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THE MARTINEZ ERA:
SALVADORAN-AMERICAN RELATIONS,
1931-1944

A Dissertation

Submitted to the Graduate Faculty of the
Louisiana State University and
Agricultural and Mechanical College
in partial fulfillment of the
requirements for the degree of
Doctor of Philosophy

in
The Latin American Studies Institute

by
Carmelo Francisco Esmeralda Astilla
B.A., Louisiana State University, 1963
M.A., Louisiana State University, 1967
December, 1976
PREFACE

The research for this study entailed a thorough canvass of records in the National Archives in Washington, D.C., primarily those of the State Department, the Office of Strategic Services, and the Military Intelligence Division. Manuscript collections which proved to be most useful were the Henry L. Stimson Diary at Yale University and the Franklin D. Roosevelt Papers at the Franklin D. Roosevelt Library in Hyde Park, New York. The William Castle Papers in the Herbert Hoover Library at West Branch, Iowa were consulted as were the Cordell Hull Papers at the Library of Congress in Washington, D.C. The Jefferson Caffery Papers at the University of Southwestern Louisiana and the Henry Morgenthau, Jr. Papers at Hyde Park yielded little useful information.

An important source for this study also were the interviews with Salvadorans who lived during the Martínez era. Ambassador Héctor Escobar Serrano provided detailed accounts for the period during which he served as Ambassador to Mexico 1937-1940 and as Minister of Finance in 1944. The son-in-law of General Martínez, Sr. Victor Barriere, kindly shared his recollections of
the General and the events during the period as well as his role as a participant in the negotiations during the Bondholder's dispute in 1943. Sr. José Antonio Peñate, an Army officer during the period, discussed his role and that of his father, an Army Major and confidant of General Martínez. The attitudes and feelings of the common man during the regime of General Martínez were reflected in conversations with Sr. and Sra. Felix Domínguez Revelo (an engineer), Sra. Amana Calderón (a student at the time), and Sra. Lolita Barauna (a teacher at the time).

The completion of this study marks the culmination of several years of graduate study during which time the author has incurred a large number of debts which cannot be adequately repaid. I want to thank all who assisted along the way. To Dr. Jane de Grummond, who filled in after Dr. J. Preston Moore's departure, I wish to express my sincerest gratitude. To Dr. Leonard Cardenas, for his invaluable assistance, thank you. Likewise, I wish to thank Drs. Miles Richardson and S. Lee Richardson for their guidance and assistance during my graduate studies. And lastly, I want to thank Dr. Burl Noggle for reading the manuscript. To Mrs. Miriam deHart, who did so much of the leg work during my years at the Latin American Studies Institute, thank you. To my
sisters, Sonia, Fenita and Marling who typed the drafts, my wife Nelia and my family for their support, salamat.

While all of the above mentioned assisted me greatly, the responsibility for this study is mine.
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ABSTRACT

This is a case study of relations between El Salvador and the United States during the presidency of General Maximiliano Hernández Martínez, 1931-1944. Of all the Caribbean and Central American nations, El Salvador had steered the most independent course in its relations with the United States since the turn of the century.

While there existed a lack of drama in the earlier relations between the two nations, the Martínez era, 1931-1944, reflects the traditional ingredients of Latin American domestic politics pitted against changing national priorities in a changing world situation, the threat of European intervention and more significantly, a test for the Good Neighbor policy of the United States.

In 1906 and again in 1923, encouraged by the United States, the Central American nations signed treaties designed to insure regional political stability. Non-recognition was the instrument to deter would-be rebels from carrying out their plots. On the other hand, a 1922 financial agreement became a source of problems for both nations. El Salvador, on the brink of bankruptcy, had borrowed over sixteen million dollars from
private lenders in the United States. These issues shaped events during much of the rule of General Maximiliano H. Martínez.

When General Martínez became president in 1931, as a result of a coup the United States, bound by the 1923 Treaty, refused to recognize his government. Non-recognition combined with the economic depression and the subsequent collapse of coffee prices had serious economic and political repercussions. As a result, a Communist-inspired revolt occurred in January 1932. The attempted overthrow failed, but severe retaliatory measures taken by General Martínez resulted in the death of over ten thousand Salvadorans. Furthermore, the economic and political crises prompted El Salvador to suspend payment on its 1922 loan. Non-recognition and default strained Salvadoran-American relations.

The presence of ill-prepared United States representatives in El Salvador, the emergence of Hitler's Germany and Mussolini's Italy in Europe and the attraction of General Martínez to totalitarianism and authoritarian rule, provided a potential breaking point for the proclaimed Good Neighbor policy of the United States. However, unlike the experience of Nicaragua, Cuba and the Dominican Republic, El Salvador was spared external intervention in its domestic affairs by the larger nation.
A common interest in hemispheric defense against possible European subversion during the years 1939-1944, helped to overcome major differences between the two nations. World conditions prompted the United States to modify its policy on the recognition of governments, while economic considerations tempered General Martínez's admiration for authoritarian rule and a corporate economy. The United States generously assisted El Salvador through Lend-Lease, Export-Import Bank loans, and the Inter-American Coffee Convention of 1940, while El Salvador cooperated fully with the United States in the war effort.

The Martínez Era represents an accommodation of interests by nations of unequal size and power in the light of world realities. Plagued initially by serious differences, the Martínez period marks a stepping stone in the expression of good-will by the United States towards El Salvador and by extension, to Latin America during those critical years.
CHAPTER I

SCOPE OF STUDY

Although formal diplomatic relations are only a part of the whole pattern of international relations, commercial, cultural and political intercourse between nations can be severely restricted without them. Because of the great influence of the United States in the Western Hemisphere, a Latin American government with no diplomatic relations with the United States has traditionally found it difficult to engage freely in the community of nations. Normal diplomatic relations presuppose formally declared acts of "recognition of governments."

The national interest, powerful domestic interests, or a changing world situation have dictated the criteria applied to the recognition of new governments. In the early years, the United States found such fairly objective requirements as de facto control of the state and the ability to discharge international obligations sufficient to establish normal diplomatic relations with a foreign nation. Continued and uninterrupted diplomatic relations with Latin American states were important to the expansion of private trade and investment.
activities in the region.

However, real and imagined abuses by foreign creditors in Latin America and the chronic financial difficulties faced by many of the nations there, suggested the possibility of European intervention and a threat to the security of the United States. Because the domestic affairs of Latin American countries now became a matter of United States concern, the kind of government to be recognized assumed a new importance. Subsequently, the "willingness" of a new government to fulfill the commitments of previous regimes was demanded and, in many cases, followed by precise and detailed agreements. Under President Woodrow Wilson a new government must have also come into power by constitutional means and represent the will of the people before it could be recognized by the United States. It was the emergence of Franklin D. Roosevelt's "Good Neighbor" policy that marked a return to less demanding conditions for the initiation of diplomatic relations, thereby decreasing tensions in United States-Latin American relations.¹

United States relations with El Salvador during

the presidency of General Maximiliano Hernández Martínez 1931-1944, provides a good subject for a case study of relations between two nations of the Western Hemisphere, one large and the other small. El Salvador is a good example because of all the Caribbean and Central American nations it had steered the most independent course in its relations with the United States since the turn of the century. It had avoided serious entanglements with its powerful neighbor to the North and had escaped the direct intervention in its internal affairs unlike the experience of Nicaragua, Cuba and the Dominican Republic.

While there had existed a lack of drama in the earlier relations between the two nations, the Martínez era 1931-1944, has provided students of Salvadoran history with events of significance. It was General Martínez who, in his effort to uphold his position and his country's national integrity, resisted United States pressure to resign during the early 1930's. By his successful resistance, he proved decisively that the outmoded non-recognition policy of the United States was untenable and thus forced the United States to abandon it.

On the other hand, it was also during the Martínez era that the United States proved its sincerity in the
application of the "Good Neighbor" policy during the bond default controversy when it decided (much to the dismay of American bondholders) not to intervene in the internal affairs of El Salvador.²

Later during the Martínez era, as the war in Europe expanded, both nations cooperated freely with one another in the effort to maintain the security of the Western Hemisphere. The cooperation was such that General Martínez, enamored as he was with authoritarian ideas and totalitarian rule, tempered his personal ideological beliefs sufficiently to work with the United States for the best interests of the region. The United States made cooperation much easier with very generous programs of assistance such as Lend-Lease, coffee "subsidies" through the Inter-American Coffee Agreement and loans from the Export-Import Bank. As a result, the two nations, the smallest and the largest in the hemisphere, one totalitarian, the other democratic, worked with a great deal of unanimity of interest during the war years.

