, 23 per cent of its export wool, and 30 per cent of its exported hides and skins.[1] It is, therefore, by far the most significant area of South America from an economic point of view.

There appear to be three main reasons why this area has come to dominate South American economic life. First, a large percentage of South America's fertile land is found here. Second, this area has 70 per cent of the total population of South America, and 90 per cent of the people in whom European racial elements predominate. Whitbeck and Williams maintain that this is significant because the European racial group has proved itself, in South America, to be far superior to the native indian or <u>mestizo</u> groups.[2] Finally, the southeastern area has by far the best transportation facilities of all South America. It has a few really good ports, such as Buenos Aires; southern Brazil, Uruguay and Argentina together have 78 per cent of the continent's total railway mileage; and no part of the Argentine pampas lies more than 400 miles from cheap water transportation.

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[1] <u>Ibid.</u>, p. 2.

[2] R.H. Whitbeck and F.E. Williams, <u>Op. Cit.</u>, pp. 413-414.

Furthermore, those areas of South America which are mainly tropical, and this includes much of the Amazon region of Brazil, portions of Venezuela, Bolivia, Paraguay and Colombia, cannot measure up to the southeastern area economically for these reasons: (1) areas nearer the United States supply the tropical commodities needed in this country; (2) unhealthful conditions prevail in much of tropical South America; (3) inadequate transportation facilities prevail in much of this region; and (4) there is a lack of a large demand for tropical articles in the temperate zones.[1]

The southeastern portion of South America, plus Chile, mainly because of her nitrate and copper deposits, is the economically dominant part. We may therefore expect that this same area will be politically dominant as well. And we may also expect that much of our attention and discussion will, of necessity, be centered in this area. It is here that the so-called "ABC" powers of Argentina, Brazil and Chile are found. And it is here that American economic nationalism's impact has been felt the most. Therefore, we shall discuss this area much more than any other, not only for convenience, but also because the facts of the situation make it inevitable.

The general South American economic picture is by no means as gloomy as many of the above observations might indicate. Potentially there appears to be much promise for

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[1]Clarence Jones, <u>Op. Cit.</u>, p. 35.

economic development in the southern continent. And some of the reasons for that promise may be found in the situation of South America with regard to natural resources.

South American Natural Resources

The first category of natural resources to be considered is that of the fundamental power resources. It has long been axiomatic among economists that no nation can become strong without sufficient coal and iron deposits to provide the necessary power basis for an industrial economy. To iron and coal has been added, in recent years, petroleum deposits and waterpower sources. In these basic power resources, the South American position is this:

South America produces around 3,000,000 tons of coal per year. Compared to the United States coal production of 503,297,000 tons in 1940, this is a very insignificant amount.[1]

We find much the same picture in iron and steel production. In 1940 Argentina found it necessary to import pig-iron to supply her needs; Brazil, in 1939, produced 160,016 tons of pig-iron, and Chile averages around 44,800 metric tons of pig-iron per year.[2] In 1940 the United States produced 41,800,000 tons of pig-iron and 58,256,000 tons of steel. Again, by this

[1] G.A. Roush, The Mineral Industry during 1940 (New York: McGraw-Hill Book Company, Inc., 1941), p. 86.

[2] Ibid., p. 332.

standard of the world's largest producer of pig-iron and steel, South America's production seems almost negligible, for South America contains little iron ore of any practicable potentialities.

With petroleum the picture brightens considerably. From 1938 to 1940 the world production picture was this:[1]

Table 2

WORLD PETROLEUM PRODUCTION
(In millions of tons)

World Position	Nation	1938	1939	1940
1.	U.S.A.	168	173.3	192.1
2.	U.S.S.R.	29	30.9	32.0
3.	Venezuela	27.7	29.2	27.0
9.	Colombia	3.0	3.1	3.8
10.	Peru	2.1	1.9	*

Hence, in petroleum production, South America contains the third-ranking and ninth and tenth-ranking nations in the world's petroleum producers. Venezuela's chief productive effort is centered on petroleum, as, to a lesser extent, is the case with Colombia and Peru. Therefore, South American appears to have sufficient petroleum.

In waterpower, especially in potential waterpower, South America's picture is even brighter. Argentina has 35,000 horse power developed out of a potential of around 5,000,000;

[1]Taken from The Statesman's Year Book, edited by M. Epstein (London: Macmillan and Company, Ltd., 1941), p. xviii.

*Figures not available.

Brazil has 891,465 horsepower developed out of at least an available 50,000,000; Bolivia, 13,500 out of 2,500,000; Paraguay 300 out of nearly 10,000,000; Colombia, 25,000 out of 4,000,000; and Venezuela, 15,000 out of 3,000,000. In all, South America has a potential horsepower of about 54,000,000 in waterpower, of which only around 1,000,000 is at present being utilized. The World Power Conference of 1929 estimated that this waterpower potential was greater than that of all Europe combined, and at least the same as that of North America.[1] The technical difficulties involved may make the conversion of some of this potential waterpower into utilized waterpower too costly; but it seems quite likely that much more of that potential can be used than is being used at present.

South America, then, has negligible potentialities in coal and iron production. She has considerable amounts of petroleum available within her own territory. And she possesses a considerable undeveloped potential in waterpower. This, in brief, is her present status in the first category of natural resources, the basic power materials.

On January 30, 1940, the United States Army and Navy Munitions Board listed a number of raw materials which it classified as either "strategic" materials or "critical" materials. The former are those which are indispensable to the carrying on of a modern war, and of which the United States

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[1]George Wythe, "The New Industrialism in Latin America", The Journal of Political Economy, XLV (April, 1937), p. 217.

does not at present possess a sufficient supply to make herself absolutely self-sufficient. Taking this standard as our guide, we find the following situation in South America as to the share of the southern republics in the world production of these materials:[1]

Table 3

STRATEGIC MATERIALS

Material	Share of the South American nations in world production in 1938.
Antimony	58.4%
Chromium	3.7
Copper	22.5
Manganese ore	6.5
Mercury	6.1
Mica	9.6
Quartz crystal	96.0 (From Brazil)
Tin	18.4
Tungsten	11.9
Cinchona bark	7.4
Henequen and sisal fiber	34.6
Crude rubber	2.0
CRITICAL MATERIALS[2]	
Bauxite	1.0
Graphite	8.3 (1937)
Iodine	97.6 (From Chile)
Platinum	11.4 (1936)
Vanadium	38.1
Cattle hides and calfskins	75.9
Kapok	3.0
Quebracho extract	97.1 (From Argentina and Paraguay)
Wool	16.4

[1]Taken from Latin America as a Source of Strategic and Other Essential Materials, pp. 1-47.

[2]Materials which are ultimately necessary to the carrying on of a modern peace-time economy, and in which the United States is not self-sufficient, Ibid., p. 3.

From these figures it is clear that South America is neither the richest nor the poorest area of the world from the standpoint of natural resources. She lacks a sufficient supply of many important materials; and yet she is the world's main source for certain other basic materials.

One observation, however, must be made before we can have a clear picture of South America's resources. And that observation is that a simple picture of South America's annual <u>production</u> of these strategic and essential materials does not necessarily give a fair portrayal of her <u>resources</u> in in those materials. Carleton Beals makes the point that South America has tremendous potentialities which as yet have hardly been tapped. He asserts that Brazil, for example, has nearly one-fourth of the world's supply of iron, 11,000,000 tons of manganese ore, and is rich in such minerals as nickel, chromium, tin, mica, tungsten, titanium and bauxite. Chile, he claims, has iron deposits of about a billion tons, of which only about a million per year are mined.[1] And while Mr. Beals hardly errs on the conservative side, it nevertheless seems fair to observe that South America's production picture is far below that of her actual resources. There are, it is true, the difficulties of extracting these mineral riches; for many of them lie either in jungle or mountainous areas

[1]Carleton Beals, <u>Op. Cit.</u>, pp. 419-422.

where the cost of mining and transporting them makes their development as yet too expensive.

The fairest summary of this section seems to be that from the standpoint of basic raw materials, South America in production stands about in the middle of the world's areas; but in potentialities she stands considerably higher.

Industrial Possibilities in South America

In our discussion of South America's economic development, we noted that a signal fact of that development has been her failure to industrialize. In our review of the general nature of the South American economy, we observed that that economy today was still mainly agricultural, with many South American nations geared to the production of but one or two basic commodities.

There appear to be two main schools of thought which explain this situation. One school claims that first the colonial policies of Spain and later the trade policies of Europe and the United States are responsible for this situation, that South America has been forced to continue producing raw materials for the rest of the world with no real opportunity to diversify her economic activities or to develop any real industrialization. The other school holds that the very nature of South America's natural resources and population make it impossible ever for her to attain a degree of industrialization comparable to that achieved by Europe and the United States.

An outstanding exponent of this latter school has been Dr. Frank Tannenbaum of Columbia University.

Without any attempt to arrive at a final answer to this problem, it nevertheless seems desirable at this point to make a few observations as to what seems to be valid in both schools of thought. In the first place, it seems only fair to observe, as we have already done above, that South America's potentialities in raw materials and power resources are as yet only potentialities. And while it is easy to assert that she has tremendous waterpower resources and large untapped mineral reserves, the bald fact remains that she has as yet not developed those resources and reserves. Brooks Emeny has pointed out the difficulty of mining many of these mineral reserves, though he feels that eventually those minerals may become so necessary that it will be economically desirable to do so.[1]

George Wythe submits an interesting bit of evidence to the effect that South America has already begun a significant trend toward diversification of her economy and the development of industrialization. He points out that around 1889 breadstuffs, food, lumber, and petroleum constituted the great bulk of the United States' exports to South America, but that by 1938 only 10 per cent of the total value of those exports to the southern nations were foodstuffs; 41 per cent, he points

[1] Brooks Emeny, The Strategy of Raw Materials (New York: The Macmillan Company, 1934), Ch. III.

out, were made up of machinery, and another 13 per cent of other metal manufactures, many of them in the nature of capital goods.[1] Hence, he concludes, South America is moving further and further away from one-crop economies and toward an era of industrialization.

He goes on to point out that Argentina, in 1933, had value added by manufacturing of 2,062 million pesos out of a total value of Argentine production in that year of 4,383 million pesos, or 47 per cent of her national productive effort.[2] And he cites this evidence of the sort of thing Latin American nations are coming to produce:

> "As the Latin American countries are still in the early stages of industrialization, the principal manufactures are of a type involving relatively simple processes. Typical examples are: the preparation of foodstuffs---meats, dairy products, sugar, flour, paste foods---and beverages; animal by-products; articles having a wide popular market, including cotton cloth, knit goods, shoes, hats, furniture, paper, printing, pottery, pharmaceuticals, soap and iron ware."[3]

For Wythe, then, there is no question of whether or not South American <u>can</u> industrialize. He maintains they <u>are</u> industrializing before our very eyes.

Professor Dudley Maynard Phelps presents us with one final interesting item of evidence that South America is beginning a movement toward industrialization. That movement he

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[1]George Wythe, "The New Industrialism in Latin America", <u>The Journal of Political Economy</u>, XLV (April, 1937), p. 287.

[2]<u>Ibid.</u>, p. 212.

[3]<u>Ibid.</u>, pp. 214-215.

finds represented in the increasing establishment of branch factories in South America by North American firms. These branch factories, he points out, are engaged in six basic kinds of industrial activity; (1) complete production of a commodity in the branch plant; (2) production of some assembly units, importation of others, and assembly in the branch plant; (3) minor production, assembly, and service operations in subsidiaries of public utility companies; (4) assembly of parts imported from abroad; (5) minor assembly and service operations in subsidiaries primarily devoted to merchandising operations; and (6) packaging of commodities imported in bulk.[1]

At the time Professor Phelps published his book there were 66 such operations concentrated in four South American nations. They represented a total capital investment of $234,567,000 and employed approximately 38,000 persons. They were divided among the nations thus: Argentina, 31 branch operations totaling $164,721,000 in investment; Brazil, 19 branch plants totaling $47,165,000; Uruguay, 5 plants totaling $14,534,000; and Chile, 11 branch plants totaling $8,147,000. That was in 1935. Since that time the number of these plants has increased considerably, with such well-known firms as Ford, General Motors, Otis Elevator, International Harvester, Singer Sewing Machine and Colgate-Palmolive-Peet.[2]

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[1]Dudley M. Phelps, Migration of Industry to South America (New York: McGraw-Hill Book Company, Inc., 1936), p. 4.

[2]Ibid., pp. 18-23.

While this "migration of industry south" is by no means conclusive evidence that South America is industrializing, it nevertheless seems to indicate that a number of foreign firms have decided that it is more profitable actually to manufacture and assemble their industrial goods in South America than it is merely to export finished goods to South American markets. And this indicates that some have evidently decided that South American industrial prospects are sufficiently inviting for the investment of their capital.

Therefore, it seems fair to conclude that South America does have potentialities for industrialization, that she is developing her own industries in certain areas, and that foreign capital is building industry in certain other areas.

South American Foreign Trade

In the years immediately preceding the outbreak of the present world war in 1939, much publicity was given in America to Germany's efforts to attain a dominating position in South American trade. There was a time in which aski-marks, barter trade, and industrial subsidies were almost as widely discussed as Joe DiMaggio's batting average. Numerous tables were published by various periodicals showing that Germany was replacing the United States as South America's biggest customer and seller; and Carleton Beal's discussion of "The coming struggle for Latin America" and its successor, *Pan America*, became non-fiction best-sellers.

The significant fact that seemed to escape the popular attention was that Germany's increasing importance in South American trade was being gained at the expense, not of the United States, but of Great Britain. Evidence of this fact and also of the general distribution of South American foreign trade is the following chart presented by the Pan American Union:[1]

Table 4

DISTRIBUTION OF LATIN AMERICAN TRADE

IMPORTS

Year	From England	From Germany	From Japan	From the U.S.A.
1910	26.0%	15.6%	0.1%	23.5%
1911	25.7	16.7	0.1	23.8
1912	24.8	16.7	0.1	24.5
1913	24.4	16.6	0.1	25.0
1932	16.3	9.4	1.1	32.3
1933	18.1	11.5	1.8	29.2
1934	17.3	9.9	2.8	30.1
1935	14.7	13.0	3.7	31.7
1936	14.3	15.4	2.8	34.0
1937	13.2	15.4	2.8	34.0
1938	11.8	16.5	2.7	34.6

EXPORTS

Year	To England	To Germany	To Japan	To the U.S.A.
1910	20.9	11.1	0.1	34.5
1911	21.0	12.9	0.1	34.3
1912	19.8	11.9	0.1	30.8
1913	21.2	12.4	0.1	30.8
1932	19.4	7.2	0.1	32.1
1933	22.1	6.9	0.3	29.4
1934	20.2	7.9	0.4	29.4
1935	18.6	8.0	0.8	32.8
1936	19.2	8.0	1.9	32.8
1937	17.7	8.76	1.6	31.0
1938	16.1	10.3	1.3	31.3

[1]Latin American Foreign Trade, Foreign Trade Series, no. 178, published by the Pan American Union, 1940.

These figures make it clear that, in the years from 1934-1938, while the United States' share of South American trade remained relatively the same, Germany's increased and England's decreased. Hence, it seems reasonably sure that while there appears to have been just such a trade war in South America as Beals describes, that trade war saw England, and not the United States, the loser to Germany.

There remains, however, the important question of what has happened to the distribution of South American trade since the outbreak of the war. We know that before the war about 55 per cent of all South American exports went to Europe, 20 per cent to England, and 35 per cent to all of continental Europe. At present Latin American trade with continental Europe has practically ceased, and so for the duration of the present war about one-third of South America's export market will be cut off. While this affects most of her export commodities, those which have been hit the hardest are cereals, coffee, cacao, bananas, sugar and petroleum.[1]

Much of the resulting slack in South American trade has been taken up, as we might expect, by the United States. Complete figures on this question are at present not available, but the Department of Commerce gives us a picture of the recent increase in the monetary quantity of United States-South American trade which would indicate that the United

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[1]Latin America as a Source of Strategic and Other Essential Materials, Op. Cit., p. 7.