The study which follows relates the development of the diplomatic, economic and war-time relations between El Salvador and the United States during the 1931-1944 period — the Martínez era.

²The term American, as used in this study, refers strictly to the United States of America.
CHAPTER II

THE SETTING

Roots of the Problems

At about 10 P.M. on December 2, 1931, elements of El Salvador’s First Infantry began firing at the Presidential Palace directly across the street from the infantry barracks. The shots marked the beginning of the revolt which made General Maximiliano Hernández Martínez the ruler of El Salvador. The gunfire also marked the start of a new era in Salvadoran-American relations.

To many American observers, the sudden rise of General Martínez to power was characteristically Central American in nature. To them, power acquired through a coup d’etat was as natural in Central America as considering the banana to be the main export.

But such coups d’etat were also often followed by another characteristic which in itself was Central American in nature. This was American intervention

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1 Minister Charles B. Curtis (El Salvador) to Secretary of State Henry L. Stimson, December 5, 1931, file 816.00 Revolutions/35, R.G. 59, N. A.
in the internal affairs of the revolutionary governments. Such meddling in Central America occurred numerous times during the early twentieth century. Invariably such interventions were the result of lingering problems that had plagued the Meso-American region for many years. Part of the blame for the misunderstandings can definitely be placed upon the shoulders of the United States because whatever her motives, she did intervene in the internal affairs of some nations in the area.

Some of the reasons for American activities which caused misunderstandings can be explained. First, the United States desired a secure and stable Caribbean area to insure free passage through the Panama Canal and hopefully, at the same time, to assist the economic and political progress of the nations there. Second, the United States competed with Mexico and Europe for political and economic dominance in the region. A third factor, more difficult to gauge but still significant in some cases, was the detrimental effect of the way some American officials and private citizens conducted themselves during their stay in

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the area.\textsuperscript{3} To be sure, there were other factors, however, those mentioned prompted the errors in judgements in the early twentieth century which later caused more serious difficulties.

The effort to achieve stability was a commendable objective for the United States, but the problems which emanated from these efforts were such that animosity rather than goodwill often resulted.

After the United States acquired the territory for the Panama Canal, concern for the security of the future waterway influenced the relations between America and the countries in the surrounding area. Early in the century, American leaders were greatly concerned with the threat of European intervention in the region. To allay this fear of European involvement, the United States acted to stabilize the area by reducing political tensions among the various Central American nations.\textsuperscript{4} Accompanying this desire to minimize unrest in Central America for security reasons


\textsuperscript{4}Raymond Leslie Buell, Research Director of the Foreign Policy Association discussed the American attempts to stabilize the area in: New York Times, January 11, 1931.
was the hope that through stability, political and economic progress might be achieved by these nations. For these reasons, in 1907, the United States, along with Mexico, called for a conference of the Central American nations to find ways to ease tensions which had arisen from rivalries between leaders. The most serious problems stemmed from the bitter conflict between two strongmen, José Santos Zelaya of Nicaragua and Manuel Estrada Cabrera of Guatemala.

The Central American leaders agreed to meet in order to lessen tensions, but at the same time they harbored ulterior motives for participating. The Americans and Mexicans were also less than totally idealistic in calling for the peace conference. The Americans planned to use the meetings to prepare the ground for the economic penetration of the area. The Mexicans wanted to hold the conference in order to establish a peaceful Central America, but one in which the four smaller nations would be strengthened against Guatemala while looking toward Mexico for leadership. Moreover, the Central American leaders saw the confere-
rence as an opportunity to entrench themselves in power.⁶

Despite divergent motives for attending the conference, the participants cooperated sufficiently so that the resultant 1907 Central American Treaty of Peace and Amity contained praiseworthy ideas. One was the creation of a Central American Peace Court as a vehicle to settle differences. It had jurisdiction over interstate disputes.⁷ The treaty also contained clauses which dealt with the issue of recognition, a subject brought up at the conference by the Central Americans themselves. The recognition clause was based upon the ideas developed by the noted Ecuadorian jurist, Dr. Carlos Tobar. The essence of the "Tobar Doctrine" was that no diplomatic recognition would be granted to any government which had gained power by means of a coup d'etat or revolution until freely elected representatives had constitutionally reorganized the country.⁸


The United States, although not a signatory to the treaty, felt "morally bound" to it.\footnote{Jones, \textit{The Caribbean Since 1900}, p. 425.}

The effects of the treaty on the Central American nations were minimal. The Court of Justice proved ineffective because of the highly political nature of the cases brought before it. Moreover, the judges seemed unable to keep their individual national interests out of the decisions. Before the ten years had expired, the court had lost its usefulness.\footnote{Ibid., pp. 425-426.}

However, it was the recognition clause of the treaty which created the greatest difficulty between the United States and Central America. At the signing of the treaty, the incumbent presidents were very pleased with the recognition clause because it provided them with "a guarantee of the \textit{status quo} and a perpetual leasehold on office."\footnote{Wright, "Free Elections in the Latin American Policy of the United States," p. 93.} Furthermore, those governments in office could simply pay lip-service to the matter of free elections since they in fact controlled all elections. Thus the recognition clause of the treaty served to defeat the intent of the United States to have free and democratic elections. On the other
hand, while it did keep the area's politics relatively stable, the price paid came in the form of oppressive dictatorships which were perpetuated in office. Thus the Central Americans were deprived of the right to revolt against abuse by the ruling government. Such was the case of the Meléndez-Quiñones dynasty in El Salvador which ruled the country from 1913-1927. The long rule of Manuel Estrada Cabrera in Guatemala was also perpetuated to some degree by the 1907 treaty. Overall, however, the treaty did serve to lessen tensions between the Central American nations for a while.¹²

By 1920, when political conditions began to deteriorate again, the idea of a united Central America was revived and El Salvador proposed a conference among the five Central American states to revise the 1907 treaty and consider a union. As in previous attempts, the union plan failed and by 1922 tensions between the neighboring nations had become intense, especially along the Nicaragua and Honduras border. New hostilities erupted and again an effort to pacify the area was made. The result was another conference held in Washington, D.C. from December 4, 1922 to February 7, 1923. Secretary of State Charles Evans Hughes served as the host with Sumner Welles steering the conference

most of the way. Again, the United States, though not a signatory to the resultant 1923 Central American Treaty of Peace and Amity, felt morally bound to abide by it. The major difference between the 1923 treaty and the one it replaced was the "strengthening" of the recognition article in the newer version. Article II of the General Treaty of Peace and Amity of 1923 reads as follows:

Desiring to make secure in the Republics of Central America the benefits which are derived from the maintenance of free institutions and to contribute at the same time toward strengthening their stability, and the prestige with which they should be surrounded, they declare that every act, disposition or measure which alters the constitutional organization in any of them is to be deemed a menace to the peace of said Republics, whether it proceed from any public power or from the private citizens.

Consequently, the Governments of the Contracting Parties will not recognize any other government which may come into power in any of the five Republics through a coup d'état or a revolution against a recognized Government, so long as the freely elected representatives of the people thereof have not constitutionally reorganized the country. And even in such a case they oblige themselves not to acknowledge the recognition if any of the persons elected as President, Vice-President or Chief of State designate should fall under any of the following heads:

1) If he should be the leader or one of the leaders of a coup d'état or revolution, or

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13Munro, The United States and the Caribbean 1921-1933, pp. 118-125; New York Times, January 11, 1931.
through blood relationship or marriage, be an ascendant or descendent or brother of such leader or leaders.

2) If he should have been a Secretary of State or should have held some high military command during the accomplishment of the coup d'état, the revolution, or while the election was being carried on, or if he should have held this office or command within the six months preceding the coup d'état, revolution, or the election.

Furthermore, in no case shall recognition be accorded to a government which arises from election to power of a citizen expressly and unquestionably disqualified by the Constitution of his country as eligible to election as President, Vice-President or Chief of State designate. 14

Thus, the sanction of non-recognition was deliberately designed to function as a coercive measure to promote stability and constitutional rule. 15

The idea for strengthening the recognition article was proposed and insisted upon at the Washington conference by the Costa Rican delegation. The head of the delegation was ex-president Alfredo Gonzales Flores, whom Federico Tinoco had ousted in a coup in 1917. President Woodrow Wilson in turn, using the tactic of


non-recognition, forced Tinoco to resign from office two years later. The objective of the Costa Rican delegation at the 1923 conference was thus to show other would-be revolutionaries that, like Tinoco, their efforts would end in failure. Costa Rica's own president at the time, Julio Acosta, was a strong supporter of the article. 16

The 1923 Treaty was unanimously approved by all the participants. El Salvador's national assembly ratified it, but with reservations on parts of the agreement, including Article II which dealt with the recognition issue. 17 This objection to Article II was later used by General Martínez in claiming his legal right to be president and thus entitling him to full recognition by the United States. Undoubtedly, the 1907 and 1923 Central American treaties had placed serious responsibilities upon the shoulders of the Americans.

The difficult task faced by the United States in Central America was also due, in part, to its own desires to expand its economic influence in the area.


17 New York Times, November 22, 1932; Munro, The United States and the Caribbean, 1921-1933, p. 126
This was evident in the increased number of loans made by American bankers to Central American nations. For the most part, American bankers replaced Europeans in this part of the world. However, while American activities increased in Central America, so too did the efforts of Mexico to exert more influence in the region. This spreading of influence by a rival nation concerned some American government officials during the 1920's.\(^{18}\) The rivalry between the two nations led them to take opposite positions on many issues dealing with Central American affairs. Nowhere was this contest more evident than on the question of recognition of revolutionary governments. The Mexican support of governments which the United States refused to bless with recognition created serious difficulties for American officials.

Moreover, many of the problems faced by American diplomats in Central America were made even more difficult by the individual shortcomings of the official representatives assigned there. Within the American diplomatic corps, it was generally believed that a post to Central America was the least desirable

appointment possible. This prompted the *New York Times* to comment that: "Many men feel they are forced to do a penance if they are stationed in one of the Central American capitals." This disdain was apparent in the actions of some individuals sent to the area. El Salvador had the misfortune of having one such man who served there as American Minister during the period 1921-1925. Montgomery Schuyler exemplified what has come to be called the "ugly American" by his conduct there. He considered himself a "President maker" and "let it pretty generally be known that what he said was law." Schuyler was also held responsible for the resignation of the Salvadoran Minister of Foreign Affairs Francisco Paredes in 1922, because of their disagreement over America's role in Salvadoran internal affairs. Schuyler has been described as a man "muy duro, muy violento." To the sensitive Salvadorans, this type of conduct was very insulting.

An editorial in the *New York Times* clearly

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20 Minister Warren D. Robbins (El Salvador) to Assistant Secretary of State William Castle, May 6, 1929, folder "Salvador 1929-1931," Box 8, William Castle Papers, Herbert Hoover Library.

21 Interview with Ambassador Serrano, December 1975, San Salvador.
perceived the effect of such conduct on the Latin Americans: "It is doubly true in our relations with Mexico and Central America that in diplomacy the 'tone' is everything -- that it makes the song, as Lord Palmerston said...what we need to correct is not so much our intentions as our manners."

The arrogant conduct and condescending attitudes of some Americans in El Salvador and other Central American countries, although not always acting in official capacities, often contributed to the problem. Many businessmen and their wives were often guilty of this attitude, some of them not bothering to learn to speak Spanish in spite of their lengthy stay in the region. Such conduct made the task of badly understaffed American legations much more difficult. Thus, undesirable attitudes and behavior of some Americans were in part responsible for the tarnished image many Latin Americans had of the United States.

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Diplomatic and Economic Relations During the 1920's

World War I was a watershed in the diplomatic relations of the United States with the nations of the world. By the early 1920's, Woodrow Wilson's policy of non-recognition of governments established by force had become entrenched in the conduct of American diplomacy. During his tenure as Secretary of State Charles Evans Hughes attempted to correct some of the mistakes of the past and establish a "Pax Americana" based on mutual respect and good will. The Washington conference of 1922-1923 attempted to deal with the problems of international relations particularly in the Central American region. However, it was not until the late 1920's, under the stewardship of President Herbert Hoover and Secretary of State Henry L. Stimson, that an evident change had begun to evolve in America's Latin American Policy. Basically, the Hoover-Stimson doctrine was a reversal of the interventionist policies fostered by the Roosevelt Corollary and the moralistic non-recognition policy advocated by Woodrow Wilson. The change acknowledged

the problems with non-recognition in the past. Later, in a speech before the New York Council of Foreign Relations, Secretary Stimson maintained that in all of Latin America, except the five Central American republics, the United States policy was to grant recognition when it became apparent that the new governments were in control of the administrative machinery of state, with the apparent acquiescence of their people, and that they were willing and able to discharge their international and conventional obligations. In the case of the five Central American nations the 1923 Treaty prevented the implementation of the new policy.25

To be sure, this was just the beginning of the transition since American intervention in Central America was still evident in Nicaragua. But the lesson had been learned that such interventions served little purpose.26 As the new policy evolved the Central Americans, appreciative of the improvements, returned the courtesy by receiving President Hoover graciously during his tour there in 1928.27 *Excelsior*, Mexico's


leading newspaper and a frequent critic of American activities in Latin America, acknowledged some of Hoover's diplomatic successes at the end of his term in office in 1932.\textsuperscript{28} Still, much more needed to be done to correct mistakes of the past.

The economic prosperity experienced by the United States during the 1920's helped to foster closer economic ties with Central American nations. During the period Americans became lenders to the world replacing the Europeans. American bankers practiced a free loan policy so that many of them, unaccustomed to international finance, lent money where more experienced European bankers would have been reluctant to lend. Furthermore, many such loans were contracted with somewhat onerous terms to offset the risk inherent in dealing with politically unstable republics. While these measures protected the bankers, they also made default almost inevitable in a financial crisis.\textsuperscript{29}

Because economic and political considerations

\textsuperscript{28}\textit{Excelsior}, November 9, 1932.

\textsuperscript{29}Max Winkler, "Investment and National Policy of the United States in Latin America," \textit{American Economic Review}, XXII: Supplement (March 1932), p. 144; The company which handled the Salvadoran bonds, F.J. Lisman and Company, did very well with the 1922 loan. While the average profit on all loans made to Latin America during the 1920-1930 period was 5.06 percent, Lisman made 11.36 percent on the Salvadoran loan. Tulchin, \textit{The Aftermath of War}, p. 76.
are closely intermeshed in a nation's foreign policy, the State Department inevitably became involved in the free lending practices of the bankers. Although the State Department officially disclaimed passing judgement on loan proposals, it was active in dictating general terms for many loans to Central American governments. The setting of conditions for the loans by the Department, and participation in the negotiation of proposals, was interpreted by many bankers and prospective bond purchasers as tacit approval or disapproval of the loans. Moreover, unscrupulous banking houses, despite State Department's disclaimers, advertised and sold bonds as though the State Department guaranteed them. In a 1936 review of bond sales Minister Frank Corrigan found that even in Britain buyers were under the impression that the bonds had the full backing of the United States government.\(^{31}\) A 1937 Securities and Exchange Commission investigation of the practices of

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American bankers characterized some of the financiers as being "reckless and inept" and accused others of indulging in "outright chicanery" in their foreign lending practices.\textsuperscript{32}

El Salvador, like many other Latin American countries, fell victim to the easy credit available during the time. It was among the very first to benefit from the extravagance of foreign loans from American bankers. In 1922, the nation's economy was on the verge of bankruptcy; the salaries of public servants, the military, school teachers and the police were badly in arrears. Furthermore, the Salvadoran debt to Great Britain was in default and the fear existed that unless the situation was remedied the British might be forced to intervene in the internal affairs of the country.\textsuperscript{33} In a desperate effort to solve its financial crisis El Salvador turned to the United States for assistance.


\textsuperscript{33} Lavis, \textit{The El Salvador Bondholders Protective Committee Report}.
Montgomery Schuyler, the new American Minister to El Salvador, was anxious to help in order to avert Salvadoran bankruptcy, as well as to assist American financial institutions in expanding their operations in the area. The result of his efforts to aid President Jorge Meléndez was the signing of a consolidated loan between El Salvador and Minor C. Keith. Although the loan was negotiated in 1922 it was not consummated until the following year. The loan was acquired for the following purposes: (1) to retire the nation's internal debt; (2) to retire the debt to Great Britain; and (3) to fund a public works program. Included in the latter project was the construction of sanitation facilities in the capital city of San Salvador, asphalting of roads throughout the country, and the subsidizing of a railway from the port of La Union at the southeastern tip of El Salvador to the capital. The railway later became part of the International Railways System of Central America (I.R.C.A.) which connected El Salvador to the Guatemalan town of Puerto Barrios on the Caribbean side. This port was

34 The I.R.C.A. was a very important adjunct of the United Fruit Company throughout Central America. Fred Lavis to Corrigan, February 16, 1937, Corrigan Papers, Franklin D. Roosevelt Library. Lavis succeeded Keith to the presidency of the I.R.C.A. in 1929. Later on, he became head of the Salvadoran Bondholders Protective Committee.
El Salvador's outlet on the Atlantic coast.