States has taken up much of the slack in South America's lost export markets:[1]

Table 5

QUANTITY OF U.S.A.-SOUTH AMERICA TRADE

U.S. EXPORTS TO SOUTH AMERICA

Area	1939	1940	1941*
South America as a whole	$329,385,892	$337,537,964	$330,692,917
Argentina	71,113,502	91,068,065	65,890,553
Brazil	80,440,605	82,558,838	94,429,387
Chile	26,788,855	32,598,760	35,782,906

U.S. IMPORTS FROM SOUTH AMERICA

Area	1939	1940	1941*
South America as a whole	$317,264,863	$280,286,914	$469,643,320
Argentina	61,920,227	59,776,716	124,178,373
Brazil	107,243,279	73,219,417	115,704,649
Chile	28,233,812	47,419,657	77,195,897

That the United States has done much to take up the slack left by the loss of South America's European markets and sources of supply cannot be doubted in view of these figures. Note, for example, how from 1940 to the first nine months of 1941, how United States imports from South America as a whole jumped from $280,286,914 to $469,643,320, how imports from

[1] Monthly Summary of Foreign Commerce of the United States, published by the United States Department of Commerce, Division of Foreign Trade Statistics, December 31, 1938-October 31, 1941.

*Figures are for the nine months from January to September, 1941, the latest figures available on this question.

Argentina were more than doubled, how imports from Brazil were nearly doubled, and how imports from Chile jumped from $47,419,657 to $77,195,897. If trade, as Secretary Hull believes, makes for international friendship, then here indeed is an excellent opportunity for the United States to lay a solid economic basis for its Good Neighbor policy.

We know, then, that since 1911 the United States has been South America's greatest single customer and source of supply; we know that Germany's trade advance in the pre-1939 years was at the expense of Great Britain's trade with South America and not at the expense of United States trade; and we know that since the war began in 1939 South America has of necessity turned to the United States to take up the slack left by the loss of one-third of its total export markets. How the United States has cooperated in such a situation we shall see in Chapter VI.

The conclusion to be drawn from the final section of this chapter, then, is that the United States, because of her trade position, has been an important factor in the economic life of South America, and that she is an even more important factor today. Therefore, any trade policies which the United States might pursue today or has pursued in the past, whether they are economic nationalism or other policies, are bound to have an important effect upon the economic and financial life of the southern republics.

CHAPTER IV

INTERNAL CONSEQUENCES

In attempting to discuss what political consequences American economic nationalism has had in South America, the author deems it advisable to distinguish between internal consequences, or consequences whose effects have been felt largely within the borders of the various South American nations, and external consequences, or the effect of American economic nationalism upon South America's recent political and diplomatic relations with the United States. The former category will be discussed in this chapter, and the latter in the next two chapters.

The Impact

As we have already seen, the Hawley-Smoot Tariff Act of 1930 was the culmination of America's developing post-war protectionist policies. It not only reduced the number of commodities from South America which could enter the United States duty-free, but it raised the existing rates on all but a very few dutiable goods. The effect of the act on the most important products which South America normally exports to the United States is shown by the following chart drawn from

Department of Commerce reports cited by the Foreign Policy Association:[1]

Table 6

1930 TARIFF ACT'S EFFECTS ON

SOUTH AMERICAN EXPORTS TO THE U.S.

Country	Product	Unit	Old Rate	New Rate
Chile	Potassium nitrate	lb.	½¢	5½¢
Argentina	Poultry	lb.	6¢	10¢
Argentina	Corn	bu.	15¢	25¢
Brazil	Brazil nuts	lb.	1¢	6¢
Argentina	Flaxseed	bu.	40¢	63¢
Chile	Onions	lb.	1¢	2¢
Argentina	Hides	piece	Free	10%

It is to be noted that more than two-thirds of South American exports to the United States still entered duty-free, but the remaining one-third included a number of products which made up the bulk of the exports of certain individual South American nations, notably Argentina, as the above table testifies, and Uruguay, with Chile being hit to a somewhat lesser extent.[2] This, then, was the impact of American tariff

[1]Compiled from Department of Commerce reports by Lewis W. Jones, "The Tariff and American Foreign Trade", Foreign Policy Reports, VII, no. 7 (June 12, 1929), published by the Foreign Policy Association, Information Service, New York. These reports will hereinafter be referred to simply as the Foreign Policy Reports.

[2]Charles A. Thomson, "Toward a New Pan-Americanism", Foreign Policy Reports, XII, no. 16 (Nov. 1, 1936), p. 211.

policies upon the nations of South America.

In 1933 the United States devalued her dollar to 59 per cent of its former value. This move was conceived of in the United States as a purely domestic policy designed to raise the general price level; but, as in the case of so many other "purely domestic" policies, this act was to have certain important international consequences. As long as the South American nations retained their monetary units at a fixed value, the American dollars they obtained in exchange for their goods were bound to buy less imported goods. Consequently, such a currency depreciation in the United States was in effect an additional levy upon their exports. And, except where their own currencies depreciated, as most of them ultimately did, this action of the United States had the effect of imposing an additional tariff of 41 per cent upon their goods.[1]

A third, and perhaps more direct method of American economic nationalism employed against South American goods was that of the use of certain administrative controls, quarantines, sanitary measures, and embargoes. The most important of these was the 1930 ruling of the Department of Agriculture that henceforth no beef or fresh, chilled, or frozen meat could be imported from any nation where contagious cattle

[1]Maxwell S. Stewart, "Tariff Bargaining under the New Deal", Foreign Policy Reports, X, no. 6 (May 23, 1934), p. 72.

diseases are present. This protection Percy Bidwell terms "biological protection", and he points out how European governments taught the United States this trick 40 years previously when they maintained embargoes on United States pork products long after the danger of trichinosis had been eliminated.[1] Argentina and Uruguay felt the impact of this ruling since both nations had large areas which were infected with hoof and mouth disease. The fact that this was not a purely biological and sanitary measure is shown by the barring of meat products from all areas of Argentina and Uruguay, and not just from the infected areas.[2] The significant consequences of this particular item of economic nationalism we shall discuss at length below.

In the early 1920's the United States Government decided that it should exercise a degree of control over private American loans to South America. This, again, was conceived as a domestic measure of safety; and again, as it worked out, it became to a degree a method of economic nationalism, even though it was not designed as such. In 1922 the State Department made clear its intention of having private American bankers consult them on all prospective loans; the decision was announced in these words:

[1] Percy Bidwell, The Invisible Tariff, Op. Cit., p. 17.

[2] Ibid., p. 18.

"Responsible American bankers will be competent to determine what information they should furnish and when it should be supplied (concerning prospective loans to foreign governments and corporations). . .The Department of State cannot, of course, require American bankers to consult it. . .The Department believes that in view of the possible national interests involved, it should have the opportunity of saying to the underwriters concerned, should it appear advisable to do so, that there is or is not objection to any particular issue."[1]

In line with this official policy, almost all loans made by American bankers to foreign governments or citizens, especially those to "unstable" governments, such as many of the South American governments were considered to be, were passed upon by the State Department before they were consummated. Some of these loans, with tacit government approval, were accompanied by such stringent conditions as to give certain private individuals in the United States virtual control over the domestic affairs of certain South American nations. An example of such a loan is afforded us by the loan of $33,000,000 made to the Government of Bolivia on May 31, 1922, by the Stiffel and Nicolaus Investment Company, Spencer Trask and Company, and the Equitable Trust Company, all private United States banking firms. The security required and given for this loan consisted of these conditions:[2]

1. A controlling share of the stock of the Banco de la Nacion Boliviana.

2. All revenues representing dividends on these shares

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[1]State Department Release of March, 1922, cited in *Foreign Policy Reports*, III, no. 3 (April 13, 1927), p. 38.

[2]Cited in Scott Nearing and Joseph Freeman, *Dollar Diplomacy* (New York: The Viking Press, 1925), pp. 30-32.

of stock.

3. The tax upon mining claims or concessions.

4. Revenues from the alcohol monopoly.

5. 90 per cent of the revenue received by the Republic from the tobacco monopoly.

6. The tax on corporations other than mining and banking.

7. The tax upon the net income of the bank.

8. The mortgage tax.

9. The tax upon the net profits of mining companies.

10. All import and export duties.

11. All funds, revenues and taxes allocated by special laws to the construction of the Potosi-Sucre and Villazon-Atocha railroads.

The administration of the loan was placed in the hands of a special board, the majority of votes being held by representatives of the American bankers. This board was, in effect, the real government of Bolivia for the five-year term of the loan.

Of course the mere fact that the State Department was consulted about this loan before it was made is no proof that the United States Government was officially behind such a loan policy. Nevertheless, in the minds of most South Americans, especially Bolivians, the activities of the American bankers in Bolivia were associated inevitably with the American government; and resentment against one was almost sure to be directed against the other.[1] That this feeling spread southward and eastward from Bolivia is shown by the fact that "La Argentina Economica, in reporting the meetings of 1925, expressed the fear that Argentina is slowly permitting herself to be caught as a debtor nation with every danger to her

[1] *Ibid.*, p. 33.

sovereignty because of North American policies toward such nations."[1]

This method of economic nationalism was perhaps the least-used and least important method applied against South America. It was almost perhaps the most indirect. Such loans as the one described above were few, and, as the 1920's drew to a close, they virtually ceased to be negotiated.

This, then, was the impact of four principle methods of American economic nationalism in South America. While many of them were not initiated in the United States as measures of economic nationalism but rather as measures of domestic security, they were nevertheless deeply felt in South America, especially in Argentina and Uruguay, and, to a lesser extent, in Chile, Bolivia, Peru and the other southern republics. South America's growing dependence upon the United States to take a good portion of her exports at a good price was bound to make, as it did make, any policy hurting the profitableness of that trade deeply felt.

South American Reaction

As we have pointed out, the Tariff Act of 1930 affected Argentina and Uruguay much more strongly than any of the other South American nations. The rate increases affected 87 per cent of the total value of Argentina's exports to the

[1] Cited in Clarence H. Haring, South America Looks at the United States (New York: The Macmillan Company, 1928), p. 91.

United States, and 84 per cent of Uruguay's exports to us. 13 per cent of Peru's exports were affected, and the percentage varied around 2 per cent for the other southern republics.[1] Therefore we might expect that the strongest popular and governmental reaction in South America against the Hawley-Smoot Act would be found in Argentina and Uruguay.

That is exactly what happened. In Argentina the Union of Agrarian Producers sent President Irogoyen a long note, pointing out that the duties on flaxseed and corn were nearly half the Argentine price. They urged that a new interpretation be given to the most-favored-nation clause in Argentina's commercial treaties so that tariff concessions would be extended only to nations which granted similar advantages to Argentina. Various groups, like the Argentine Rural Society and the Association of Haberdashers, sent around circulars urging all good Argentinians not to buy United States goods.[2]

This strong feeling against the American policy in Argentina was apparently due as much to the manner in which that policy was instituted as in its effects upon the Argentine economy:

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[1]Lawrence B. Mann, "Foreign Reactions to the American Tariff Act", Foreign Policy Reports, VI, no. 15 (Oct. 1, 1930), pp. 269-276.

[2]*Ibid.*, pp. 274-275.

> "Some time after the enactment of the present American customs tariff, a prominent Argentine statesman gave a public lecture on the economic situation of his country, laying particular stress on the unfavorable effects of that measure on Argentine affairs; later, in discussing this lecture with some Argentine friends, I heard less recrimination against the tariff itself, since, after all, it was a measure dictated by American necessity, than against the lack of any manifestation of sympathy or consideration toward the countries who were to suffer from its effects."[1]

Apparently there was the feeling in Argentina that the United States would ride rough-shod over Argentine interests any time it would be at all expedient for her to do so. And so the popular bitterness against the United States continued to mount in the Argentine.

Uruguayan popular reaction was much the same. One of the leading newspapers, La Manana, conducted an active campaign urging the South American republics to join in a boycott of United States goods. The Federation of Uruguayan Rural Societies urged the government to place restrictive taxes on automobiles and, if necessary, to ban them as a part of a program of reprisal against the United States, automobiles then being the United States' biggest export to Uruguay.[2]

In Peru, third hardest-hit of the southern republics, there was also a considerable reaction. The Speaker of the Peruvian Chamber submitted a bill authorizing the calling of

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[1]Eugene Stein, "Latin America Dislikes Us", Atlantic Monthly, CXLIX (February, 1932), p. 246.

[2]Lawrence B. Mann, Op. Cit., p. 275.

a congress of all South Americans that would be affected by the proposed increase in American duties on copper, petroleum and mineral products, at which the South American countries would organize a united front against American economic nationalism.[1] Peruvian Foreign Minister Alberto Freundt Rosell summarized the Peruvian reaction thus:

> "Passage of the proposed duty on copper would mean absolute ruin to Peru and Chile, so we have no alternative but to take concerted action. It would cause the immediate closing of the Ceno de Pasco Company, throwing between 10,000 and 12,000 men out of work, followed by paralyzation of the Central Railroad of Peru, isolating the interior from the capital, and decreasing by 30 per cent Peru's customs revenue, which is the main source of our government's income."[2]

The bill was passed in a modified form, and while the united front against United States goods never materialized, the passage of the bill shows, nevertheless, the sudden growth of much resentment against American tariff policy.

The most striking, and perhaps the most important single item of South American resentment against American economic nationalism, however, was the feeling in Argentina against the sanitary regulations of 1930 which excluded their meat and meat products from the United States on the grounds discussed above.[3] The far-reaching effects of this act on Arg-

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[1] William J. Bruce, Some Evidence of Foreign Retaliation to the Hawley-Smoot Tariff Act of 1930, unpublished Master of Arts thesis, Department of Political Science, University of Oregon, July, 1935.

[2] Cited in "Latin America Threatens to Hit Back at the Tariff", Business Week (May 25, 1932), p. 24.

[3] See p. 61 above.

entina's relations with the United States we shall see in the next chapter.

There appears to be some evidence for the contention that the Hawley-Smoot Act was indirectly responsible in part for the 1930 revolution in Argentina. One of the basic conflicts in Argentine politics since the days of the revolution from Spain has been that between the outlying or rural provinces and the province of Buenos Aires. During the 1920's there was a growing feeling in the rural provinces that Buenos Aires was not furnishing sufficient tariff protection for the products of the provinces. Upon the news of the passage of the Hawley-Smoot Act, President Irogoyen was besieged by various business groups, especially those in the rural provinces, to raise the Argentine tariff against American goods. The Union Industriel Argentina carried on an extensive program of propaganda for just such a move. On August 22, 1930, the cotton growers presented a long memorial demanding a higher tariff. But Irogoyen delayed and delayed in raising the tariff, and shortly afterward there came a bloodless revolution which culminated in the deposition of Irogoyen and the accession of the provisional government of General Uriburu. One of the new government's first acts was to pass an act increasing all tariffs by the flat rate of 10 per cent. Therefore it seems reasonable to conclude that Irogoyen's delay in initiating a reprisal against the Hawley-Smoot Act was at least one of the major causes for the Argentine revolution of 1930.[1]

Therefore, by far the strongest reaction against the Hawley-Smoot Act and American economic nationalism generally was found in Argentina, which had been hit the hardest by that economic nationalism. There was not only much popular protest and ill-feeling uncovered against the United States, but American tariff policy actually played a part in changing the Argentine government. Protest was also strong in Uruguay and Peru, the other two nations affected most strongly by the Act of 1930, but its repercussions were felt in varying degrees in all the southern republics. The consensus among them seemed to be that the United States had hit them the hardest just when they were weakest from the depression, and there was considerable talk of the new kind of "Yanqui Imperialism."[2] The South American reaction, in short, was neither mild nor friendly in most of the southern republics.

South American Reprisals

In discussing South American reprisals to American economic nationalism, it is well to note that these reprisals

[1]This is the conclusion reached by Ernest Galarza, "Argentina's Revolution and its Aftermath", Foreign Policy Reports, VII, no. 17 (October 28, 1931), pp. 313-319, from which much of this material has been taken.