The bonds were issued under a loan contract between El Salvador and Minor C. Keith the President of I.R.C.A. and a founder of the United Fruit Company of New York. Keith had played a principal role in the negotiations and at the conclusion earned a substantial sum for his services. Moreover, his railroad company, along with United Fruit, greatly benefited from the loan to El Salvador. The bonded debt consisted of the following items:


The bonds were guaranteed by a lien on seventy

35 Munro, The United States and the Caribbean Republics,1921-1933, pp. 149-151.

36 Walter Thurston (Division of Latin American Affairs) Memorandum to Assistant Secretary of State McGeorge Bundy, September 3, 1931, file 816.51/643, R.G. 59, N. A.; Lavis, "The El Salvador Bondholders Protective Committee Report."
percent of all customs receipts on both imports and exports. Further, if seventy percent of the receipts was not adequate to service the loan, the total customs receipts would then be utilized. Should that not be sufficient, the deficiency was to be covered by El Salvador from other sources of revenue. As an added security measure, the Metropolitan Trust Company of New York was designated by Minor Keith to act as fiscal agent for the loan. The agent, in turn, appointed a fiscal representative to reside in San Salvador to certify and supervise the collection of revenues in each of the customs houses in El Salvador. The actual collection of duties was carried out by a Salvadoran agency and only in the contingency of a default was the American fiscal representative authorized to undertake customs collection. This arrangement was different from the Nicaraguan and Santo Domingo plans in which customs revenues without reference to default were placed directly under the administration of an American Collector General with several American deputy collectors.

Provisions were also included to cover the even-tuality of a dispute between the contracting parties. In such a dispute the final referee was to be the Chief Justice of the United States Supreme Court. Should the Chief Justice be unable to act the American Secretary of State was then empowered to designate some
other member of the Federal Judiciary of the United States to act in his place. The contract also provided that in the event that El Salvador, for any reason, default for thirty days in the fulfillment of its obligations, the Fiscal Agent was empowered to create a customs administration and appoint a Collector General approved by the Secretary of State and the government of El Salvador. Through a series of exchanges with the attorneys of Minor Keith, the Secretary of State's office became committed to carry out its obligations in the contract. The commitment was confirmed in a letter from Assistant Secretary of State Robert Woods Bliss to Messrs. Robert Lansing (former Secretary of State) and Lester H. Woolsey (former Solicitor General) dated July 15, 1922, in the following terms:

In this connection, I may inform you that the Secretary of State on his part is prepared to carry out the stipulations ...of the loan contract, should it become necessary to do so.

In other exchanges between the American Legation at San

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37 Thurston to Bundy, September 3, 1931, file 816.51/643, R.G. 59, N. A.

38 Fred Lavis, "The El Salvador Bondholders Protective Committee Report."
Salvador and the Salvadoran government in June and July of 1922, the willingness of the State Department to carry out its obligations was further confirmed.  

During the period after the acquisition of the loan, El Salvador was fortunate in that it had adequate customs revenues to service the loan. Although the Salvadorans did not like the stipulations of the contract which required the presence of the fiscal representative in San Salvador, no protests arose primarily because of the tact and ability of the representative, William Renwick, who "fell in love with El Salvador" and ingratiated himself with the people by his excellent conduct and unobtrusiveness. During his long stay in El Salvador he married a Salvadoran lady. During the 1930's however, the situation changed drastically and the loan became a source of difficulties for the United States and the regime of General Martínez.

The loan of 1922 was the only source of significant economic problems between the United States and El Salvador during the period. Unlike the situation in other Central American countries, there were no

39 Thurston to Bundy, September 3, 1931, file 816.51/643, R.G. 59, N. A.

40 Interview with Ambassador Serrano, December 1975, San Salvador.
large American landholdings or industrial investments in El Salvador. A healthy trade flourished between the two nations. El Salvador exported to the United States coffee, "balsam of Peru," sisal, reptile skins and hardwood lumber. In return, El Salvador imported cotton materials, wheat products, processed meats, rubber products, chemicals, medical instruments and small machinery. During the 1925-1929 period, the United States maintained a favorable balance of trade, exporting an average of $8,000,000 to the Salvadorans while importing an average of only $3,000,000 from them. Of El Salvador's exports to her Northern Neighbor, the largest proportion consisted of coffee, which during the 1920's increasingly became almost the only Salvadoran export. During the 1920-1929 period the proportion of coffee in the total Salvadoran exports rose from sixty-nine percent to ninety-three percent. The economic prosperity of the 1920's thus caused the Salvadorans to become dependent on coffee sales as the primary source of income. When 1929


brought an end to the boom, El Salvador suffered severe social and economic dislocations with corresponding political repercussions. A successful coup d'etat took place on December 2, 1931, which ushered in a new era for El Salvador under the dictatorship of General Maximiliano Hernández Martínez.

The Emergence of General Martínez

From the viewpoint of the United States, which had for many years attempted to stabilize the turbulent Central American nations by promoting freely held elections, it seemed ironic that the violent coup d'etat of December 2, 1931 was triggered by such an attempt. The ballots cast had barely been counted when the seeds of discontent were sown. But the revolt which brought General Martínez to power had actually been brewing for some time. It started with El Salvador's change from a stable albeit repressive dictatorship and ended with the ill-fated experiment with democracy.

In 1927 Dr. Pío Romero Bosque was elected president of El Salvador, the choice of the Meléndez-Quinnónez families which had ruled the country since
Romero Bosque, however, disappointed his benefactors. His rule helped to unleash the frustrations of Salvadorans who had suffered many years of repression under the Meléndez-Quinonez dynasty. During his term in office he allowed a free press to function, restored the constitutional rights of individuals, and generously allowed political exiles to return. Unlike his predecessors, he was honest and even shared power with other political groups, much to the dismay of the oligarchy and the army.

One of the reasons for Romero Bosque's willingness to break with the family which had placed him in the presidency was the degree of economic success which the nation experienced at the start of his term in office. In the previous year (1926), the value of El

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43 The family rule began with Carlos Meléndez from 1913-1919. He was succeeded by his brother Jorge Meléndez from 1919-1923. Jorge's brother-in-law, Dr. Alfonso Quinonez-Molina continued the rule from 1923-1927. Under the Constitution of 1886, Quinonez could not succeed himself, so he chose a close friend, Dr. Pío Romero Bosque, to be his successor, but also dictated to the National Assembly that he be chosen Vice-President with the intention that he would oust Bosque and get back in power. Jones, The Caribbean Since 1900, p. 442; New York Times, October 5, 1930.

Salvador's coffee export was the highest in the nation's history. The prospect for more years of record exports encouraged President Bosque to feel more secure in carrying out his political reforms.

Unfortunately, Bosque's early economic successes were followed by a disastrous ending. By 1929, the price of coffee had begun to decline rapidly and by 1930 had reached critical levels. The effect on El Salvador's one-crop economy was devastating. The end of Romero Bosque's tenure had become a nightmare. The vitally needed customs receipts were dangerously low while police and military salaries were badly in arrears. Moreover, as El Día, a Salvadoran paper, commented, the country needed more than liberal reorganizations. "What is most apparent in the country is the disorganization of the services of state. On all sides disorganization is felt...everybody does as he likes and the soil hardly produces a small part of that which it should." Still, in keeping with his

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45 Brannon, El Salvador, esquema estadística de la vida nacional, p. 24. The value of the colon fluctuated between 2 and 2.5 per dollar during the time, but since 1934 has remained constant at 2.5 per dollar.

46 Charge' d'Affaires W. W. Schott (El Salvador) to Stimson, February 3, 1930, file 816.00/766; August 24, 1930, file 816.00/773, R. G. 59, N. A.
promise to carry out free elections, he once again betrayed the oligarchy which had put him in office by not "appointing" his successor as had been the common practice in the past.

The liberal reforms instituted by Romero Bosque during his term in office appeared to backfire on the Salvadorans when a combination of economic distress, a restless military and police, and a welter of candidates for the presidency gave the pending elections the appearance of being anything but "free and democratic." The American Minister in San Salvador, Warren D. Robbins had taken an active part in the campaign. He strongly urged President Bosque to carry out his election reform pledge and hold constitutional elections. He suggested that "in light of what had happened elsewhere in Latin America, it would make El Salvador famous." The free elections would be especially significant coming on the heels of a successful revolution in neighboring Guatemala. Minister Robbins observed that the State Department's refusal to recognize Orellana in Guatemala had helped to maintain stability in El Salvador because "there was a military clique here that would have immediately followed the example set there" (had they been recognized).\(^{47}\) His suggestions

\(^{47}\)Minister Warren D. Robbins (El Salvador) to Stimson, January 2, 1931, file 816.00/782, R.G. 59, N. A.
were not lost on the Salvadoran leaders.