[2]Wallace Thompson, "Tariff Problems in Latin America", Annals of the American Academy of Political and Social Science, CXLI (January, 1929), pp. 235-236.

were not just annoyed, "I'll get back at you", methods of revenge, though that element doubtless entered into their initiation; rather they were measures which the South American governments deemed absolutely necessary for their economic survival. We have seen how the exporting of certain basic commodities is the mode by which South America up to the present time has survived; and if those exports are reduced in value and profitableness by foreign measures of economic nationalism, South America has no choice but to reply in kind, not only to attempt thereby to gain tariff concessions, but also to attempt to preserve the home market. In making certain that they would not buy more than they could sell, the southern republics employed these four main methods of retaliation, which came to constitute their own brand of economic nationalism:

1. Tariffs. In Argentina the Uriburu provisional government in 1931 instituted a 10 per cent blanket increase in all tariff rates, and added a surcharge of 20 per cent on all imports not covered by prior exchange permits, or, in other words, 20 per cent extra on goods from those countries who sold more to Argentina than they bought from her.[1] The other South American nations raised their tariffs in varying degrees. Colombia and Brazil retained their import duties approximately level, while Uruguay and Chile raised

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[1] Howard J. Trueblood, "Trade Rivalries in Latin America", Foreign Policy Reports, XIII, no. 13 (Sept. 15, 1937), p. 156.

their rates somewhat. The highest tariff in all South America, however, was instituted in Venezuela. Today the Venezuelan tariff averages 60 per cent ad valorem, which is an extremely high average rate.[1] And this high tariff, together with Venezuela's concentration on oil as a commodity for production, has produced a scale of prices in Venezuela which inevitably keeps the standard of living very low for most of its people. For example, bacon is $1.28 a pound, milk 24 cents per quart, butter $1.22 a pound, tea $2.24 per pound, an Arrow shirt which costs $1.50 in the United States is $7.25 in Caracas, and a package of American cigarettes costs 48 cents.[2] Venezuela is the extreme case, but tariff barriers in South America, generally speaking, are high.

2. Exchange Control. Most of the southern republics found that juggling of tariff rates was a slow, clumsy and inneffectual method for ensuring some kind of a market for their exports; it was also far too indirect a method to suit their purposes. The only thing to do was to find another, quicker, more direct method. The instrument which most of them ultimately chose was that of exchange control, which has become by far the most widely used and certainly the most effective instrument of South American economic nationalism.[3]

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[1]John Gunther, Inside Latin America (New York: Harper and Brothers, 1941), p. 178.

[2]Ibid., pp. 176-177.

[3]Herbert M. Brattner, "Foreign Exchange Control in Latin America", Foreign Policy Reports, XIV, no. 23 (Feb. 15, 1939), p. 288.

The methods employed in exchange control, very briefly, may be illustrated thus: an Argentine importer has negotiated to buy 100 Ford cars from a United States exporter. Before he can claim title to those cars, he must pay the American exporter in dollars. In order to obtain those dollars, or credits, or foreign exchange, he must go to the Argentine government with however many Argentine pesos are equivalent to the price of the cars in American dollars. However, the Argentine government does not have to grant the importer that exchange, even though his cars may be in the harbor waiting to be unloaded. They may say to him, "Look here, my friend; the United States has already sold us as much as we have sold to them this year. We cannot afford to dip into our national wealth, either governmental or private, to buy more exchange from the Americans. Therefore, we cannot grant your request for exchange." And the disappointed importer goes home cursing his government, the United States government, and the Hawley-Smoot Tariff Act.

Just how widespread this practice of exchange control is as a method of keeping imports balanced with exports, can be seen in the following summary of conditions as they exist today in South America:[1]

Argentina. Exchange control was first inaugurated in

[1] Ibid., pp. 280-287; situation as of February, 1939. Some discussion will be presented subsequently as to what has happened to South American systems of exchange control since that time.

1931, and the present basic system in 1933. The so-called "free market" for commodity exports is controlled by the government, and there is no "black market" existing where importers may buy a little cheap and illegal foreign exchange. About 90 per cent of the proceeds of Argentine exports are sold to the government at an officially-set rate. Certain commodities not deemed essential are excluded in favor of others by means of denying exchange for their purchase. Argentina favors trade with selected countries (who buy from her), has an import licensing system, and usually grants or denys applications for exchange with no delay. United States exports are at a disadvantage compared with those of other nations.

Bolivia. First instituted exchange control in 1931, and present basic system was inaugurated in 1938. The "free market" is controlled by the government, but there exists a "black market" for the illicit sale of exchange. The amount of exchange proceeds coming from Bolivian exports going to the government varies around 90 per cent. Bolivia excludes non-essential commodities, and often grants exchange applications after a considerable delay. United States exports have the same general status as exports from other nations.

Brazil. First instituted exchange control in 1931, and started present basic system in 1937. There is no free market whatsoever, and there is no black market for importers. 100 per cent of the exchange proceeds from her exports go to the government at an official rate. She favors trade with selected nations through clearing or compensation agreements, and usually grants applications for exchange after some delay. United States exporters are in a preferred position compared to those of other nations.

Chile. Inaugurated her basic system of exchange control in 1931 and has not changed it since. The free market is controlled by the government, and there is no black market. The percentage of exchange proceeds from exports delivered to the authorities at an official rate varies around 90 per cent. She excludes various non-essential commodities in favor of others deemed more necessary, and she favors trade with selected countries through clearing and compensation agreements. She has an import licensing system and grants exchange applications usually with some delay. United States exporters are at a disadvantage compared with those of other nations.

Colombia. First established exchange control in 1931, and inaugurated her present basic system in 1937. There is no free market for importers, but there is a black market where they can get cheaper exchange illegally. 100 per cent of Colombian export exchange proceeds go to the government at an official rate. She excludes certain non-essential commodities in favor of others, favors trade with selected countries through clearing or compensation agreements, has an import licensing system, and grants exchange applications promptly. United States exporters are neither at an advantage or a disadvantage compared to those of other nations.

Ecuador. Ecuador started a system, but abandoned it in 1933.

Paraguay. First instituted exchange control in 1932, and installed her present system in 1938. There is neither a free market nor a black market where cheap exchange may be obtained. 100 per cent of Paraguayan export exchange proceeds go to the government at an official rate. Paraguay excludes non-essential commodities in favor of others, and grants exchange permits with no delay. United States exporters are treated the same as those of all other nations.

Peru. Has never had any kind of exchange control.

Uruguay. First inaugurated exchange control in 1932, and instituted her present system in 1934. Here a free market exists only for those few purposes as the government approves, and there is no black market for exchange. Percentage of export exchange proceeds going to the government varies around 90 per cent. She excludes various non-essential commodities in favor of others, and favors trade with selected countries. Uruguay has an import licensing system, and grants or denies exchange permits immediately. United States exporters are at a disadvantage compared with various other nations.

Venezuela. First instituted exchange control in 1936, and put in her present system in 1937. Here the free market is permitted to function without government interference, and consequently there is no black market. All export exchange proceeds go to the government at a very attractive official rate. Venezuela excludes certain non-essential commodities in favor of others. She has an import licensing system, and grants exchange applications promptly. United States exporters are treated the same as those of all other nations.

Hence, of the ten South American nations, only two, Ecuador and Peru, have no exchange control system, and only one, Peru, has never had such a system. This spread of economic nationalism in South America appears to be principally a child of the depression, and we may believe that when prosperity returns to South America and other areas relax their methods of economic nationalism, these exchange control systems will be relaxed or abolished and trade will follow a more normal course.[1] And that the Good Neighbor policy of President Roosevelt and Secretary Hull has already had some effect in causing the relaxing of these systems we shall see in Chapter VI.

3. Currency Depreciation. We have already seen that the quickest and best answer to currency depreciation in foreign

[1] Ibid., pp. 287-288.

nations is domestic currency depreciation. And with almost every nation in the world reducing the value of their basic monetary units, the South American nations had but little choice to reduce their own moneys. And so, by June, 1935, the following was the situation in western hemisphere currencies:[1]

Table 7

HEMISPHERE CURRENCY DEPRECIATION

Country	Percentage Discount from Gold Parity
Venezuela	19
United States	41
Peru	50
Uruguay	54
Bolivia	58
Argentina	63
Colombia	67
Ecuador	72
Brazil	73
Chile	80

4. Non-Payment of Debts. During the years from 1930 to 1934, almost all of the southern republics defaulted on their debts to the United States. In assessing the causes for this default, Maxwell Stewart lists the following as the most important:[2]

1. Increased United States tariffs.
2. United States Government aid to its merchant marine.
3. The piling up of gold in the United States.

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[1]League of Nations, Monthly Bulletin of Statistics (July, 1935), cited in John C. deWilde, "Currency Stabilization and World Recovery", Foreign Policy Reports, XI, no. 13 (August 28, 1935), p. 158.

[2]Maxwell S. Stewart, "American Commercial Policy and the World Crisis", Foreign Policy Reports, VIII, no. 6 (May 25, 1935), pp. 73-77.

So it seems clear that, while other factors entered into the South Americans' reluctance to part with what little money they had left, American economic nationalism played an important part. It is doubtful if the southern nations would have made any any very considerable payments during the depression years, but American economic nationalism destroyed even that small possibility by restricting the entrance of South American products into the United States; and this was about the only means the southern nations had for paying their debts to the United States.

These, then, were the South American reprisals against the economic nationalism of the United States. They grew out of the demanding necessity of economic survival of the South American nations, and they were to have a significant effect upon South American trade with the United States.

Consequences to Trade with the United States

From 1929 to 1932, South American imports from the United States decreased by the following percentages:[1]

Table 8

DECREASE OF SOUTH AMERICAN IMPORTS, 1929-1932

Country	Amount of Decrease
World Average	60%
Chile	87

[1]Dudley M. Phelps, "Industrial Expansion in Temperate South America", American Economic Review, XXV (June, 1935), p. 277.

(Country)	(Amount of Decrease)
Peru	78%
Brazil	75
Argentina	78

In total value, United States exports to South America dropped from $911,749,000 in 1929 to $215,944,000 in 1933; United States imports from South America dropped from $1,-014,127,000 in 1929 to $316,040,000 in 1933. Nor can we allege that the depression was the sole cause (as it was admittedly the major cause) for this drop inasmuch as the relative share of this trade going to Great Britain, Italy, Japan and Germany materially increased.[1] The cause may be found in part in the measures of reprisal instituted by the South American nations as discussed above.

By the major South American powers, the so-called "ABC" powers, the story of the decrease of South American trade with the United States between 1929 and 1932 is this:[2]

Table 9

EXPORTS TO THE UNITED STATES

Country	1929	1930	1931	1932
Argentina	89,002* (9.8%)**	49,639 (9.7)	25,853 (6.1)	11,266 (3.4)

[1]Graham H. Stuart, Latin America and the United States, 3rd edition (New York: D. Appleton-Century Company, 1938), p. 14.

[2]Compiled from United States Department of Commerce, Commerce Yearbook, 1932 through 1937, Government Printing Office, Washington, D.C.

*In thousands of dollars.

**Percentage of trade with United States to total trade.

(Country)	(1929)	(1930)	(1931)	(1932)
Brazil	192,480 (42.2%)	126,316 (40.6)	104,588 (43.8)	83,627 (46.3)
Chile	70,246 (25.4)	40,804 (25.4)	33,965 (30.4)	7,773 (28.1)
IMPORTS FROM THE UNITED STATES				
Argentina	216,112 (26.4)	136,204 (22.1)	54,420 (15.8)	29,968 (13.5)
Brazil	125,552 (30.1)	60,638 (24.2)	33,212 (25.1)	32,532 (30.1)
Chile	62,775 (32.2)	56,457 (33.4)	29,354 (34.2)	3,909 (23.1)

Aside from the fact of the sharp drop in the monetary value of United States trade with the ABC powers between 1929 and 1932, the most interesting thing to note is this: while Brazil and Chile retained a relatively stable percentage of their trade with the United States, Argentina's percentage of trade with American dropped off considerably. That drop was from 9.8 per cent of her exports in 1929 to 3.4 per cent in 1932; and from 26.4 per cent of her imports in 1929 to 13.5 per cent in 1932. Again it is difficult to assert that American economic nationalism was the sole or even the dominating cause for that drop. But we do know that American economic nationalism hit Argentine the hardest of all the South American nations and that the reaction, both popular and governmental, was strongest against the United States in the Argentine. Therefore, these figures, in the light of what we have already discovered of the consequences of American economic nationalism in Argentina, would seem to indicate that that economic nationalism very well may have played an important part in reducing both Argentina's total trade with the United States, and the percentage of all her foreign trade in which the United States was a participant.

Consequences to South American Prosperity

We have seen how important United States trade and the American market are to South American nations. It therefore seems likely that anything which so materially reduced South American trade with that market as American economic nationalism had a hand in doing must inevitably be injurious to South American prosperity. Some interesting figures on what happened to South American purchasing power and general prosperity are these:[1]

Table 10

INDEX OF SOUTH AMERICAN PROSPERITY

Year	Index of South American Purchasing Power*	Value of South** American Exports	Estimated Quantum Index
1929	152.9	3,167	100.0
1930	116.6	2,248	93.2
1931	83.7	1,704	98.3
1932	69.5	1,177	81.8

[1]Howard J. Trueblood, "Trade Rivalries in Latin America", Op. Cit., p. 155.

*Based on 1926 as 100.

**In millions of gold dollars.

(Year)	(Index of South American Purchasing Power)	(Value of South American Exports)	(Estimated Quantum Index)
1933	62.8	1,061	81.6
1934	59.7	1,085	87.7
1935	59.3	1,118	91.0
1936	64.7	1,252	91.9

It would be less than the truth to assert that the sharp drop in South American prosperity shown by the above figures from 1929 to 1934 is due entirely to American economic nationalism. Certain such factors as the general world-wide depression, general lack of industrialization and diversification of industry and consequent lack of adaptability to new conditions doubtless played more significant roles than the foreign trade policies of any one nation. However, what we have discovered before concerning the importance of the United States market to South American prosperity gives us some basis for concluding that American economic nationalism played a part, if not a dominating part, in aggravating the more basic factors of depression and the inflexible one-crop economies to create misery and poverty in South America.

Effect on South America's Attitude toward the United States

In discussing so elusive a subject as the attitude of one nation or group of nations toward another, generalizations are always to be scanned carefully. Nevertheless, it seems clear that there are certain threads which have more or less consistently run through South American thinking about the United States; and these threads can be analyzed and made clear if scrutinized closely enough. It is those threads which this final section will consider.

Despite all of the United States' efforts to woo South America's friendship from the days of James G. Blaine to the present administration, there has remained a residue of fear, distrust and dislike of the United States. Clarence Haring tells us that often South American political candidates have ridden into office on a platform of inveighing against "Yanqui Imperialism" and viewing with alarm "El Peligro Yanqui", just as American demagogues have capitalized on such slogans as "Keep King George out of Chicago", and "Red Radicals shall never befoul this fair city." Haring concludes that the success of such Yankee-baiting is due in large part to this residue of anti-American feeling which seems, like death and taxes, always to be with us.[1]

Much of this anti-Yankeeism has been produced by some of South America's greatest writers and poets, many of whom often have gone out of their way to take a crack at the northerners. In his excellent survey of South American literature, Dr. Isaac Goldberg sums up the general attitude of South American writers toward the United States thus:

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[1]Clarence H. Haring, Op. Cit., pp. 8ff.

> "At best (always speaking generally) we are in their eyes as yet too engrossed in material ambitions to give attention to spiritual considerations; at worst, we are an intriguing nation that despoiled Mexico of Texas and California, despoiled Spain of Cuba, despoiled Colombia of Panama, and who now, under the shield of the Monroe Doctrine and an alleged Pan-Americanism, cherish imperialistic designs upon the entire southern continent."[1]

One excellent example of this school of South American writers is Manuel Ugarte, an Argentine writer and lecturer, whose outstanding work, The Destiny of a Continent, is filled with warnings against "The Yankee Peril" and the fear that the United States wishes to make the whole hemisphere its plaything.[2] A perusal of this book is recommended for all those who believe that the South Americans have been induced by our movies and our salesmen to love us like brothers. For example, here is one more or less typical passage warning South Americans of the Yankee threat:

> "But when our republics, fettered by imperialism from the political, diplomatic, or economic point of view, find themselves obliged, in a few decades' time, to bow in some form or another to a continental Platt Amendment, somebody will recall the fact that there was a writer who, amid mockery, silence, and insults, preached from the beginning a joint resistance of the South, the only policy which can save us."[3]

Another distinguished South American writer who was greatly worried about the Yankee peril was F. Garcia Calderon,

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[1] Isaac Goldberg, Studies in Spanish American Literature (New York: Brentano's, 1920), pp. 95-96.

[2] Manuel Ugarte, The Destiny of a Continent, translated by Catherine A. Phillips (New York: Alfred A. Knopf, 1925).