Thus, the American involvement in El Salvador's election, although indirect, was significant. As early as 1930, aspiring candidates had consulted with the American Minister to determine his views regarding their candidacies. Because of the power and prestige of the United States every American word or deed regarding an issue or controversy was bound to be interpreted as favorable or unfavorable to one side or the other. Arturo Araujo, one of the candidates in the election, bluntly summed up the value of the American Minister's support when he said that "the slightest manifestation of interest by the United States Minister in any of the candidates would pretty much insure his success." The official position of the State Department was that there should be no participation by American representatives which could be construed as "intervention" in the affairs of another country. Yet, it was not out of order, when advice was sought, to suggest the proper course of action to be taken. Such action, however, was usually based on the desire of the United States to maintain political stability in Central America and thus keep

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48 Schott to Stimson, February 13, 1930, file 816.00/767, R. G. 59, N. A.
the area safe from the danger of revolution or outside intervention.49

The first "free" presidential election ever held in El Salvador took place without incident during January 11-13, 1931. Of the six candidates who had entered the campaign initially, two, Dr. Alberto Gómez-Zarate, the former Minister of War, and Arturo Araujo, an engineer and respected coffee planter and rancher, became the front runners.50 One of the military candidates, General Maximiliano Hernández Martínez, agreed to withdraw at the last minute and gave his support to Arturo Araujo. For his support, General Martínez expected and later received the Vice Presidency and a very important cabinet position as Minister of War.51

The election results indicated that although


50 Schott to Stimson, January 16, 1930, file 816.00/765, R.G. 59, N. A.

Arturo Araujo had a clear majority over his closest rival, he did not have a simple majority of all the votes cast. Thus, the election had to be decided from among the three top candidates by the National Assembly as stipulated by the Constitution.\(^2\) On February 12, 1931 Araujo was unanimously chosen by the legislative body. His victory in the assembly was insured when he was able to get the support of deputies loyal to Gómez-Zarate and Enrique Córdova. The price Araujo had to pay for the support was high. He had to promise to reimburse the men their campaign expenses.\(^3\) The price he paid was much too high in light of his short tumultuous stay in office.

President Araujo entered office a man highly respected for his honesty and integrity. American Charge W. W. Schott described him as a "splendid gentleman who has done much for the progress of his country... In his section of the country he is greatly admired and respected and his people have a passionate attachment to him."\(^4\) Yet, despite his honesty and

\(^2\)Robbins to Stimson, January 16, 1931, file 816.00/791, R.G. 59, N. A.

\(^3\)Charge d'Affaires Harold D. Finley (El Salvador) to Stimson, June 2, 1931, file 816.51/618, R. G. 59, N.A.

\(^4\)Schott to Stimson, February 3, 1930, file 816.00/766, R.G. 59, N. A.
integrity he proved to be a poor choice during such a critical period in Salvadoran history.

President Araujo's problems began soon after he took office on March 1, 1931. He found himself facing an empty treasury, a floating debt of about $4,000,000 and with no apparent income. The customs revenues, after the loan of 1922 had been serviced, had already been pledged by the preceding government to certain external creditors. Although he was the candidate of the Labor Party during the election, labor problems became prevalent when he took office. The campesinos who were promised higher wages and better working conditions during the election sought the immediate fulfillment of the promises. When nonmaterialized, their discontent became vocal and their protests became more vigorous. Even his fellow coffee planters were apprehensive because of their fear of Communist activities in the countryside and the seeming inability of the government to guard their fincas.

55 Finley to Stimson, May 27, 1931, file 816.51/614, R.G. 59, N. A.

56 Robbins to Stimson, March 27, 1931, file 816.00/801, R.G. 59, N. A.

57 fincas - coffee farms. Finley to Stimson, June 2, 1931, file 816.51/618, R.G. 59, N. A.
The problems of the Araujo administration resulted not only from a lack of administrative skill on his part, but also from corruption involving his family and friends who were able to get federal funds for their personal use. Araujo himself squandered large sums of money for lavish entertainment at the Presidential Palace. This extravagance during a severe depression caused a great deal of resentment among the Salvadoran population.58

In an indirect way, the United States was involved during the critical period in El Salvador just prior to the coup d'état. Ever since the "loan of 1922" became effective, an American fiscal representative had been present in San Salvador to oversee the proper collection of customs duties. In effect, he managed the finances of El Salvador. When the price of coffee fell to the point where almost all of the customs revenues was being used to service the loans and left little for the national treasury, many Salvadorans blamed the United States for their problems. The presence of the fiscal representative alone was enough to prompt newspaper criticisms. Even the able Mr. Renwick was overwhelmed by the attacks. He was accused

58 Minister Charles B. Curtis (El Salvador) to Stimson, December 15, 1931, file 816.00 Revolutions/49, R.G. 59, N. A.
of meddling in the internal affairs of El Salvador because of his role as an expert advisor in helping the Minister of Interior, Auditor-General and even the President (at their request) to draft decrees and legislation affecting the finances of the country.\textsuperscript{59}

In an attempt to shore up the faltering finances of the nation, President Araujo began to negotiate with the external creditors. A plan to declare a two-year moratorium on the amortization but not on the interest of the external loan was considered. However, this plan was abandoned when the creditors provided alternative plans of their own. After considering several proposals, President Araujo verbally accepted a plan presented by Earnest Berger of the Foreign Trade Securities Company of New York. The Berger plan called for a $4,000,000 loan to El Salvador against which five year notes at seven percent interest would be taken by the lending company at a nine percent discount. The loan was to be secured by a first mortgage on revenues from the manufacture and sale of aguardiente, the local rum. Also, during the term of the loan Berger's company was to have an option on all future financing.

\textsuperscript{59}Interview with Victor Barriere, December 1975, San Salvador; Finley to Stimson, May 27, 1931, file 816.51/614, R.G. 59, N. A.
of the government of El Salvador and act as the republic's foreign purchasing agent. Berger was assisted in his Salvadoran ventures by another American, Ricardo Kriete who owned an aguardiente factory in El Salvador. It was rumored that President Araujo was to become a partner in the new aguardiente concern. This enabled him to vertically integrate his business since he already owned a sugar plantation. The Berger loans ran into a great deal of opposition. Demonstrations were held protesting the "1922 loan" as well as the "Berger loan" which was being negotiated. Moreover, the President was accused of "selling out the sovereignty of the country to the Colossus of the North." The December coup finally killed the plan.

It was apparent, however, that although the criticisms and protests allowed the Salvadorans to vent their frustrations, nothing they did could improve their economic condition. The effect of the world-wide depression on the price of coffee was severe. Brazil's effort to shore up the price by its valorization plan

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60 Finley to Stimson, May 27, 1931, file 816.51/614; July 3, 1931, file 816.00/807; July 15, 1931, file 816.00/808, R.G. 59, N. A.
helped only temporarily. The trend in coffee prices was downward. While coffee exports remained strong, the price at which it was sold continued to decline. By late 1931, it had become clear that the following year was going to be economically disastrous. With the collapse of the price of coffee, the only prop to the Salvadoran economy was seriously weakened. The result was a military coup d'etat.

The revolution began when disgruntled soldiers in the First Infantry barracks, angry at not being paid, fired upon the Presidential Palace across the street. The barracks were ideally located on elevated ground overlooking the President's mansion. Still, President Araujo managed to escape through a side door. He attempted to rally some of the loyal forces in the neighboring departments of La Libertad and Santa Ana, but his efforts failed and he was forced to seek refuge out of the country. On December 4, he escaped to

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61 Lavis, "The El Salvador Bondholders Protective Committee Report."
Guatemala with a small retinue of followers.\textsuperscript{63} There he was given sanctuary by his friend, President Jorge Ubico. Araujo later attempted to use Guatemala as a base of operations for a counterattack but was prevented from doing so by Ubico who ultimately forced him to leave the country.\textsuperscript{64}

The suddenness of the revolt surprised many people, including the American representatives. Only eleven months before, Minister Robbins had reported that "I cannot help but believe that in this very thickly populated country where practically every acre of land is owned by rich and poor, there is much chance of a revolution for the reason that there are too many property owners who have much to lose."\textsuperscript{65} Similar observations had been made before regarding the widespread ownership of land and therefore the belief that no revolt would take place. Furthermore, although it was well known that there was a great deal of

\begin{itemize}
\item \textsuperscript{63} Curtis to Stimson, December 5, 1931, file 816.00 Revolutions/35; December 8, 1931, file 816.00 Revolutions/36; December 9, 1931, file 816.00 Revolutions/37, R.G. 59, N. A.
\item \textsuperscript{64} Anderson, Matanza: El Salvador's Communist Revolt of 1932, p. 63.
\item \textsuperscript{65} Robbins to Stimson, December 18, 1930, file 816.00/781, R.G. 59, N. A.
\end{itemize}
discontent in El Salvador, most informed observers believed that because Araujo had the loyalty of a strong Minister of War, no military revolt would take place.

The exact role of General Martínez in the revolt remains unclear. His supporters contend that General Martínez did not take over the presidency but was chosen as president by the military junta after the latter had consulted the best legal minds of El Salvador. Moreover, they contend that the junta acted under the dictates of the Constitution which stipulated that the vice-president take over after the president has left the country. The detractors of General Martínez contend that he was responsible for the revolt right from the start.66

Most commentators agree, however, that if he did not have a role in initiating the uprising, he quickly capitalized on the events that led him to the presidency.67 By December 4, he was in full control of the situation.

66Interview with Ambassador Serrano and Sr. José Antonio Peñate, December 1975, San Salvador.

General Martínez was unlike other military dictators of that period. Whereas Rafael Trujillo (Dominican Republic), Anastasio Somoza (Nicaragua), and Fulgencio Batista (Cuba) were strongmen who derived their power as much from their machismo as from their political skill, the Salvadoran dictator was a thoughtful, frugal, somber-looking man, more the unassuming scholar than the flamboyant dictator. General Martínez was also unusual in that he had become a vegetarian at age 40 while in the military. Moreover, he was a teetotaler who drank only water even at fiestas. His most unusual characteristic however, was his belief in "cromoterapia" or cure by the colors. He prescribed to his friends water that had been placed under the sunshine in colored bottles to cure some illnesses. He was also a believer in Theosophy and the reincarnation of the human soul. His unorthodox beliefs earned him the nickname El Brujo from his detractors.

Although he ruled a Catholic country, he did not join the Catholic Church until late in life. He was brought into the Church by his wife who was devout in her faith. The death of his son because of a ruptured...
appendix also led him to find consolation through conversion to the Catholic faith. In spite of his unique personal characteristics, his leadership ability was never in question.

The role of the United States before and during the December coup had significant implications for Salvadoran-American relations. Minister Robbins had been very active in San Salvador during the presidential campaign to the point of calling for a battleship to stand by in Corinto, Nicaragua, in case of trouble. While his involvement in Salvadoran affairs did not result in any serious problems, the conduct of his successor, Charles E. Curtis, during and after the revolt led to a strained relationship between the two countries.

The action of Minister Curtis during the crisis exemplified the type of problem faced by the United States when it did not have the best man on the post. Unfamiliar with what his role should be in the event of a revolt, he became deeply involved in the matter. Based on his part experience, he advised the rebels that

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69 Military Intelligence Division Memorandum, May 27, 1941, Item no. 3100, folder 3000-4000, Box 817, El Salvador 2400-3020, G-2 Regional file 1933-1944, R.G. 165, N. A.
General Martínez would be their best choice for president. Under Article II of the 1923 Treaty, General Martínez clearly was not "recognizable." Secretary of State Stimson was very disappointed with the way his Minister had acted during the emergency, and placed the blame on the fact that Curtis was "a promotion from the career men," and that "I took him on their recommendation." Curtis had served as American Minister in Santo Domingo where, according to Stimson, "he had done badly." His tenure in El Salvador was disappointing as well, prompting Stimson to write in his diary that: "It only shows that when you have a man who isn't quite up to snuff, the lightning is sure to strike wherever you put him." Secretary Stimson may have been too harsh on Minister Curtis who had been on the job less than two months and the revolution had been brewing long before then.

70 Interview with Ambassador Serrano, December 1975, San Salvador.

71 Charge d'Affaires W. J. McCafferty (El Salvador) to Stimson, May 18, 1932, file 816.00 General Conditions/31, R.G. 59, N.A.

72 Henry L. Stimson Diary, December 4, 1931, Yale University Manuscript Collection.

73 Ibid.
A special representative was sent in to assess the situation. Former Minister to El Salvador Jefferson Caffery and his aide H. Freeman Matthews were dispatched to the troubled country with instructions to "inquire into the situation and make suggestions to the Department concerning the steps to be taken... in order that a constitutional government may be formed which will not be barred from recognition... under the terms of the General Treaty of Peace and Amity of 1923." Secretary Stimson described Caffery's trip as a "rescue mission to Salvador." Their quick survey resulted in a recommendation not to grant recognition to the Martínez regime and marked the start of an excruciating episode in Salvadoran-American relations. The United States, restricted in its actions by the 1923 treaty, became entrapped in the dilemma of opposing a revolutionary government, while no longer willing to use force to remove it.

74 Stimson to Caffery, December 16, 1931, file 816.01 Caffery Mission/6, R.G. 59, N.A.
75 Stimson Diary, January 8, 1932.
SUMMARY

The deteriorated status, in late 1931, of the once cordial relationship between the United States and El Salvador caused a great deal of consternation in the foreign affairs offices of each country. Both sides however, shared the blame for bringing about such a state of events. As must be expected, in the relationship between two nations, each in effect becomes an adversary of the other because the foreign policy of every nation dictates that its goals and interests take priority over all other considerations. If such goals and interests are complementary, then the relationship between them will not be strained. The problem arises when there is a divergence in their objectives.

Early in the twentieth century, the relationship between the United States and El Salvador began on a cordial footing. Although the United States was at the time gaining a tarnished image because of its intervention in other Latin American nations, her good relations with El Salvador were never seriously threatened. On the matter of political stability in Central America, a matter which greatly concerned the United States, each nation agreed with the terms of the 1907 and 1923 Central American Treaties of Peace and Amity although
El Salvador took exception to Article II of the 1923 Treaty which dealt with non-recognition of revolutionary governments. Apparently, the future implications of such a policy were not foreseen and, as a result, no big issue was made of it.

The economic views of both nations coincided during the early twentieth century. In 1922 each had something to contribute to the other's benefit. El Salvador, in dire financial straits, needed the funds that United States bankers offered. The Americans, aware of the growing Mexican and European influence in the area, wanted to expand their economic influence there. One result was the 1922 loan of over $16,000,000, the bulk of which was bonds sold to the American public. The terms were such that default was most likely during times of financial crisis. In 1923, however, El Salvador's coffee exports were substantial enough that no one foresaw any problems arising from the loan.

The difficulty that the American Foreign Service had in finding qualified individuals for assignment to Central America, proved to be a source of problems. Unfortunately, many in the diplomatic service considered an assignment to Central America a demotion. As a result, the region did not have the full benefit of able men with positive attitudes toward their assignments.
El Salvador had the misfortune of having two men of low caliber assigned to head the United States mission to that country. During the early 1920's the American Minister, Montgomery Schuyler served in a manner that did not endear him (and therefore the United States) to the Salvadorans. He is remembered as a man who was "muy duro, muy violento." His poor performance was overshadowed somewhat by his successor, Jefferson Caffery, who endeared himself to the Salvadoran people. In 1931 however, the United States suffered another setback with the appointment of Minister Charles B. Curtis. His personal shortcomings were vividly revealed with his erratic conduct during the December 2-4, 1931 coup d'etat.

With the occurrence of the coup the dormant political and economic problems between the United States and El Salvador erupted as Article II of the 1923 Treaty prevented the United States from granting recognition to the new regime of General Maximiliano Hernández Martínez. Moreover, the already inflamed situation was worsened when the severe drop in coffee prices forced El Salvador to default on its 1922 loan from the United States. Thus, with the presidency of General Martínez, an agonizing period in the relations between the United States and El Salvador began.
CHAPTER III

THE EARLY YEARS: FOCUS ON RECOGNITION

Non-Recognition as a Tool

On December 20, 1931 the United States officially informed the four other Central American nations of its decision not to recognize General Maximiliano H. Martínez as the President of El Salvador. The reason was that the United States would follow the dictates of Article II of the 1923 Central American Treaty of Peace and Amity. But because recognition by Washington was considered vital for the survival of any Central American government, the position taken by the United States meant, literally, the death sentence for the new government. In the past, other regimes had collapsed under similar pressures.¹ In fact, it was with this very thought in mind that Central American delegations signed

the 1907 and 1923 treaties. The initial paragraph of Article II of the 1923 Treaty gave the rationale:

Desiring to make secure in the Republics of Central America the benefits which are derived from the maintenance of free institutions and to contribute at the same time toward strengthening their stability, and the prestige with which they should be surrounded, they declare that every act, disposition or measure which alters the constitutional organization in any of them is to be deemed a menace to the peace of said Republics, whether it proceed from any public power or from the private citizens.  