[3] Ibid., pp. 280-281.

the historian and publicist, whose book, Latin America: Its Rise and Progress, is one of the outstanding histories of Latin America written by a Latin American. He talks much of the basic conflict between Latin America and the United States, with the fear that in such a conflict the United States must win unless the South Americans present a united front against the northerners.[1] Nor is his fear of the United States restricted to vague intimations of some future invasion of the southern continent. He spends considerable time pointing out the menace of the economic nationalism of the United States, especially her loan policy, for South American independence and prosperity. The passage in which he makes this point is quite typical of his whole outlook:

> "The New York American announces that Mr. Pierpont Morgan proposed to encompass the finances of Latin America by a vast network of Yankee banks. Chicago merchants and Wall Street financiers created the Meat Trust in the Argentine. The United States offer millions for the purpose of converting into Yankee loans the moneys raised in London during the last century by the Latin American states. They wish to obtain a monopoly of credit."[2]

Now much of this backlog of anti-American feeling in South America has been produced by factors which are non-economic in nature. The activities of the United States in the Mexican War, in its somewhat questionable manner of obtaining the Panama Canal Zone, in keeping order in Cuba, in

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[1] F. Garcia Calderon, Latin America: Its Rise and Progress, translated by Bernard Miall (New York: Charles Scribner's Sons, 1915), p. 391.

[2] Ibid., p. 304.

pacifying Haiti, Nicaragua and Santo Domingo---all these activities, while restricted to the Caribbean area, nevertheless contributed much to the general South American fear of the United States. The whole feeling growing out of the apparent United States policy of exercising its superior power to keep the South American countries in line may well be summed up in the oft-employed phrase, "The Colossus of the North."[1]

Another important factor producing this anti-United States feeling has been broad differences in the cultural backgrounds and traditions of the two sections of the hemisphere. It has been asserted that the cultural capitals of South America are Paris, London, and Madrid, and not New York and Chicago.[2] Such movements as Pan Latinism and Pan Hispanism were basically cultural movements, both founded on the idea that South America culturally was close to France and Spain, and not the United States. Many modern observers have noted that the South Americans tend to see Americans as a group of dollar-chasers who are uninterested in the finer things of life. Gunther notes a certain amount of this feeling in almost every South

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[1]This phrase brings to mind Shakespeare's lines from _Julius Caesar_ which might so well be applied by a South American to Uncle Sam:

> Why, man, he doth bestride the narrow world
> Like a colossus; and we petty men peep about
> 'Neath his huge legs, to seek ourselves
> Dishonorable graves.

[2]Clarence H. Haring, _Op. Cit._, Ch. III.

American nation he visited and observed. This cultural factor in producing the anti-American feeling in South American cannot, because of the nature of our study, be discussed at length here; suffice it to say that it exists, it is important, and we must never lose sight of it in assessing the causes for ill-will toward the United States in South America.

American economic nationalism, however, has played a significant part in the accumulation of this residuum of distrust and dislike of the United States, with its political implications and consequences. Probably President Taft began it all with his "dollar diplomacy", when he said in 1910:

> "While our foreign policy should not be turned a hair's breadth from the straight path of justice, it may be well made to include active intervention to secure for our merchandise and our capitalists opportunity for profitable investment which shall inure to the benefit of both countries involved."[1]

Then came our high tariff policy of the 1920's, which produced much ill-feeling toward the United States in South America, especially in Argentina. Haring observes:

> "A criticism of the economic policy of the United States frequently heard has to do with the American protectionist regime. It appears oftenest in Argentina where the grievance is most felt. North American tariff barriers undoubtedly stand in the way of trade between the Argentine and the United States in so far as they shut the American market to the former's typical exports such as meat, butter, and other agricultural products. It thus draws Argentina into closer relations with European markets, whose competition with American manufactures is becoming a factor of ever-increasing importance in the economic recovery of the Old World."[2]

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[1]Cited in Nearing and Freeman, Op. Cit., p. 266.

[2]Clarence H. Haring, Op. Cit., p. 96.

But why, one might quite properly ask, should American economic nationalism be more resented in South America than British or German or French policies of the same nature? The answer seems to be, first, that the "halo effect" from our Caribbean activities seems to carry over to everything else we do; in short, the presumption always seems to be against us;[1] second, we have always emphasized selling South America our goods, and our attention has been centered on high-pressure methods of getting them to buy as much of our commodities as we can, and never on ways of adjusting our trade to our mutual benefit;[2] third, the European nations have no movement comparable to Pan Americanism, under the name of which fumbling, often awkward attempts at "cultivating friendship" can be contrasted by cynical South American authors to our practices of high tariffs and sanitary regulations; and fourth, the above-mentioned cultural differences and differences in cultural points of view make understanding difficult. Whatever the reason, it seems clear that American economic nationalism is more resented by South Americans than similar policies of the European nations.[3]

Specific resentment against American economic nationalism

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[1]Clarence H. Haring, Op. Cit., p. 93.

[2]Frank Henius, Latin American Trade (New York: Harper and Brothers, Publishers, 1941), pp. 10-11.

[3]Clarence H. Haring, Loc. Cit.

is by far the strongest in Argentina, as we have already pointed out. And while our tariffs, which, as we have seen, hit Argentina very hard, have caused considerable ill-feeling, the big controversy is that which has arisen over our banning of Argentine meat and meat products on sanitary grounds. This controversy might quite aptly be named "The Beef Beef." It is very significant to note in this connection that every present observer which the author has read goes out of his way to comment that Argentine resentment of the implication that Argentine beef is disease-bearing is a very major factor in anti-American feeling in the Argentine, both official and popular. In discussing why some Argentinians dislike the United States, Gunther lists "first and foremost, the crucial question of beef just mentioned, as well as commercial rivalry."[1] Hubert Herring, addressing himself to the same problem, lists as his third cause in importance the Argentine feeling ". . .the United States deals unfairly in trade, that we shut out Argentine beef by a subterfuge."[2]

James H. Ryan observes:

> "And why is Argentina almost unfriendly, not to Americans as individuals, of course, but to our Government? The reason is almost exclusively economic. The failure of the United States Government to ratify the Sanitary Convention and our refusal to admit Argentine frozen beef have developed a very critical attitude toward us, both

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[1]John Gunther, Op. Cit., p. 304.

[2]Hubert Herring, Good Neighbors (New Haven: Yale University Press, 1941), p. 81.

> on the part of the people, and, to a large extent, on the part of the Government."[1]

And, as Carleton Beals points out, the main objection of the Argentinians is not so much that we exclude their beef as it is that we do it on a hypocritical basis:

> "Technically, we exclude Argentine chilled meat on 'hygienic' grounds; we want to guard against the possible spread of hoof and mouth disease. Actually. . . Argentina is willing to have her meat submitted to as rigid a medical inspection as we might require. . .our desire is to protect the home market against competition from abroad. Argentina argues that our ban is hypocritical and unfair."[2]

And, almost as if to underscore this Argentine opinion, in 1935 the United States and Argentina signed a Sanitary Convention whereby meat would be admitted to the United States from those areas in Argentina which are completely free of the disease. The proposal was submitted to the Senate for ratification, and it has never been reported out of committee, due mainly to the work of farm-belt and protectionist Senators. Even most American writers now agree that our failure to ratify the Convention is a purely economic, protectionist action, and that defending it on sanitary grounds is pure subterfuge.[3] The Argentinians have even offered to bone all meat exports going to the United States, which would remove all possibility

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[1] James H. Ryan, "Some Observations and Conclusions after a Tour of South America", Annals of the American Academy of Political and Social Science, CCIV (July, 1939), p. 56.

[2] Carleton Beals, "Argentina vs. the United States", Current History, L (July, 1939), p. 28.

[3] Dudley M. Phelps, "The Evolution of Economic Cooperation in the Hemisphere", Inter-American Quarterly, III, no. 2 (April, 1941), p. 41.

of infection of American cattle; but the Senate will have none of it. Even such a token movement as the recent action of President Roosevelt in ordering some canned corned beef for the Navy has caused a storm of protest among the protectionists which has not yet died down.

In concentrating upon the "beef beef" we must not ignore the fact that Argentina is constantly disturbed by the fact that we normally sell more to her than we buy from her. As one observer points out, much of our effort to enlist Argentine cooperation has been colored by this fact:

> "Trade talks more loudly than anything else; and in the United States-Argentine trade a slump has come, especially in our purchases of Argentine products, which militates disastrously against arguments we use on the Argentinians to enlist their cooperation in Latin America. 'But you don't buy enough from us', is the retort--- in suave diplomatic Spanish, of course."[1]

It is important, then, to remember these two things about the South American attitude toward the United States: first, there is a backlog of ill-feeling toward America. It has been produced in considerable part by our somewhat unneighborly activities in the Caribbean from 1900 to 1920; it has been produced in part by certain broad and basic differences in our respective cultures; and it has also been produced in part by our policies of economic nationalism, especially in Argentina. We must remember that this feeling against the

[1] T.R. Ybarra, America Faces South (New York: Dodd, Mead and Company, 1939), p. 131.

United States in South America is in the nature of a backlog, in the sense that it is subject to considerable change, both of increase and decrease. Which of the two processes it is undergoing at present we shall see in the next chapters. The second thing to remember is that this ill-will is strongest in Argentina; and it is in Argentina that we can most clearly and directly lay a considerable part of the explanation for that backlog of ill-will to American policies of economic nationalism, particularly that of our exclusion of Argentine meat on sanitary grounds.

CHAPTER V

EXTERNAL CONSEQUENCES: THE CONFERENCES

In discussing the external political consequences of American economic nationalism toward South America the author has deemed it advisable to split the discussion between the consequences which emerged from the political and diplomatic relations between the two sections of the hemisphere since 1920 and the efforts at remedies for the situation which have come forth since 1930. The former half of the division will be discussed in this chapter.

The author will restrict the discussion of this chapter largely to those diplomatic and political relations which emerged from the various inter-American conferences since 1920. Other relations were carried on outside these conferences, of course; but the inter-American, or Pan American conferences were in a sense summaries of all other diplomatic and political relations, and they make by far the most convenient focal point for our study. Also, the restriction is made because almost all of the diplomacy concerning American economic nationalism was carried on through the medium of these conferences. This was true before the Roosevelt Administration beginning in 1933; it has become even more true since that time. Discussion of relations outside the pale of these conferences will be necessary occasionally; but as a general rule we will view mainly the course of economic nationalism as it affected the inter-American conferences.

The Inter-American Conferences before 1928

The first of the modern inter-American conferences was that held at Washington in 1889. To be sure there had been several conferences before that time, but the United States had not been represented at any of them, and they had played an almost negligible part in the relations of the United States with the southern republics. We have already seen how James G. Blaine was the chairman and dominating figure of this conference, how he proposed a hemispheric customs-union, and how that proposal was rejected by the southern nations under the leadership of the Argentine delegates. For our purposes it is sufficient to say that this first conference accomplished no concrete result except the not unimportant one of starting the practice of more or less regularly holding conferences of this nature.

From 1889 to 1928 there were five conferences, at Mexico City in 1901-1902, Rio de Janeiro in 1906, Buenos Aires in 1910, and one at Santiago, originally scheduled for 1914, but which was postponed by the World War until 1923. For our purposes it is important to remember only that these conferences were marked principally by the consistent refusal of the United States to discuss such controversial political and economic matters as the right of intervention, trade barriers, etc. Hence they were concerned almost entirely with such relatively innocent matters as patent and copyright agreements, postal arrangements, uniform bills-of-lading agreements, and the like.[1]

The close of the World War, however, brought a new element into these conferences. The Latin American republics had participated, at least nominally, in the formation of the Treaty of Versailles, and most of them had become members of the League of Nations. Therefore, since they were beginning to feel their diplomatic oats, they began to insist more and more that the United States discuss matters of a more controversial and important nature. There was, indeed, growing South American dissatisfaction with the whole conference procedure and increasing South American talk of abandoning it.[2] This was, briefly, the situation which existed by 1928.

The Havana Conference of 1928

The Havana Conference of 1928 was ushered in in the thickest atmosphere of ill-feeling which any of the conferences had yet known. There was an underlying and growing

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[1]John H. Latane and David W. Wainhouse, A History of American Foreign Policy (Garden City, New York: Doubleday, Doran and Company, Inc., 1934), Ch. XXVIII.

[2]"Pan Americanism and the Pan American Conferences", Foreign Policy Reports, III, no. 19 (November 25, 1927), p. 286.

skepticism of the whole concept of Pan Americanism. Many South Americans were coming to conceive of that concept as merely a mask to cover up "Yanqui Imperialism" of the sort which we discussed in the previous chapter. Manuel Ugarte, whose ideas were then at their ascendence in South America, had described Pan Americanism as "a skillful move in the expansionist policy of the North, and a suicidal tendency of the simple-minded South."[1] And the Pan American Union had raised in his mind this question: "Can the existence at Washington of a department for the Spanish-American Republics, organized like a Ministry for the Colonies, be reconciled with the full autonomy of our countries?"[2] And finally, there was the growing resentment against American economic nationalism which we have noted in the previous chapter. This final resentment was to cause one of the Conference's biggest furores.

No sooner had the Conference gotten the customary speeches of welcome out of the way when Senor Pueyrredon, the Argentine Ambassador to the United States and delegate to the Conference, made a speech proposing that the Conference draw up a resolution favoring the general reduction of economic barriers. He argued that high tariffs did not affect the com-

[1] Manuel Ugarte, The Destiny of a Continent, p. 288.

[2] Ibid., p. 6.

merce of American states equally, because of the different characteristics and classes of products. Countries which were in tropical and sub-tropical zones had no difficulty selling their products to countries having a different climate. And he implied that the products of Argentina---a temperate country competing with the United States---were in a much more unfavorable position. To quote from him directly:

> "We should not forget. . .that all the peoples of America have not arrived at the same state of economic development; some are at the pinnacle of their economic and industrial power; others hold an inferior economic position; and there are others struggling with difficulties of communication and other difficulties, because of the lack of capital. The only means by which these peoples can improve their position is by exporting products produced more cheaply than elsewhere."[1]

And this, he averred, was impossible so long as high United States tariff were based on the "equality of cost of production" principle. He hinted that unless high tariffs were reduced, American countries might consider the possibility of negotiating preferential tariff agreements with non-American countries. Many American nations, he avowed, were finding economic cooperation easier with Europe than with the United States.[2]

Senor Pueyrredon then proposed a Pan American Union Convention including the following principles:[3]

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[1]Cited in "The Sixth Pan American Conference, Part I", Foreign Policy Reports, IV, no. 4 (April 27, 1928), p. 57.

[2]Ibid., p. 58.

[3]Ibid., p. 59.

1. That measure be taken to suppress or reduce excessive barriers that obstruct inter-American trade.
2. That all hindrances to free circulation and trade in agricultural products be suppressed, when this would not constitute a danger to the vital interests of the country or its laborers.
3. That in reference to sanitary policies---for enforcing quarantines and embargoes that the United States, among other countries, maintains---an organic system should be adopted that would prevent sanitary regulations from being exercised in an arbitrary manner.

And he closed by saying that Argentina would not sign any Convention unless this proposal or something very much like it were included.

The speech drew much applause, and it was apparent that there was much underlying sympathy for the proposal. So Charles Evans Hughes, head of the American delegation, deemed it necessary to reply in person, which he did in these words:

> "We are desirous of promoting Pan American cooperation, not of destroying it. These economic barriers have been established by the legislatures of the states in what they conceived to be the interests of the people of those states. The right to protect the people of a country in determining what goods shall enter a country, what duties shall be imposed, or what export taxes shall be imposed is of the essence of sovereignty. Each of our countries has provisions relating to the import and export of products and raw materials which it thinks are essential and well-devised. They may be debated, they may be the subject of internal discussion, but legislation in these repects, through the Parliaments or Congresses of the nations, represents the sovereign will."[1]

In face of this refusal by the United States either to sign such a proposal or even to discuss it, only Paraguay, Bolivia, Mexico, and Colombia expressed sympathy with Senor Pueyrredon's ideas.[2] For a time it looked as though an impasse

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[1]Cited in Ibid., p. 59.

[2]Loc. Cit.

might have been reached, but the President of Argentina instructed his delegation not to take the risk of an open slap at the United States and sign the Convention without the inclusion of the Pueyrredon proposal. This they did.

The Conference adjourned in an atmosphere of disappointment at the failure of the Conference to produce anything very concrete, and resentment against the United States for refusing to discuss what most South Americans thought were the two most important questions: trade barriers and the right of one nation to intervene in the affairs of another.