Thus, the signatories used the non-recognition article as an instrument to preserve stability, as a threat to any would-be revolutionary that his efforts were doomed to failure because he would not be granted recognition by the United States as well as his neighbors. In theory, the idea seemed worthwhile; but in reality, as General Martínez would prove, it was not.

Privately, Secretary of State Henry Stimson expressed doubts about the wisdom of the non-recognition policy and took pride in the fact that the United States had, for all intents and purposes, abandoned the non-recognition policy for all area of the world except Central America. Yet, in a speech before the Foreign

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2 Memorandum by Chief of Latin American Division Edwin C. Wilson, February 4, 1932, file 816.01/283, R.G. 59, N. A.

3 Stimson Diary, December 8, 1930.
Relations Council of New York on February 6, 1931, he praised the concept for having stopped bloodshed and for helping to establish more democratic governments. In a later assessment of the policies of the period, historian-diplomat Dana Munro credited the non-recognition policy with helping to curtail revolutionary efforts in the area. On the other hand, Raymond Leslie Buell, Research Director of the Foreign Policy Association of New York, charged the policy with perpetuating dictators who could not be ousted in any other way than by revolution. He further urged that the State Department "lean over backward" to recognize General Martínez and prevent revolution in El Salvador. He feared such a revolt would ultimately spread to neighboring republics. The only solution to the problem, he felt, was to amend the 1923 Treaty "in order to give greater flexibility to its non-recognition terms." Another diplomat, Lawrence Dennis, who had served in Honduras and Nicaragua, also criticized the non-recognition policy. In an article in *Foreign Affairs*,

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5 Munro, *The United States and the Caribbean, 1921-1933*, p. 280.


7 Raymond Leslie Buell to Edwin C. Wilson, February 25, 1932, file 816.01/116½, R.G. 59, N. A.
he urged that the United States abandon its adherence to Article II of the 1923 Treaty. His article was immediately criticized by Chandler Anderson, a prominent international lawyer who proclaimed the virtues of the 1907 and 1923 treaties. But the point of Dennis' article was clear: the value of Article II had diminished to the point that it was potentially more embarrassing than useful to the United States. According to Dennis, the potential danger lay in the eventuality that a revolutionary government may defy the United States and still manage to survive. It was the exact situation that the Martínez affair turned out to be. The United States, although not a signatory to the 1923 Treaty, had become its strongest supporter in 1931. Thus, the politics of recognition had become a dilemma for American diplomats. The feeling was summed

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8 Lawrence Dennis, "Revolution, Recognition and Intervention," *Foreign Affairs*, IX (January 1931), passim. Dennis served as the American Charge d'Affaires in Honduras and Nicaragua during the Sandino Affair.


up by Edwin C. Wilson, Chief of the Latin American Division of the State Department, who exhibited his exasperation with the recognition issue and the position in which it placed the United States where "we are damned if we do and damned if we don't."\(^11\)

The position in which the American diplomats had been placed was the result of previous actions by their predecessors in Latin America. The desire for stability in Central America had been the predominant reason President Theodore Roosevelt and Secretary of State Elihu Root called for the 1907 conference which resulted in the Treaty of Peace and Amity of that year. The same desire, plus a bit of moralizing, prompted President Woodrow Wilson to abandon the Jeffersonian doctrine of de facto recognition to stable governments. In 1913, when he refused to recognize the government of General Victoriano Huerta in Mexico, President Wilson hoped to teach the Mexicans that they could not establish governments through revolution. He used the same tactics to oust Federico Tinoco from power in Costa Rica in 1919.\(^12\) During the presidency of Herbert Hoover,

\(^{11}\)Wilson to Minister Sheldon Whitehouse (Guatemala), November 4, 1932, file 816.01/258, R.G. 59, N. A.

Secretary Stimson used non-recognition to topple the regime of General Manuel Orellana in Guatemala in 1930.

Thus, non-recognition was a tool used by American officials to achieve specific goals in Central America, namely, to maintain political stability, which in turn enhanced the security of the Panama Canal and other American interests in the area. Moreover, it was used as a coercive device to force the Central Americans to maintain social and political order through the use of democratic and free elections. By using these methods, it was hoped that they would ultimately be able to progress economically and politically. When the efficacy of such methods became questionable, the non-recognition policy was abandoned by Secretary Stimson in 1930 for all of the world except Central America. There, the 1923 Treaty remained paramount. Therefore, guided by the treaty, on December 20, 1931 the United States decided not to recognize General Martínez as President of El Salvador.

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Reaction to American Non-Recognition

The reaction from the press of Latin American nations was expectedly vehement. The Mexican press was especially vitriolic in attacking the position taken by the United States. *Excelsior* criticized the American non-recognition policy with such phrases as "being too elastic for the United States" and "it recognizes whenever it sees fit." The paper also accused the United States and certain Central American countries of treating El Salvador like a "vassal." *El Universal Gráfico*, another Mexican daily, joined in the protest, condemning the manner in which "...Yankee imperialism interprets that treaty, which in its hands acquires the aspects of fantastic elasticity." It compared the plight of El Salvador in early 1932 with that of Mexico two decades past when "once the Government of Revolution was installed, it was not recognized by the supreme censor, the United States." Moreover, the paper criticized the other Central American republics of "servility" for "not recognizing the new Salvadoran Government merely because the White House

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14 *Excelsior*, December 28, 1931.

15 *Excelsior*, January 6, 1932.
has not given the example of assent." The official stand of the Mexican government was based on her own "Estrada Doctrine" whereby Mexico neither gave nor denied recognition to a new government, but simply maintained or recalled its representatives. It did not pass judgment on the internal conduct of other nations.

The press in the Dominican Republic likewise disparaged the American policy regarding El Salvador. La Opinión, a leading daily, conceded that the 1923 Treaty was "very good," but,

...in the hands of the North American Governments which have liked to carry out an imperialistic policy, it has operated very capriciously because it has served very seldom to secure the high and noble purposes which seemed to inspire it.

In short, it has served only to keep in power in each of the Central American republics people who were acceptable to North American policy since, if managed skillfully, this Treaty permits the United States to take different attitudes in different cases.

In fact, when the United States in spite of the Treaty has wanted to overthrow a Government, there have occurred mysterious and apparently 'legal movements which have culminated in the success of the movement desired.

16 El Universal Gráfico, January 9, 1932.
17 Callcott, The Western Hemisphere, p. 255.
18 La Opinión, December 24, 1931.
Costa Rica, the nation which had been the leading proponent of Article II at the 1923 conference, had reversed itself by 1932. However, it faced a dilemma. Because of an internal political situation which existed in early 1932, it could not openly support the regime of General Martínez without jeopardizing its own stability. In early 1932, a heated campaign for the presidency of Costa Rica took place. Two men vied for the office, Ricardo Jiménez and Manuel Castro Quesada. Many Costa Rican officials feared that if they rewarded the "revolutionary" efforts of General Martínez by recognizing him, the loser in their own election might be encouraged to take similar measures. Therefore, Costa Rica followed Honduras and Nicaragua and refused recognition.19

However, of all the Central American neighbors of El Salvador, it was Guatemala which took the hardest line against General Martínez. Certain Guatemalan officials suggested to American Minister Sheldon Whitehouse that the Communist threat was exaggerated by General Martínez. Moreover, they suggested that the other Central American nations and the United States take "definite steps" to make General Martínez

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abide by the convention of 1923 and that "action beyond breaking diplomatic ties" were necessary. It was ironic that at the same time these officials were protesting to Whitehouse, the President of Guatemala, Jorge Ubico, was a comrade-at-arms of General Martínez in the struggle against Communism in Central America. In fact, in January of 1932 Ubico warned General Martínez of the plans leftist radicals had formulated to instigate coordinated uprisings in both Guatemala and El Salvador. But the rivalries of the past had once again surfaced and ill-feelings between El Salvador and Guatemala were aroused once more.

Many supporters of General Manuel Orellana, former President of Guatemala, also had second thoughts about his resignation. They had seen him forced out of office in 1930 by Secretary Stimson through the use of non-recognition. After seeing the apparent success of General Martínez, they believed that he too could have remained in office had he resisted the

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20 Whitehouse to Stimson, February 8, 1932, file 816.00/842, R. G. 59, N. A.

21 Interview with Ambassador Serrano, December, 1975, San Salvador.
American efforts. In 1932, however, all that they could do was to jealously vent their anger at General Martínez whose resistance to the United States pressure made him a hero to many in other parts of Latin America.