The Havana Conference of 1928, the subsequent tariff policies of 1930, and the South American retaliatory measures made the period from 1929 to 1932 perhaps the highwater mark in South American ill-feeling toward the United States since 1920.[1]

Then came the beginnings of a new United States policy toward South America with President-elect Hoover's trip through the southern nations in 1929, and Undersecretary of State J. Reuben Clark's memorandum of 1930 in which he narrowly interpreted the Monroe Doctrine and rejected the so-called Roosevelt corollary. The beginning of a new epoch in inter-American relations appeared to be at hand.

Then in 1933 came the inauguration of Franklin Delano Roosevelt as President of the United States. In his inaugural address he outlined his future foreign policy, with particular reference to the southern republics, in words that were to

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[1]John H. Latane and David W. Wainhouse, Op. Cit.,

become famous:

> "In the field of world policy I would dedicate this nation to the policy of the good neighbor---the neighbor who absolutely respects himself and, because he does so, respects the rights of others---the neighbor who respects his obligations and respects the sanctity of his agreements in and with a world of neighbors."[1]

But the South American nations had heard these fine intentions expressed by American Presidents before; so, quite naturally, they sat back and waited to see whether or not the new Administration would implement these words with the actions of a good neighbor. And the first test was not long in coming.

<u>The London Economic Conference of 1933</u>

By 1933 the world-wide growth of economic nationalism, high tariff barriers, exchange control systems, fluctuating currencies, and those other tendencies which we have noted above was at its peak and creating a very dangerous situation. So an international economic conference was called at London for June 15, 1933, to which sixty-six nations, including all of the South American republics, accepted invitations. And conscious as they were of American policies of economic nationalism, those southern republics must have watched the activities of the United States in this conference very closely all through its course.

Just before sailing, Secretary of State Cordell Hull,

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[1]Cited in David H. Popper, "Latin American Policy of the Roosevelt Administration", <u>Foreign Policy Reports</u>, X, no. 21 (December 19, 1934), p. 270.

who was to head the American delegation, gave an interview to the press in which he outlined American policies and objectives in the forthcoming conference. He stated that the lowering of tariff walls and the stabilization of currencies would be primary objects of the United States:

> "The fact that the entire world is in a state of bitter economic war and all the world is at present functioning on an artificial basis affords the strongest reason for an agreement among the countries to lower trade barriers, with a corresponding restoration of international finance and trade."[1]

President Roosevelt for some weeks previous had been carrying on discussions with the leaders of other participating nations, among them Pedro Torres, President of the Bank of Chile, and head of the Chilean delegation to the Conference. With all of them he had reached apparent agreement, and it looked as though the Conference had every chance of success.[2]

At the Conference itself the first and perhaps biggest issue was that of currency stabilization; and it was the issue over which the Conference was ultimately to crumble. Argentina was made one of the members of the highly-important Steering Committee, which gave her an added stake in the success of the Conference.[3]

From the very beginning the United States and Great Brit-

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[1]New York Times, June 1, 1933, p. 3.

[2]Loc. Cit.

[3]New York Times, June 13, p. 3. The other South American nations were assigned to more or less unimportant positions, and generally speaking, they played a rather silent part in the Conference, although their observers were very active.

ain could not agree on the proper ration between the dollar and the pound as a basis for stabilization.[1] President Roosevelt, keeping in close touch with the Conference from Washington, warned that American domestic policies of raising prices must not be interfered with by any action taken at the Conference:

> "American efforts to raise prices are the most important contribution it can make, and anything that would interfere with those efforts and possibly cause a violent price recession would harm the Conference more than the lack of an immediate agreement for temporary stabilization."[2]

This was the first sour note sounded in the Conference, but the delegates managed to draw up a temporary statement, very carefully phrased so as not to hinder the President in the full use of the inflationary powers which Congress had placed in his hands. The declaration reaffirmed the intention of the Governments which had suspended the gold standard "without in any way prejudicing their future ratios to gold. . . to bring back an international standard based on gold," and as a temporary expedient, "to adopt such measures as they may deem most effective to limit exchange speculations."[3]

There was every reason to believe that this proposal would be adopted; but on June 17 President Roosevelt sent a

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[1] Ibid., p. 1.

[2] Cited in Maxwell S. Stewart, "International Aspects of Roosevelt's Monetary Policy", Foreign Policy Reports, IX, no. 24 (January 31, 1934), p. 273.

[3] Cited in Ibid., p. 274.

note to Secretary Hull instructing him not to accept the agreement. His reasons he gave later in a note dated July 2, 1933:

> ". . .The sound internal economic system of a nation is a greater factor in its well-being than the price of its currency in changing terms of the currencies of other nations. . .So too, old fetishes of so-called international bankers are being replaced by efforts to plan national currencies with the objective of giving to those currencies a continuing purchasing power which does not vary greatly in terms of the commodities and needs of modern civilization. Let me be frank in saying that the United States seeks the kind of a dollar which a generation hence will have the same purchasing and debt-paying power as the dollar value which we hope to attain in the near future."[1]

And such a dollar, of course, would have to be a "rubber" dollar, and not a dollar arbitrarily fixed in a ratio to any other monetary unit.

The delegates to the Conference were amazed and very disheartened by the news of the President's decision. The day after it was received they went through their duties in a very lackadaisical manner, almost as if to say, "What's the use now?"[2] A proposal for a flat 10 per cent reduction of all tariffs had been floating around the Conference, and it was generally accredited to the United States delegation. On June 18, Key Pittman announced that this proposal was not official, that it came from the American experts and not the American delegates.[3] And all this after nearly a week of

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[1]Cited in Ibid., p. 275.

[2]New York Times, June 18, 1933, p. 2.

[3]New York Times, June 19, 1933, p. 1.

discussion of the proposal.

The delgates apparently believed that they could no longer count on the cooperation of the United States in any cooperative proposal. The New York *Times'* correspondent noted the general feeling thus:

> "In the diplomatic circles here, the apparent coolness of the United States Government toward immediate stabilization was interpreted as evidence of the predicted incompatibility of the Roosevelt internal recovery program and any widespread policy of international cooperation."[1]

The Conference dragged on through more than two weeks, but nothing very important was accomplished. Despite American protestations that the lack of currency stabilization agreements need not block any other proposals,[2] most of the delegates seemed to feel that without such stabilization as a basis, further discussion was useless. The Conference was finally adjourned in almost complete failure.

It seems clear that the United States played a major part in the failure of the Conference to accomplish anything of any importance. The question of just why President Roosevelt refused to participate in any currency stabilization agreement has never been fully answered, but certainly part of that explanation is found in the fact that the President's unwillingness to support anything which might limit his domestic recovery program made him refuse to sign anything fixing

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[1] New York *Times*, June 18, 1933, p. 2.

[2] New York *Times*, June 21, 1933, p. 2.

the value of the dollar.[1] As one observer noted afterward, the Roosevelt note hit the Conference at what they had supposed to be their strongest point of agreement.[2] It is also true that the preliminary spadework of the Conference had been neglected too much, and that many other nations were never very clear about what they wanted.[3] Whatever the reason, it is certain that the Conference's failure dealt " a deadly blow to the world's progress and international cooperation."[4]

At any rate, as the scheduled inter-American Conference at Montivideo in the latter part of the year drew near, many of the South American delegates, pondering over the activities of the United States at the London Conference, just concluded, must have wondered if the well-known American concentration on domestic policies to the exclusion of their international implications was not going on as much as ever, Good Neighbor policy or no Good Neighbor policy.

The Montivideo Conference of 1933

Judging from their past experiences with the inter-American Conferences, the South American nations, and especially

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[1]This is Maxwell Stewart's conclusion, Op. Cit., p. 277, and apparently the conclusion of most of the delegates at the Conference.

[2]Sir Walter Layton, "After the World Economic Conference", Foreign Affairs, XII (October, 1933), p. 21.

[3]Oswald Garrison Villard, "The Damage to America in London", Nation, CXXXVII (August 2, 1933), p. 119.

[4]Loc. Cit.

Argentina, felt that they could not count upon any agreements being reached in the Conference scheduled for December 3, 1933, to alleviate the torturous situation of international trade in which they were finding themselves in the summer of 1933. And certainly the activities of the United States at the London Economic Conference had not given them any assurance that this inter-American Conference would be any different, in this respect, from the others.

In May, 1933, Argentina concluded a trade agreement with Great Britain which became known as the Roca agreement. By its terms, Great Britain agreed not to impose any restrictions on the quantity of chilled beef imported from Argentina. In return, Argentina agreed that the full amount of exchange proceeds arising from the sale of Argentine products in Great Britain should be applied to the purchase of British goods, in line with the Argentine "Buy from those who buy from us" policy.[1] And the two nations mutually reduced their tariffs in the supplementary agreement of September 26, 1933. Clearly, Argentina was not expecting the United States to modify her tariff and sanitary policies any more than she had in the past.

Then, on November 9, 1933, President Roosevelt issued a statement announcing that, in view of American temporary

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[1]Raymond Leslie Buell, "The Montivideo Conference and the Latin American Policy of the United States", Foreign Policy Reports, IX, no. 19 (November 22, 1933), p. 215.

emergency policies, the United States could not enter upon immediate discussion of "such matters as currency stabilization, uniform import prohibitions, permanent customs duties, and the like."[1] The whole thing sounded very much like the same old story of United States refusal to discuss such "purely domestic" matters as trade barriers.

The Conference convened at the Uruguayan capital on December 3, 1933, under better feeling than had been expected, although President Gabriel Terra of Uruguay in his opening address referred to the Hawley-Smoot Tariff Act and its "lamentable results."[2]

Then on December 12, Secretary Hull made the first big break with the traditional American policy by not only agreeing to discuss tariff reduction, but by actually proposing such reduction through bilateral treaties.[3] As soon as the surprise wore off, the South American reactions to this proposal became evident. Argentina and Mexico were very gratified by the speech. Salvador, Peru and Haiti, all of them quite dependent upon European markets, objected on the ground that such action might invoke European reprisals. Ecuador and Chile feared that such action would block a possible Latin American customs union. But generally the southern reaction

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[1] Ibid., p.225.

[2] Charles A. Thomson, "The Seventh Pan American Conference at Montivideo", Foreign Policy Reports, X, no. 7 (June 6, 1934), p. 87.

[3] Ibid., p. 90.

was highly favorable, and there seems little doubt that Mr. Hull garnered much good will for the United States thereby.[1]

After some discussion, the Hull proposal was adopted unanimously as a part of the final Convention, where it was expressed, as Article V, in these words:

> "The Seventh International Conference of American States, RESOLVES:
> That the governments of the American Republics will promptly undertake to promote trade among their respective peoples and other nations and to reduce high trade barriers through the negotiation of comprehensive bilateral reciprocity treaties based upon mutual concessions; and
> That the governments of the American Republics do each subscribe, and call upon other governments of the world to subscribe, to the policy and undertaking, through simultaneous action of the principal nations, of gradually reducing tariffs and other barriers to mutually profitable movement of goods, services, and capital between nations. . ."[2]

The other big sore point among the South American nations was removed by Hull on December 19 when he said that henceforth the United States was opposed to armed intervention by one nation in the affairs of another for the collection of debts or any other reason.[3] And President Roosevelt underscored this statement on December 28, 1933, in a speech to the Woodrow Wilson Foundation:

> ". . .The definite policy of the United States from now on is one opposed to armed intervention. The maintenance of constitutional government in other nations is not, after all, a sacred obligation devolving upon the

[1]*Ibid.*, p. 90.

[2]*The International Conferences of American States, First Supplement, 1933-1940* (Washington: published by the Carnegie endowment for International Peace, 1940), p. 21.

[3]Charles A. Thomson, *Op. Cit.*, p. 95.

United States alone. The maintenance of law and the orderly processes of government in this hemisphere is the concern of each individual nation within its borders first of all. It is only if and when the failure of orderly processes affects the other nations of the continent that it becomes their concern; and the point to stress is that in such an event it becomes the joint concern of the whole continent in which we are neighbors."[1]

With these two traditional grievances of the South American nations not only dealt with but quite satisfactorily removed for the time being, the Montivideo Conference adjourned in an atmosphere of the most friendly and cordial inter-American relations which these Conferences had yet known. The 1933 Pan American Conference, indeed, may be marked as the turning point toward the growing feeling of hemispheric solidarity which has marked them since that time.[2]

The United States further served notice that it meant what it said by abrogating the Platt Amendment, beginning the negotiation of the Hull reciprocal trade treaties, and completing the withdrawal of all American armed forces from other American nations.[3]

The Buenos Aires Conference of 1936

It was with the impetus of good will given by the Con-

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[1] David H. Popper, Op. Cit., p. 272.

[2] Charles G. Fenwick, "The Buenos Aires Conference: 1936," Foreign Policy Reports, v. XIII, no 8 (July 1, 1937), pp. 91-92.

[3] Samuel Flagg Bemis, Op. Cit., pp. 768-769.

ference of 1933 and by the subsequent actions of the United States in implementing its declarations at that Conference, that the Buenos Aires gathering of 1936 took place. The Conference itself produced only generalized statements concerning tariff reduction, leaving everything to bilateral negotiation among the various American states. Articles XLIV and XLVI of the final Convention recommended equality of treatment in international trade and continuance of the bilateral trade agreement negotiations.[1]

One action of the Conference, however, indicated that some residue of the resentment against American economic nationalism remained. That action was the setting up of an inter-American Sanitary Commission to regulate the sanitary regulations of the various states. The wording of the Article (XL) shows that at least a veiled crack was being taken at the previously discussed American sanitary regulations barring Argentine beef from the United States:

> "An organization of this nature may become highly beneficial through technical advice which would be available for American countries; and the creation of this organization is of real economic value, since it would assure adequate sanitary supervision of the vegetable and animal life in the various countries of America, and would assist international commerce in live-stock and agricultural products, eliminating unjustified objections of a prophylactic nature which restrict imports."[2]

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[1] The International Conferences of American States, First Supplement, 1933-1940, Op. Cit., pp. 172- 176.

[2] Cited in Ibid., pp. 169- 170.

This commission was never effectively organized, but the very presence of such a recommendation serves to show that the new atmosphere of good will had not entirely dispelled Argentine resentment of American banning of their beef.

The 1936 Conference accomplished no earth-shaking concrete projects, but it continued very well the trend toward good will set up by the Montivideo Conference of 1933. And it prepared the way very well for the continuing of that good will in the forthcoming Conference of 1938.

The Lima Conference of 1938

The Inter-American Conference of 1938 saw the first round of what was to become the new battle in the Pan American Conferences, that over how far the nations should go in declaring hemispheric solidarity. This was to become perhaps an even greater struggle than those over trade barriers and intervention. It is not our purpose to discuss this struggle at length, giving the various arguments on both sides, but rather merely to show how the battle progressed and what part American policies of economic nationalism had in determining the outcome.

Secretary Hull asked for a hemispheric declaration of solidarity against the Axis powers, but Argentina, supported to a lesser extent by Uruguay, Paraguay, and Bolivia, balked at the idea of offending the German, Italian, and Japanese governments. As one observer noted, their attitude was in part conditioned by the fact that most of them were very dependent upon the European markets, and therefore they felt that they could not afford to risk the possible economic reprisals which such a declaration might bring upon them.[1] We have already determined that American economic nationalism has played a part in the formation of this attitude in certain South American nations that their economic destinies lie in Europe and not with the United States. Therefore, we may conclude that American economic nationalism played a part, though perhaps not a dominating part, in the reluctance of certain South American nations, particularly Argentina, to antagonize what they deemed to be nations essential to their economic well-being.

The final Convention carried a statement to the effect that the American nations would consult with each other in the event that the peace or security of any of them were menaced by the actions of a non-American nation, a sufficiently generalized statement so as not to antagonize any nation.[2]

Once again Secretary Hull proposed an article looking for more reduction of tariff barriers through bilateral negotiation, though in view of the fact that the German trading policies of barter and aski-marks were then at their

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[1]Charles A. Thomson, "Results of the Lima Conference," <u>Foreign Policy Reports, XV,</u> no. 1 (March 15, 1939), p. 3.

[2]For the text of the declaration, Article CIX of the final Convention, see <u>The International Conferences of the American States, Op. Cit.</u>, pp. 308-309

height made such a statement somewhat innocuous.[1]

Despite the fact that the results of the Conference were, from the point of view of the United States, somewhat disappointing, the Conference carried on the trend of good-will and general hemispheric friendship and likeness of point of view which was becoming more and more a characteristic of these conferences. And it was because of this growing attitude of friendship that the American nations were not caught totally unprepared for the outbreak of the European war in September of 1939.

The Panama Meeting of 1939

At the Buenos Aires Conference of 1936 it had been decided that there would be collective consultation "in the event that the peace of the American Republics is menaced." In 1938 at Lima it was decided that such consultation should be carried out by means of meetings of the foreign ministers of the American republics. Consequently, soon after the declaration of war on Germany by Great Britain and France, a meeting of the American foreign ministers was called at Panama for September 23, 1939.

At this meeting (called a meeting to distinguish its procedure from the inter-American conferences proper), the American nations declared their neutrality and their solid-

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[1] *Ibid.*, pp. 232-233.

arity in much the same general terms as before.[1] The main purpose of the Conference was to make clear American neutrality, and to initiate some kind of cooperation for the maintenance of that neutrality, so the large problem of hemispheric solidarity in relation to the hemisphere's position with regard to the war between the Axis and the democracies was present only implicitly. This same comment may be made of the next meeting of the foreign ministers in 1940.

The Havana Meeting of 1940

On July 21, 1940, the foreign ministers of the American republics again convened, this time for nine days. Their most important action consisted of preparing to combat the menace of the "fifth column" by including in the final Convention Article VII, which read in part:

> "The Second Meeting of the Ministers of Foreign Affairs of the American Republics RESOLVES:
> One: to reiterate the recommendation made at the first Consultative Meeting held at Panama to the effect that the Governments of the American Republics 'take the necessary measures to eradicate from the Americas the spread of doctrines that tend to place in jeopardy the common inter-American democratic ideal', and also that they take the measures which may be advisable to prevent any activities susceptible of jeopardizing American neutrality."[2]

From our point of view, however, Part Three of the Adopted

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[1]For the text of these declarations, see The International Conferences of the American States, Op. Cit., pp. 315-343.

[2]Ibid., pp. 354-357.

Resolution was quite significant. It read:

> "(a) To cooperate with each country of this continent in the study of possible measures for the increase of the domestic consumption of its own exportable surpluses; (b) to propose to the American nations immediate measures and arrangements of mutual benefit tending to increase trade among them; (c) to create instruments of inter-American cooperation for the temporary storing, financing, and handling of any such (surplus) commodities and for their orderly and systematic marketing; (d) to develop commodity arrangements with a view to assuring equitable terms of trade for both producers and consumers of the commodities concerned; (e) to recommend methods for improving the standard of living of the peoples of the Americas; (f) to establish appropriate organizations for the distribution of a part of the surplus of any such commodity, as a humanitarian and social measure; (g) to consider. . .the desirability of a broader system of inter-American cooperative organization in trade and industrial matters, and to propose. . . measures. . .which may be immediately necessary in the fields of economics, finance, money, and foreign exchange."[1]

This proposal was significant because it was the nearest approach to the idea of a hemispheric cartel, which was receiving much publicity at the time, and because it was the first real approach to the very real problem of surpluses within the hemisphere. Just how far this idea came to be carried out we shall see in the next chapter.

Neither the Panama nor the Havana meetings, however, were important when compared to the one which took place in Rio de Janeiro in 1942. In the interim between the Havana meeting and the latter meeting, Japan attacked the United

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[1]Cited in Howard J. Trueblood, "The Havana Conference of 1940," Foreign Policy Reports, v. XVI, no. 13 (September 15, 1940), p. 163.

States at Pearl Harbor, and both Italy and Germany had declared war upon America. Here, then, was the acid test of the machinery of cooperation and the general feeling of good will created by the Conferences from 1933 to 1940. Here was to be the final test for the reality and the strength of any concept of hemispheric solidarity. Here were to be found the fruits of the previous twenty years of American policies toward South America, both before the Good Neighbor period and after. In our discussion of the course of the Meeting of 1942 is to be found some of the most important consequences of American economic nationalism toward South America; for while we cannot say that the effect of those policies played a dominating part in the outcome of that Meeting, we can say that it did play a noticeable and important part in that outcome.

The Rio de Janeiro Meeting of 1942

By December 31, 1941, less than a month after the United states was plunged into war, all of the South American nations had taken some sort of action to express their sympathy for the American cause. Columbia and Venezuela severed diplomatic relations with the Axis powers; Argentina, Bolivia, Chile and Uruguay agreed to consider the United States a non-belligerent so that American ships could use their harbors, and the United States generally could not have the laws of neutrality applied to the detriment of its war effort; and

Brazil, Ecuador, Paraguay, and Peru made formal declarations of their solidarity with the United States.[1] On January 2, the Argentine Chamber of Deputies passed a vote of censure on Baron Edmund von Thermann, German Ambassador to Argentina, and asked for his removal and the recalling of the Argentine Ambassador from Berlin.[2] So, generally speaking, before the meeting was called, all the South American nations had taken specific actions of varying degrees of seriousness indicating their friendship for the United States.

Oswaldo Aranha, Foreign Minister of Brazil, called the Third Meeting of the Foreign Ministers of the American States, scheduled for January 15 at the Brazilian capital. It was clear that the United States would ask for a unanimous severing of diplomatic relations with the Axis by the American republics, so the southern nations began to form their policies well in advance of the meeting itself.

On January 7, Dr. Enrique de Ruiz-Guinazu, Foreign Minister of Argentina, made a speech in which he stated that, while Argentina would cooperate freely within the limits of previous agreements, she was not willing to become a belligerent.[3] Uruguay declared herself in favor of a joint break

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[1]David H. Popper, "The Rio de Janeiro Conference of 1942," Foreign Policy Reports, v. XVIII, no. 3 (April 15, 1942), p. 28.

[2]New York Times, January 3, p. 6.

[3]New York Times, January 8, 1942, p. 1, 12.

with the Axis powers, and her cabinet instructed the Uruguayan delegates to support such a resolution.[1] On January 12, Aranha stated that Brazil would favor "nonbelligerent solidarity", though he neglected to define that somewhat ambiguous term.[2] Chilean Foreign Minister Juan Bautista Rossetti, on shipboard on his way to the Meeting, indicated that he disparaged the Argentine stand, and made several remarks about the dangers of "theoretical neutrality" and "regional blocs."[3] Generally speaking, it was clear that most of the South American nations were prepared to take drastic steps, but that Argentina still wished to preserve the principle of neutrality. There was even some talk that Argentina wanted to establish a bloc of South American countries as a counterweight to the influence of the United States, though if such a plan existed, which appears doubtful, it was effectively quashed by the statements of Rosetti.[4]

The Meeting opened on January 15 with a speech by the head of the American delegation, Undersecretary of State Sumner Welles, who asked for a complete severence of dip-

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[1] Ibid., p. 11.

[2] New York Times, January 12, 1942, p. 8.

[3] New York Times, January 14, p. 1.

[4] David H. Popper, Op. Cit., p. 28.

lomatic relations with the Axis nations.[1] And on January 16, Colombia, Mexico, and Venezuela jointly offered a resolution calling for the complete diplomatic break with the Fascist powers, since they were the three American powers who had already done so.[2]

From the beginning it was clear that Argentina and Chile were the only two nations opposing the complete-break policy. Acting President Ramon S. Castillo expressed the Argentine point of view in a newspaper interview on January 16 when he said:

> "In the internal field, Argentina must reconcile many interests, and this is the reason why Argentina's international position is not as spectacular as some people wish."[3]

This statement may have referred to the German and Italian populations in Argentina; or it may have referred to the fear of losing Argentina's European markets; Senor Castillo did not elucidate.

On January 17 Castillo ordered fourteen German leaders and possible fifth-columnists in Argentina to be jailed, and the talk that Argentina was pro-Axis died down somewhat.[4]

On January 18 Brazil took the lead in arguing for the

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[1]For the text of his speech, see the New York Times, January 16, 1942, p. 2.

[2]New York Times, January 17, 1942, p. 1.

[3]Ibid., p. 6.

[4]New York Times, January 18, 1942, p. 28.

complete-break resolution as President-Dictator Getulio Vargas became very angered at the pressure which the Axis powers were putting on him to block the resolution.[1]

On January 19 both Chilean Presidential candidates, Juan Antonio Rios, representing the Popular Front, and General Carlos Ibanez, representing the rightist elements, declared themselves as against an out-and-out break with the Axis powers, although Rios was supposedly more sympathetic to the democratic cause.[2]

Then, on January 21, Argentina and Chile formally rejected the complete-break resolution. From Buenos Aires came a statement from Castillo which gave much credence to the report that Castillo himself was running the Argentine delegation's policy, and that Ruiz-Guinazu was merely his mouthpiece. Dr. Castillo explained:

> "Argentina's position is frank and well-defined, and Foreign Minister Ruiz-Guinazu has carried out his instructions with the greatest intelligence. The stand we have taken is final and we believe that our thesis in the last analysis is the one that most closely corresponds to this continent's interests. In any case, whether mistaken or not, it faithfully interprets the public sentiment in Argentina, which does not favor a rupture of relations and in a still greater degree opposes a declaration of war. The position we have taken will not undergo any change."[3]

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[1] New York *Times*, January 19, 1942, p. 1.

[2] New York *Times*, January 20, 1942, p. 9.

[3] New York *Times*, January 21, 1942, p. 1.

The strained situation was not helped any by a public statement issued by Senator Tom Connally, Chairman of the Senate Foreign Relations Committee, on January 21, to the effect that Argentina was like a gambler "attempting to play both the red and the black at the same time," that unless she cooperated she might find herself "out on a limb which might be cut off," and suggested that Argentinians should repudiate Castillo in the coming elections.[1] Such a statement was very insulting to a proud nation like Argentina, and Dr. Felipe Espil, the Argentine Ambassador in Washington, protested it vigorously. Secretary Hull said Connally spoke only for himself, but his high position in American governmental circles and the intemperance of his language did much to block any possible rapprochement between the two nations.[2]

On January 23 a compromise resolution merely "recommending" a break with the Axis was drafted and unanimously accepted. The text was as follows:

> "I. The American Republics reaffirm their declaration to consider any act of aggression on the part of a non-American State against one of them as an act of aggression against all of them, constituting as it does an immediate threat to the liberty and independence of America.
>
> II. The American Republics reaffirm their complete solidarity and their determination to cooperate

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[1]New York Times, January 22, 1942, p. 8.

[2]David H. Popper, Op. Cit., p. 30.

jointly for their mutual protection until the effects of the present aggression against the Continent have disappeared.

III. The American Republics, in accordance with the procedures established by their own laws and in conformity with the position and circumstances obtaining in each country in the existing continental conflict, recommend the breaking of their diplomatic relations with Japan, Germany, and Italy, since the first-mentioned State attacked and the other two declared war on an American country.

IV. Finally, the American Republics declare that, prior to the reestablishment of the relations referred to in the preceding paragraph, they will consult among themselves in order that their action may have a solidary character."[1]

There were also passed a number of resolutions on economic cooperation, having the United States allocate essential experts to the Latin American countries which need them. And one (Article CIV of the final Convention) recommended the study of the possibility of a customs union looking for the establishment of a self-sufficient hemispheric bloc.[2]

The Meeting adjourned on January 28. On January 24 Peru and Uruguay formally severed relations with the three Axis powers. Paraguay and Bolivia followed on the 25th. Brazil and Ecuador did the same on the 28th, and since Colombia and Venezuela had already done so, only Argentina and Chile retained their diplomatic relations with the three Axis nations.

During the course of the Meeting and since that time, much has been written about why Argentina and Chile pursued

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[1] Cited in David H. Popper, _Op. Cit._, p. 30.

[2] _Ibid._, p. 34.

the course they followed. Many periodicals and newspapers took the point of view that Argentina has a fascist government herself and was therefore sympathetic to the Axis cause; other commentators argued that Argentina was so completely anti-United States that she would oppose anything which we might propose; and still others actually argued that Axis fifth-columnists had Castillo's ear and were in effectual control of the Argentine government.

The final and definitive answer as to just why Argentina and Chile refused to support the complete-break resolution and to why they have since refused to sever relations with the Axis powers is not something which can be disposed of as easily as many of the above-mentioned commentators have done. Many and rather complex factors entered into the Argentine and Chilean policies which we are as yet unable fully to analyze. And yet it does seem quite possible to suggest some explanations for those policies which may come nearer the truth than the apoplectic outbursts of many American periodicals. It will not be the purpose of this study to present a full and complete discussion of those explanations, but rather to present the more important and more obvious factors, and to indicate the part which the residue left by American policies of economic nationalism toward those countries played.

Popper presents these factors as of major importance in the Argentine attitude:[1]

1. The isolationist desire to avoid involvement in a foreign war, fully comparable to the attitude of the United States before Pearl Harbor (which few would describe as pro-Axis.)
2. The historic tendency to oppose United States leadership in American affairs.
3. Strong cultural ties with Europe rather than with the United States.
4. The fear of Nazi displeasure in the event of an Axis triumph, which might leave Argentina excluded from the post-war European market, prostrate her economically, and even threaten her independence.
5. The presence of many Italians and Germans.
6. The undemocratic, conservative nature of the Castillo government.

The fourth suggested factor is of special interest for our purposes, for it suggests the possibility that the long wrangle of the United States with Argentina over tariff barriers, fluctuating currencies, the American failure to ratify the Sanitary Convention of 1935, and the fact that Argentina has traditionally had an unfavorable trade-balance in her dealings with the United States has left in Argentine thinking the idea that economically she has always and will always be tied to Europe, no matter who dominates Europe, and not with the United States. Therefore, reasoning from this premise, it is not difficult to see that Argentina simply would not dare to risk economic retaliations by a displeased European conqueror as long as her economic well-being is, as we have seen it to be, dependent upon the profitable export of her meat, wheat, and other agricultural commodities.

[1]David H. Popper, Op. Cit., p. 30.

Nor is this fear of losing her export markets something which came suddenly under the pressure of the possibility that Hitler might win. It was present in her desire to tone down the wording of the solidarity declarations of 1938 and 1940. It has, indeed, long been an important factor in her foreign policy, as one observer points out:

> "Argentina is skeptical of any Washington policy which looks like an effort to line up the Western Hemisphere nations in anything suggesting an anti-European block. Export trade is more important to Argentina than to most of the Western republics, and nearly three quarters of hers is normally with Europe. Argentina, as Buenos Aires governments of several political complexions have seen it, will have to take care of threats to her independence and integrity when, as, and if war or the emergencies of totalitarian peace should prove her in error. Meanwhile she cannot afford to offend her best customers."[1]

Considering that this statement was written sometime during 1940, it makes a very reasonable explanation of at least part of the reasons why Argentina was and is reluctant to shut herself off from diplomatic intercourse and consequently economic intercourse with any European nation which might normally take a large share of her exports.

Perhaps the clearest explanation of the Argentine attitude, from the standpoint of the effects of American economic nationalism's effects and consequences, is that Argentina was not so much opposed to breaking off with the Axis powers as she was of necessity opposed to breaking off relations with

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[1]Duncan Aikman, The All American Front (New York: Doubleday, Doran and Company, Inc., 1940), pp. 122-123.

any power or powers in Europe, whatever their political complexion, which might conceivably be important export markets in the future.

No one would maintain either that American economic nationalism is the sole cause of Argentina's belief that her economic destiny lies in Europe, nor that her reluctance to endanger future markets was the sole cause of her refusal to join the other American nations in severing diplomatic relations with the Axis. Nevertheless, it seems entirely reasonable to conclude that those policies of economic nationalism, and their effect in making Argentina believe that economically she must look ever eastward instead of northward as well as the political antagonism which they aroused, played some part in forming the Argentine policy in the Rio de Janeiro Meeting of January, 1942

The attitude of Chile in following the Argentine policy is perhaps less clear. Popper feels that the attitude of the Chilean representatives was conditioned at least in part by the fact that they believed that here was a chance to drive a hard bargain with the United States.[1] Certainly she demanded military and naval aid, and a series of far-reaching economic and financial concessions, some of which were only remotely

[1] David H. Popper, Op. Cit., p. 29.

connected with defense needs.[1] Chile, by this time, must have been getting rather accustomed to the economic order of dog-eat-dog, and this time it may well have looked to her that the United States, and not Chile, would provide the feast.

These, then, were the political consequences of American economic nationalism in South America as they were demonstrated in the diplomacy and results of the various inter-American Conferences from 1928 through 1942. They were not entirely happy consequences; but one wonders how much worse they might have been had not the United States modified its policy in 1933 and carried through as consistently in the line of the good neighbor as she has done. It is the effects of these efforts at remedying the bad consequences of that economic nationalism in South America to the consideration of which we must now turn.

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[1] *Ibid.*, p. 31

CHAPTER VI

EXTERNAL CONSEQUENCES: REMEDIAL EFFORTS

It should be clear by now that much of American economic nationalism toward South America has not been the result of a deliberate attempt to plunder those nations in international trade; neither has it come as the result of a studied American policy of autarchy. It has come rather from an almost sole emphasis upon internal and domestic economic considerations within the United States, and a corresponding neglect of the international economic and political implications and effects of such a policy. This was the story of how President Roosevelt "torpedoed" the London Economic Conference of 1933;[1] and it has largely been the story of the course of American economic nationalism toward South America.

In recent years, however, there has come in the United States a growing awareness of the international effects of our high tariff, sanitary embargo, and other policies of economic nationalism. There has come an awareness that many of those effects have made for ill-feeling toward the United

[1] See Samuel Flagg Bemis, A Diplomatic History of the United States, p. 721, and above, pp. 105-106.

States by many foreign nations, especially those of South America. And with that awareness has come a series of attempts to relieve and remedy the situation as much as possible in order to transform some of that ill-will into good-will. The efforts at such a transformation have included such things as Nelson Rockefeller's approaches to the problem of bringing about closer cultural understanding, good-will tours by various American artists and athletes, exchange scholarships and professorships, and the like. These remedial efforts, however, fall outside our study, important though they are, for the reason that they are designed to accomplish other ends than the alleviating of economic nationalism and its effects. The nature, effects and success of American efforts to reduce its economic nationalism, these efforts themselves being important consequences of American economic nationalism toward South America, will be the subject of this chapter.

The Coffee Control Committee

When the European war broke out in September, 1939, the coffee-producing nations of South America lost about 30 per cent of their coffee market. This was a particularly dangerous situation for such a large coffee-producing nation as Brazil. The United States, which normally takes about 55 per cent of the South American coffee crop, was in a very excellent and strategic position to start the coffee producers battling for the American market by cutting prices. Indeed, there was no reason why American coffee importers could not dictate extremely low prices because of the necessity of the coffee-producing nations for selling their enlarged surpluses. And had we been following a policy of unadulterated economic nationalism, we doubtless would have done just that.

But by 1939 the United States was aware of what bitterness toward herself such a policy might well cause among the southern republics; and we were committed to the policy of the "good neighbor." And so, instead of letting the coffee producers cut prices for the purpose of getting our market, the United States entered into consultation with the Inter-American Financial and Economic Advisory Committee, which had been established at the Panama Meeting of 1939. That Committee drafted an agreement dividing the United States market among the various coffee-exporting nations, set up a special board to administer the ensuing specific problems, and thereby, while depriving Americans of cheaper coffee, nevertheless prevented what might well have amounted to a panic in the coffee-producing South American nations.[1]

This was a far cry from old-line economic nationalism, and our ready acquiescence to the plan did much to bolster pro-United States feeling, especially in Brazil.[2]

The same sort of an arrangement was tried for cacao and

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[1]John C. deWilde, "Wartime Economic Cooperation in the Americas", Foreign Policy Reports, XVII, no. 23 (February 15, 1942), p. 290.

[2]Ibid., p. 292.

wheat, although not so successfully because of the greater administrative problems involved. At present this latter committee is struggling along on a temporary conference-on-specific-problems basis; but here again our willingness to cooperate and not take advantage of the situation has stood us in good stead with the South American nations, even those not directly benefited thereby.[1]

By our actions in these problem-situations, we not only are showing that the Pan American peace machinery is a definite element in our foreign policy, but we also are making it clear that we as a nation are genuinely concerned with the welfare of the southern republics. It is a considerable step forward in our efforts to remedy past effects of our economic nationalist policies.

Control of Export Prices

After the outbreak of the European war in 1939, the South American nations not only found many of their markets gone, but they also found disappeared many of their sources for needed imports. And just as they turned to the United States for markets, so were they forced to turn to the United States for the supplying of needed materials. Here again was a great chance for the United States to make money out of the exigen-

[1] Ibid., p. 293.

cies of the situation, for the southern nations needed certain materials, like machinery, so much that American exporters could just about dictate the price.

But again the United States foreswore any such plundering of the South American pocket. We instituted price ceilings on exports to South America, and instructed export license officers to reject applications whenever prices were higher than the ceilings determined by the Office of Price Administration, or, if not covered by that body, if they exceeded the current market price.[1]

On January 24, 1942, Secretary Hull sent the Rio de Janeiro Meeting a message in which he announced that the United States was establishing "export price ceilings on scarce materials which are calculated to prevent speculation and profiteering and yet will provide sufficient margin over (the) domestic price ceiling (so as) not to interfere with (the) flow of exports."[2] And this again raised the United States another notch in South American esteem.

A very important and knotty problem today is that of setting aside enough essential products, like machinery, for export to South America without crippling our own war effort. The problem of how much should and can be sent to South America is being worked on at present, though as yet no completely

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[1] Ibid., pp. 293-294.

[2] Ibid., pp. 294-295.

satisfactory solution has offered itself. Nevertheless, American willingness to supply South America with many of the essential materials it can no longer get from Europe, and American readiness to deal with the somewhat complex problems involved therein is at present giving the South Americans a new view of the "Colossus of the North."[1]

Export-Import Bank Loans

By 1940 most of the South American Governments were in a rather unfavorable spot with regard to indebtedness to the United States. On December 31, 1939, there were outstanding $1,610,332,000 of dollar bonds issued or guaranteed by the Latin American Governments or their political subdivisions, of which about 2/3 were in the same of the South American nations. Of these, $1,191,761,000 were in default as to principle and interest.[2] Obviously many of these debts are and have been in need of being refunded, and one of the purposes of the Export-Import Bank loans have been to accomplish just that purpose.

The main purpose of these loans, however, is that of bolstering up South America for her loss of European investments and providing a certain amount of liquid capital for the South

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[1] *Ibid.*, pp. 292-293.

[2] "Export-Import Bank Loans to Latin America", *Foreign Policy Reports*, XVII, no. 7 (June 15, 1941), p. 83.

Americans to act as a catalyst for the greatly increased hemispheric trade which the war has brought.[1]

The loan situation in South America as of March 31, 1942, is as follows:[2]

Table 11

U.S. LOANS TO SOUTH AMERICA

Borrowing Nation	Loans Outstanding	Commitments to make additional loans
Argentina	$105,000	$62,420,000
Brazil	13,545,000	51,392,000
Chile	3,926,000	14,637,000
Colombia	7,678,000	2,100,000
Ecuador	30,000	1,150,000
Paraguay	1,485,000	2,405,000
Peru	----------	10,000,000
Uruguay	----------	7,500,000
Venezuela	183,000	3,417,000

The general types of loans made are these: (1) credits for the purpose of meeting seasonal or emergency shortages of exchange; (2) credits in connection with blocked commercial balances in Brazil; (3) roadbuilding and public works loans to the smaller and less well-developed Latin American countries; (4) heavy transportation equipment loans, consisting principally of assistance to United States exporters of railway rolling stock; (5) industrial development loans to Brazil

[1] Eugene P. Thomas, "The Crisis in our Foreign Trade", Annals of the American Academy of Political and Social Science, CCXVI (July, 1941), p. 47

[2] "Export-Import Bank Loans to Latin America", Op. Cit., p. 84.

and Chile; (6) loans to the International Telephone and Telegraph Company for the development of its South American properties.[1]

An example of one more or less typical loan is that made to Brazil on March 3, 1942. Its conditions were:[2]

1. Export-Import Bank makes $100,000,000 available for the development of Brazil's resources.
2. Brazil gets more lend-lease support.
3. Development of Itateria mine properties and the Victoria-Minas railroad with a loan of $14,000,000.

These Export-Import Bank loans very definitely have their limitations as agencies of lessening American economic nationalism and promoting inter-American economic cooperation. They are, after all, just loans; as one observer has pointed out, they do not solve South America's need for markets, which is the fundamental problem.[3] They are supposed to be paid back, and thus they provide many of the elements which in the past have made international indebtedness a barrier to good-will among nations. As long-run solutions they would be relatively worthless, for their very chance of being paid back depends upon American purchase of South American goods. But as temporary stopgaps for leaks in the South American economy caused by the loss of European markets, they have done good

[1] Ibid., p. 85.

[2] David H. Popper, "United States-Brazilian Economic Accord of March 3, 1942", Foreign Policy Reports, XVII, no. 24 (March 1, 1942), p. 301.

[3] Katherine Rodell, "Buying Good-Will in Latin America", New Republic, CI (November 22, 1939), pp. 135-136.

service. And in this tiding of the South American nations over financial bad times, we seem to have garnered some friendship along the way, although perhaps less so from these loans than from the other remedial measures mentioned.

The Reciprocal Trade Treaties

By far the most important American effort at doing away with economic nationalism has been the Roosevelt-Hull reciprocal trade treaties. Not only were they instituted five full years before the war broke out and therefore cannot be labeled as purely emergency measures, but they also are aimed at the most obvious and historically the most important method of economic nationalism, that of tariff barriers. They are considered by Secretary Hull and President Roosevelt to be an integral part of their Good Neighbor policy, as indeed they have been. And some consider them the cornerstone upon which the future edifice of mutually profitable international trade may be built.

Under the Act of 1932, the President is empowered by Congress to enter into executive agreements with foreign nations mutually reducing tariffs up to 50 per cent of the rates set by the Tariff Act of 1930. Each of these specific agreements, then, will require no formal ratification by the Senate, as would a regular treaty. They are, in effect, all ratified in advance by Congress as long as the Act of 1934 is in effect.[1]

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[1]Samuel Flagg Bemis, _Op. Cit._, p. 749.

This provision seems to be generally superior to the older idea of the 1920's and the Hawley-Smoot Act of a "flexible tariff" which can be revised only by Congressional action. One of the main advantages of the reciprocal trade agreements is that they are executive agreements and are not, therefore, subject to the politics and many pressures which a tariff proposal undergoes in Congress. To be sure, politics and pressure groups are not eliminated from these agreements any more than the President himself is entirely free from them; but their relative influence over the nature of the agreements is much less than it is over any Congressional action of a similar nature.[1]

The reciprocal trade treaties by no means represent a general lowering of American tariff barriers. The Hawley-Smoot Act is still our basic tariff law. The Act of 1934 merely provides a way in which piecemeal adjustment for mutual advantage with various individual foreign nations can take place. Rather than razing the structure of economic nationalism, it removes a few of the more dangerous and annoying fire hazards.

As of November 6, 1941, the following was the list of trade agreements signed with South American nations:[2]

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[1]For a fuller discussion of this point see E.E. Schattschneider, Politics, Pressures and the Tariff (New York: Prentice-Hall, Inc., 1935), p. 135.

[2]Department of State, Trade Agreements Calendar, release of November 6, 1941.

Table 12

TRADE AGREEMENTS CALENDAR

Country	Signed	Effective
Brazil	February 2, 1935	January 1, 1936
Colombia	September 13, 1935	May 20, 1936
Ecuador	August 6, 1938	October 23, 1938
Venezuela	November 6, 1939	December 16, 1939
Argentina	October 14, 1941	November 15, 1941

Negotiations with Uruguay and Chile are now being carried on. Of course the United States has signed such agreements with many other nations than the ones listed above, but those listed in the table indicate the situation with regard to South America.

In assessing the economic effects of the trade agreements program in South America, we must first of all note again the highly important fact that normally two-thirds of all South American goods enter the United States duty-free, and that there are, therefore, very definite limitations on just how far the economic benefits of this program can go. Furthermore, certain South American nations depend to a very great extent upon customs revenues for their governmental income; and this imposes another limit upon how far mutual tariff adjustment can go through the medium of these trade treaties. Nevertheless, we must also remember that there are certain South American countries, notably Argentina and Uruguay, whose exports to the United States are normally hit very hard by our tariff. Therefore, any trade agreements with them are bound to have more important economic effects than those nations most of whose goods normally enter duty-free.[1]

An excellent illustration of the sort of concessions made in such a treaty is afforded us by the treaty concluded with Argentina on October 14, 1941. And in passing, let us note the fact that twice before the final signing of the agreement negotiations between the two nations over such an agreement had collapsed, mainly because of the refusal of the United States to discuss fresh, chilled or frozen meat products.[2] When the treaty was finally concluded, no mention was made of these products, and the following concessions were made:[3]

Table 13

ARGENTINE-U.S. CONCESSIONS

CONCESSIONS OBTAINED FROM ARGENTINA[4]

Commodity	Pre-Agreement Duty	Post-Agreement Duty	Percent of Reduction
Prunes	0.1408	0.099	30
Apples	0.063	0.032	49
Automobile parts	0.282	0.197	30
Pitch	0.1728	0.109	37
Movie Film	2.016	1.344	33

[1] ~~Charles A.~~ Thomson, "Toward a New Pan Americanism", Foreign Policy Reports, XII, no. 15 (November 1, 1936), p. 211.

[2] David H. Popper, "Six Years of American Tariff Bargaining", Foreign Policy Reports, XVI, no. 3 (April 15, 1940), pp. 36-37.

[3] Department of State Bulletin, V, no. 121a, Publication 1656, October 18, 1941.

[4] I have included only a few of the more important commodities.

CONCESSIONS MADE TO ARGENTINA

Commodity	Pre-Agreement Duty	Post-Agreement Duty
Quebracho	15% ad. val.	7½% ad. val.
Flaxseed	65¢ per bu.	50¢ per bu.
Fine wools	80% ad. val.	48% ad. val.
Rough Wools	90% ad. val.	53% ad. val.
Hides and skins	10% ad. val.	5% ad. val.

All told, Argentina reduced her tariff rates on 39 items which constituted 18.2 per cent of United States exports to Argentina in 1940; the United States lowered her tariff on items making up 74.6 per cent of Argentine exports to the United States in 1940.[1] And these mutual concessions are more or less typical of the sort that have been made by the Hull trade agreements with the South American nations.

Generally speaking, these agreements seem to have increased United States trade with the agreement nations. Our imports from all the 16 agreement countries over the world averaged 21.6 per cent greater in 1938-1939 than in 1934-1935, while our imports from the other countries averaged 11.1 per cent greater. Our exports to the countries covered by the agreements increased by 17.8 per cent and to all other countries by 12.5 per cent during the same period.[2] The larger increase in both exports and imports with the agreement nations over non-agreement nations would seem to indicate that

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[1] John C. deWilde and Bryce Wood, "U.S. Trade Ties with Argentina", Foreign Policy Reports, XVII, no. 18 (December 1, 1941), pp. 229-231.

[2] Department of State, Commercial Policy Series 63, Publication no. 1470, 1940, p. 6.

the agreements were an important factor in producing a trade increase. However, the complex factors of the nature of the economies of the nations involved make it inadvisable to assert, as the State Department bulletins seem to assert, that the trade agreements were the sole cause for that trade increase.

Economically, then, the reciprocal trade agreements have produced some good effects, both in the raising of the amount of trade with the agreement nations and in the easing of the pressure on certain essential commodities. Actually, however, they are no great shakes economically because of their very piecemeal approach to the long-standing and very complex problems of economic nationalism. As Carleton Beals points out:

> "Reciprocity has scarcely modified the numerous trade methods we have already listed which so multiply selfish national controls. Unfair competition (often vitally necessary for the country practicing it) complicates the picture. Sharp differences in living standards and production costs make normal exchange impossible. Cheap goods, due to low living standards, can reduce standards in a country that does not protect itself."[1]

Certainly by themselves the reciprocal trade agreements can never accomplish the removal of the structure of economic nationalism which the United States and the South American nations have built up between them. Economically they have helped, but not to any very great extent.

The political effects of the Hull reciprocal trade agree-

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[1]Carleton Beals, Pan America (Boston: Houghton Mifflin Company, 1940), p. 355.

ments is a more important question for our purposes. Granted that they are not of any very great importance economically, what has been their effect upon the attitude of the South American nations toward the United States, and how have they affected the relations between North and South America?

Some observers are very skeptical of the political as well as the economic effects of these agreements, of the whole idea of "buying friendship" in South America. Beals feels that the economic unimportance of the treaties has made them politically ineffectual as friendship-getters. He maintains that only when we make a serious and complete effort to change the whole structure of our economic nationalism will we begin to garner real and lasting friendship in South America.[1]

This point of view, however, seems to be unjustified by the facts and by the opinions of most observers, who feel that the political effects and benefits of the agreements in promoting good-will far outweigh their relatively small economic benefits. Aikman points out:

> "As the new reciprocal trade treaties were one by one achieved, their Latin beneficiaries exulted that, with cooperation and selflessness, suspicion and prejudice could be banished and human blessings attained. On his journey to Buenos Aires for a special Pan American Conference late in 1936, Mr. Roosevelt---besides being publicly embraced in Brazil by President Vargas---was lyrically cheered as the m-r-al folk hero of the two continents."[2]

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[1] Ibid., pp. 384-385.

[2] Duncan Aikman, The All American Front, p. 317.

The most important indication of the growth of good will caused by the trade agreements is the fact that not only have the South American nations with whom agreements have been signed reduced their tariff in accordance with the treaty terms, but many of them have also made moves to break down other portions of their economic barriers. For example, immediately after the signing of the trade agreement with Argentina on October 14, 1941, that nation began to revise its exchange-control system which formerly, as we have seen, was a very important and very rigid block in Argentine economic nationalism against the United States. A Trade Development Corporation was formed to promote trade with the United States, and a special commission was appointed by the Argentine Senate first to relax Argentine exchange discriminations against most American commodities, and second to look for the ultimate absolute abolition of the whole exchange control system.[1] Considering the more than ten years of trouble which this exchange control system has caused American exporters, the political effects of the Argentine reciprocal trade agreement, in just this one instance alone, have been more than enough to justify its negotiation.

On the occasion of the signing of the Argentine agreement, President Roosevelt sent a message to Dr. Castillo, which reads in part:

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[1]Department of Agriculture, Office of Foreign Relations, I, no. 11 (November, 1941), p. 449.

"The representatives of our two nations who have cooperated in the negotiation of this agreement are to be congratulated on this achievement in the cause of liberal principles of international trade conducted on the basis of fair dealing, equality of treatment, and mutual benefit. It is an outstanding contribution to the economic welfare of our two countries and to the reconstruction of peaceful and profitable trade in the Americas and throughout the world.

"In the years to come we shall look back upon the trade agreement signed today as a monument to the ways of peace, standing in sharp and proud relief upon a desolate plain of war and destruction."[1]

In the last analysis, the political effects of the Hull-Roosevelt trade agreements have been much the same as those of the other above-mentioned efforts at remedying the ills of economic nationalism. Their economic importance is distinctly secondary to their political importance; and that political importance consists primarily in showing the South American nations that the United States is sincerely desirous of correcting past errors, that she is willing to give up some possible profits to implement and make real the concept of Pan Americanism, and that no longer will she be the "Colossus of the North" but only the "good neighbor" of the north.

None of this can the trade treaties nor any of the other remedial measures accomplish by themselves, for the same reason that economic nationalism has by no means been the sole cause of Yankeephobia in South America. Nevertheless, as part of a general program, they have both their place and their beneficial results.

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[1]Quoted in Department of State, Bulletin V, no. 122, Publication 1653, October 25, 1941.

Some Future Possibilities in Hemispheric Trade

It is sometimes said that American reduction of its economic nationalism toward South America can go up to a certain point, and that beyond that point inter-American trade can never progress. The reason, they hold, is the essentially competitive rather than complementary nature of our respective economies. Free trade as a goal for this hemisphere, they maintain, is ridiculous and impossible.[1]

However, before we conclude with them that free trade can never exist in the Western Hemisphere because the United States must never permit cheap South American labor to undersell American products in the American market, it seems advisable to make a brief survey of the trade possibilities between the two halves of the hemisphere in order better to understand what some future possible situation of free trade might mean to the United States.[2]

First, the situation in products in which the United States normally has an exportable surplus, and which South American produces in important quantities.

1. Wheat. Argentina is the only important South American wheat-exporting nation, and it has sold the United States

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[1]For an exposition of this point of view see Carleton Beals, Pan America, pp. 380-381.

[2]Constant Southworth, "Toward Free Trade with Latin America", Foreign Policy Reports, XVII, no. 14 (October 1, 1941), pp. 174-176, from which most of this material is drawn.

practically no wheat. Since 1924 the United States has levied a duty of 42 cents per bushel of 60 pounds, which is equivalent to an ad valorem levy of 33 per cent. If the United States permitted foreign wheat to enter duty-free, it is probable that Argentina would ship a considerable amount of the cheaper grades of wheat to the United States, thereby lowering the domestic price. But it seems very unlikely that Argentina could threaten a very major portion of the American producers of higher grade wheat.

2. Petroleum. Since 1932 petroleum and its products have been subject to the equivalent of a 28.9 per cent ad valorem levy, but the trade treaties with Venezuela and Colombia have adjusted this to 13.8 per cent, which is, as tariffs go, rather low. It seems probable that if this remaining tariff were removed, importation of Venezuelan and Colombian oil would increase somewhat, but not very markedly because transportation costs give American producers this initial advantage.

3. Copper. In 1938 the United States had an export surplus of 83,000 tons; and during the years from 1933 to 1938, the import tax, affecting Chile principally, ranged from 35 per cent to 85 per cent. If the tax were removed entirely, some marginal producers in the United States would doubtless be removed, but most of the United States copper industry probably would hardly know the difference.

Second, the situation in commodities which the United States normally imports and which South America produces in important quantities.

1. Flaxseed. The United States Government has been buying up American flaxseed production since about 1934, but if the import tax were removed completely, as it has been reduced by the trade treaty of 1941, Argentine exporters most probably would ship considerable quantities to the United States and lower prices, though the relatively inelastic demand for flaxseed would place a limit on how far this price-lowering could go.

2. Chilled and Frozen Beef. The Tariff Act of 1930 imposed a rate of 6 cents per pound, in addition to the sanitary regulations which excluded all Argentine beef. If the tariff, which amounts to an ad valorem levy of 53.8 per cent, and the sanitary regulations were removed, an important market for Argentine beef would develop in the United States, for its best beef, because of cheap water transportation, would be sold in many American areas cheaper than domestic beef of a comparable grade. However, this would not mean that American meat producers would then be impoverished, for if the United States were to take one-third of Argentina's meat exports per year, it would supply only 2 per cent of our normal annual domestic consumption.[1] And this might well

[1]"The Havana Conference," Fortune, XXII (September, 1940), p. 150.

be a fair trade for the value in added Argentine good-will toward the United States which probably would ensue.

3. Canned Meats. The duty at present is 6 cents per pound, which is equivalent to 56.2 per cent ad valorem. If this duty were removed, imports of canned meat would probably increase considerably, but that increase would be limited by the American preference for fresh meat.

4. Wool. The present duty on the coarser grades of wool which we import principally from South America ranges from 24 to 34 cents per pound, or around 78 per cent ad valorem. If the duty were removed, the United States would probably shift some of its present imports from Australia to South America. The domestic producers, who specialize mainly in the finer grades of wool, would not be seriously affected.

5. Long-Staple Cotton. This includes most of Peru's annual crop of around 400,000 bales. Removal of the present 7 cents-per-pound duty (about 40 to 69 per cent ad valorem) would undoubtedly mean expanded importation of Peruvian cotton, but the rougher texture of that cotton would keep it from seriously damaging American producers.

6. Extra-Long-Staple Cotton. This includes about 10 per cent of Peru's annual crop, and the United States has always had to import this type of cotton. If the duty were removed, American producers of substitute cotton would be damaged somewhat. However, the difficulty and expense of

of production of this type of cotton is gradually making it lose out to strong rayon, and it is doubtful if the United States would find its domestic producers seriously threatened.

7. Corn. The United States imports little corn except in drought years. The duty is 25 cents per bushel of 56 pounds. This was equivalent to an ad valorem levy of 38 per cent in 1938. If the duty were removed, Argentina would probably be able to take advantage of the relatively cheaper water transportation to ship corn to the United States in considerable quantity, although these gains would be restricted mainly to the off-season in production of the United States.

8. Winter Vegetables and Fruits. The tariff rate on most vegetables and fruits is 80 to 100 per cent ad valorem. If that rate were removed, Florida and California truck gardeners might be hurt somewhat, although it seems likely that the difficulties involved in shipping perishable goods long distances would restrict the South American advantage.

The trade benefits which would probably accrue to the South American states in some possible future day of hemispheric free trade would be somewhat thus:[1]

Argentina would benefit chiefly in increased exports of flaxseed, wool, and, in some years, corn; also chilled and frozen beef, and winter vegetables would be exported in increasing amounts. The first three commodities in 1938 amounted respectively to 12.9, 11, and 12.6 per cent of Argentina's total export trade.

[1]Constant Southworth, *Op. Cit.*, pp. 182-183.

Uruguay would benefit from increased exports of flax-seed, canned meats, and wool, which amounted in 1938 to 5.3, 5.6, and 43.6 per cent of her total export trade.

Chile would benefit somewhat in copper, which made up 48.2 per cent of her exports in 1938; but she would experience no tremendous boom therefrom.

Peru would benefit from increased exportation of long-staple cotton, which, in 1938, made up 17.7 per cent of all Peruvian exports.

Brazil would be affected very little, for in 1939, fully 90 per cent of her exports entered the United States duty-free.

Venezuela would benefit from shipping petroleum and petroleum products, which in 1938 were 93.8 per cent of her exports. But the strength of the American petroleum industry would make her trade gains far from spectacular.

Colombia, 25.8 per cent of whose imports in 1938 were petroleum and petroleum derivatives, would be in much the same position as Venezuela.

The effect on Ecuador and Paraguay would be more or less negligible since both are relatively small nations whose annual exports to the United States are unimportant.

The economic benefits of free trade in the Western Hemisphere would fall largely to Argentina, Uruguay, Peru and Chile, though those benefits would not be so great as to cause much trouble for most American producers, beyond those of a marginal character. The principle benefits of such a program for the United States, aside from the concomitant lowering of South American tariffs, would be the political benefit of increased good-will from the South American nations; for just as the reciprocal trade agreements' political benefits outweigh their economic importance, so would a possible future state of hemispheric free trade be more important politically than economically. In summing up his excellent study of the possibilities of such a situation, Southworth says:

> "While all Latin American countries would not profit equally, they would undoubtedly hail the removal of United States import duties as a concrete and constructive manifestation of the Good Neighbor policy. It would do more than speeches, loans, and cultural co-operation to strengthen ties between this country and Latin America."[1]

Hence, when looked at from the standpoint of the probabilities of the economic and political consequences of free trade in the Western Hemisphere, such a possible future situation indicates neither collapse for American producers nor the sort of limits which would render such a program impossible. This does not mean that the author believes free trade to be either possible or even desirable overnight; but it does mean that as a goal toward which the Western Hemisphere nations can work through whatever means they think best, hemispheric free trade is both feasible and desirable.

The possibilities of the growth in South American of such industries as rubber, which the United States at present could

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[1]Constant Southworth, Op. Cit., p. 184.

find much use for, and which possibilities have been discussed in Chapter III, offer more opportunities for the improvement and coordination of hemispheric trade.

It is not necessary, however, to look so far in the future to find ways in which the United States can modify its policies of economic nationalism and thus cultivate more good-will in South America. One move which it is well within our power to make at present is to ratify the 1936 Sanitary Convention with Argentina, permit beef from the non-infected areas of Argentina to enter the United States market on a competitive basis, and thus remove our present ban on Argentine beef from its present somewhat hypocritical basis to a more honest one. The good-will which would accrue to the United States in Argentine from such a move would most probably far outweigh the economic consequences which it would entail. Of all the single remedial measures which the United States has attempted or might attempt, this measure would most probably produce the greatest amount of good-will toward the United States in South America.

CHAPTER VII

CONCLUSIONS

The problem which we have been studying is, by its very nature, a complex one. Out of the multitude of factors which have contributed to the course of the political and diplomatic relations between the United States and the South American nations since 1920 certainly no one, least of all the author, can assert with any finality exactly how important just one of those factors, American economic nationalism, has been. The best that one can do is to indicate certain evidences of the presence of the protectionist factor and endeavor to convey some idea of its approximate importance in influencing the general nature of the relations between the two portions of the hemisphere. That is what the author has tried to do in the previous sections of this study; and that is what he will try to do when addressing himself, in summary, to the question: what have been the principal political consequences of American economic nationalism toward South America?

They have been, first, the institution in the South American nations of measures of reprisal and self-defense against American economic nationalism. In this category are included the general raising of South American tariff walls against American commodities; the institution of rather rigid systems of control over foreign exchange in all the southern nations except Ecuador and Peru, with definite discrimination against American goods in the control systems of Argentina, Chile and Uruguay, and with only the Brazilian system discriminating in favor of American goods; general currency depreciation and manipulation in all the South American republics except Paraguay; and the general default on South American debts to the United States, although here the simple lack of ability to pay was probably a more important cause than the intention of a reprisal against American economic nationalism. The public statements of the various South American governments in instituting these measures together with the general popular reaction in South America indicate that these actions were, with the exceptions noted, caused to a large extent by the exigencies of the situation caused in South America by American economic nationalism.

Second was the general decrease of American trade with South America during the years from 1929 to 1933 in a greater proportion than South American trade decreased with the rest of the world. But here again American economic nationalism could not have been the sole cause for the reason that South American trade with the rest of the world did, because of the world-wide depression, decrease considerably.

Third, American economic nationalism contributed to the backlog of anti-United States feeling in South America which we have seen to be an ever-present, though varying in importance, factor in our relations with the southern republics. This consequence is most clearly shown in Argentina where a near-phobia has developed over the provision of the Hawley-Smoot Act of 1930 which banned all Argentine meat and meat products from the United States on sanitary grounds, and our subsequent refusal to ratify the Sanitary Convention of 1935 which would have removed much of the protectionist stigma from that 1930 ruling by permitting the entry of beef from Patagonia, where no hoof and mouth disease is present. In contributing to the general South American backlog of ill-will toward the United States, fundamental differences in cultural background, tradition and outlook together with the historical resentment of our activities in the Caribbean and in Central America are perhaps as important as American economic nationalism; but it seems clear that the latter has been present as one of the major contributing factors, especially to the Argentine attitude toward the United States.

Fifth, American economic nationalism contributed to the comparative failure of the 1923 and 1928 inter-American conferences to produce any very concrete cooperation between North and South America; and it contributed much to the high-water mark of ill-feeling toward the United States which the 1928 Conference and the subsequent five years represented, although the question of the right of the United States to intervene in the affairs of any other American state was an equally if not more disturbing question than American trade barriers.

Sixth, American economic nationalism and its results were a definite factor, though probably not the dominating force, in the refusal of Argentina and Chile to follow the other South American nations in supporting the resolution to break off relations with Germany, Italy and Japan, this controversy occurring the first time in the 1942 Meeting of the Foreign Ministers of the American States at Rio de Janeiro.

Seventh, the situation which American economic nationalism brought about ultimately gave rise to a number of American efforts to remedy the situation; these efforts, in turn, have had varying degrees of success in improving our relations with the South American nations. Their very existence, however, is due in large part to American recognition of the part our economic nationalism has played in our relations with South America. Among these efforts at reducing our economic nationalism have been our membership in and cooperation with the Coffee Control Committee and similar organizations for wheat and cacao, our participation in which is a far cry from anything resembling economic nationalism, and which has done much toward improving the South American opinion of the United States desire to cooperate; our policy of placing a ceiling on the prices of our exports to South America, which policy has saved the South American nations much money and has garnered for the United States much gratefulness and increased good-will; our Export-Import Bank loans to the South American nations which, if considered as temporary stopgaps for the leaks left by South America's loss of her European markets, have tided the southern nations over several bad spots, although in the long run these loans will probably be less important in making for friendship than any of the other remedial efforts; and finally, the Roosevelt-Hull reciprocal trade treaties which, while representing merely piecemeal lowering of very high tariff walls, and while of relatively little economic consequence, have, nevertheless, indicated to South America that the United States is willing to cooperate in the reduction and relaxing of economic nationalist controls. And these treaties, therefore, have created good-will out of proportion to their economic benefits.

Eighth, we have suggested that a possible future condition of free trade in the hemisphere would not mean ruin for American producers; and we pointed out certain channels into which possible future efforts at remedying the effects of past situations and the problems of the present might fall.

Perhaps the fairest summary is to state this: that while an approach to the problem of American relations with the South American nations purely from the point of view of economic nationalism and its bad effects can never provide the total solution to that problem, no permanently effective program of improving and solidifying hemisphere relationships can afford to ignore the lessons of the political consequences of American economic nationalism toward South America.

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