To many Salvadorans, non-recognition was a sad disappointment. They saw that General Martínez was able to provide stability after a period of chaos. Furthermore, by his actions, many of them were able to avoid mortgage foreclosures as well as benefit from a moratorium on the repayment of debts. Likewise, prices of the most basic commodities went down because of the efforts of General Martínez's administration. Yet, in spite of such successes, the United States could not see fit to recognize him.

After-Effects of Non-Recognition

The good-will between El Salvador and the United States cultivated during the late 1920's by Ministers Jefferson Caffery and Warren D. Robbins quickly

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22 Whitehouse to Wilson, October 19, 1932, file 816.01/858, R. G. 59, N. A.

23 Interviews with Ambassador Serrano, Sr. Peña, Sr. Barriere, Sr. Domínguez, December, 1975, San Salvador, McCafferty to Stimson, January 16, 1932, file 816.00/General Conditions-27, R. G. 59, N. A.
disintegrated because of non-recognition. The American stand "consequently resulted in considerable ill-feeling" particularly from the Salvadoran press and the students. On December 31, 1931, the latter group organized a demonstration against the United States and its Charge' W. J. McCafferty. The Salvadoran government had to intervene to prevent any disagreeable incidents from arising out of the demonstration.\(^2\) In the months which followed, the anti-American feeling manifested itself through continued press attacks as well as through economic measures taken against Americans by the Salvadoran government.

On February 23, 1932 El Salvador defaulted on its 1922 loan from American bondholders. While the economic pressures on El Salvador were sufficient to warrant such extreme action, it may also be speculated that it resulted partly from General Martínez's anger with not being recognized by the United States. Evidence of this can be seen in other economic actions of the Salvadoran government. On June 23, 1932, an American firm, R. W. Hebard & Co., was notified by the Salvadoran Minister of Interior that its contract to construct sanitation facilities in the department of Santa Ana as well as an agreement to build a system of highways

\(^2\) McCafferty to Stimson, January 16, 1932, file 816.00/General Conditions-27, R. G. 59, N. A.
in El Salvador had both been cancelled by the Council of Ministers effective June 30, 1932. The reasons given for the decisions were the financial problems El Salvador had experienced and also because the contracts were illegal. The position of the Salvadoran government was that the administrative contracts were revokable at the will of the government. According to the American Charge W. J. McCafferty, "since the government is prepared to undertake the work itself, the contracts are legal. It is apparent that this is mere subterfuge to evade its obligations."\(^\text{25}\)

Pan American Airways, Inc. also experienced similar problems as the Salvadoran government invalidated a previous agreement which allowed Pan-American to serve as the transporting vehicle for air-mail from El Salvador to other nations.\(^\text{26}\) These actions by the government allowed the Salvadorans a release for their frustration in not receiving recognition from the United States and American businesses in El Salvador suffered.

It strengthened their resolve when, despite non-recognition, the regime of General Martínez remained in office. Moreover, matters were taken a step further

\(^{25}\text{McCafferty to Stimson, July 9, 1932, file 816.00/General Conditions-33, R. G. 59, N. A.}\)

\(^{26}\text{Ibid.}\)
when Salvadoran officials boasted that they had been able to prove "groundless the fear which has existed from time immemorial that no Central American government could remain in power without the approval or consent of foreign governments." 27

While non-recognition placed a heavy burden on the government of General Martínez, an indirect but immediate benefit may have resulted from it in neighboring Honduras. According to Minister Julius Lay in Tegucigalpa: "the refusal of the Department to recognize Martínez has had a very strong restraining effect on revolutionary leaders in this country. In fact it may have prevented an attempted coup d'etat in Honduras during the last few months... I have reason to believe that these leaders will not be associated with any such uprising because they realize its futility in the face of the definite refusal of our government to recognize Martínez." 28

In El Salvador itself, leaders of the radical left saw an opportunity to subvert what they considered to be a weakened regime. They believed that, like other unrecognized governments in Central America's past, the

27Ibid.

28Minister Julius Lay (Honduras) to Stimson, February 18, 1932, file 816.10/852, R. G. 59, N. A.
government of General Martínez would also collapse under such pressure from the United States. On January 22, 1932 a small group of radicals led by Alfonso Luna, Mario Zapata and Farabundo Martí, decided to increase the pressure on General Martínez and initiated an uprising in the western provinces of El Salvador. Without realizing it, they had given General Martínez an opportunity to show the United States how strong his anti-communist beliefs were. When the "Communist" uprising broke out on January 22, 1932, he reacted violently.

Thus, to El Salvador in 1932, non-recognition by the United States had far greater implications than the mere non-acceptance into the world community. The leftist rebels initiated an uprising on the mistaken idea that the government of General Martínez was weakened by non-recognition. In turn, the uprising they initiated was crushed by a president rendered nervously insecure, but ever alert. The result was the matanza, the senseless slaughter of thousands of innocent Salvadoran peasants.

Anti-Communism as an Instrument to Gain Recognition

General Martínez followed many avenues in his efforts to get recognition from the United States. Among them were his claims to be an ally in the fight
against Communism. When the January revolt occurred, he saw an opportunity to improve his image in the eyes of his "neighbor to the North." Through his anti-Communist endeavors, he hoped to convince them of his worth as an ally in the same cause. It was a reasonable effort by General Martínez because many in America likewise fought the expansion of Communist ideas.

In the United States, the depression had brought about many changes in the minds of intellectuals and students. The social and political conditions in the United States at the time seemed conducive to the germination of new, radical ideas. Because of the American government's inability to solve the economic difficulties, some individuals began to openly question the efficacy of the capitalistic system. Others went beyond and found their solutions in socialism. When they saw that the Soviet Union was not badly affected by the worldwide depression, they concluded that socialism was the answer.29

Thus, the American leaders, like General Martínez in El Salvador, had to deal with the same kind of radicalism in their own country. Knowing this, the Salvadoran leader hoped to have their sympathy and, ultimately, gain their

recognition. Although American officials were sympathetic with his efforts against Communism, they nevertheless refused to recognize his regime. The result of the non-recognition was the continued lack of credibility of General Martínez's administration.

The seemingly unstable government of El Salvador, further weakened by the economic distress brought about by the depression, whetted the appetite of the radical groups. Agitators subjected various segments of the population to a barrage of propaganda. Labor unions and unemployed farm workers were especially attractive targets to the radical groups. The social agitation by leftists during the 1920's had begun to bear fruit as the depression-bred problems made many poor Salvadorans quite responsive to the overtures of the Communists during the 1930's.


31 Stimson Diary, January 25, 1932.

Most of the propaganda efforts emanated from Mexico and Guatemala. In fact, the Soviet Union legation in Mexico City had become so active in training agitators that the Mexican government was forced to break off relations with Moscow. The flow of propaganda materials however, continued to enter El Salvador from Mexico which in turn received most of its literature from Communist organizations in the United States.

The activities of radical groups in El Salvador during 1930-1931 caused a great deal of concern among government officials. According to the Chief of Police, General Enrique Leitzelar, "the Soviet government has decided upon El Salvador as the Central American center for its activities." Although President Bosque at the time confirmed the suspicions of his Chief of Police, no evidence of such a Soviet Union decision was ever presented to the American Minister Warren D. Robbins. Still, the fears continued as captured correspondence between a labor organizer in San Salvador, Miguel Angel Martínez, and the "International Labor Defense," an

34 Finley to Stimson, May 20, 1931, file 816.00 B/38, R.G. 59, N. A.
35 Robbins to Stimson, October 31, 1930, file 816.00 B/22, R.G. 59, N. A.
American Negro labor group, was made public. The American group urged its comrades in El Salvador to unite and organize against "capitalists and imperialists," and urged that they boycott American manufactured goods. The Salvadoran government made numerous requests of the American legation to do something to stop the flow of propaganda material emanating from the United States.

The fear of Communism in El Salvador existed not only because of the disseminated propaganda literature, but also from actual incidents of Communist activities which occurred sporadically near the capital and along the countryside. The arrest of a known Communist leader, Agustín Farabundo Martí, confirmed the existence of radical agitators in the area. Martí had previously been exiled for his efforts in agitating the campesinos. He had also served with Agusto Sandino in Nicaragua.

To be sure, what were termed Communist outbreaks were oftentimes merely labor disputes which arose from

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36 Robbins to Stimson, January 12, 1931, file 816.00 E/29, R.G. 59, N. A; McCafferty to Stimson, April 2, 1932, file 816.00 General Conditions/29, R.G. 59, N. A.

37 Curtis to Stimson, November 19, 1931, file 816.00 General Conditions/26, R.G. 59, N.A.

38 Finley to Stimson, May 12, 1931, file 816.00/802, R.G. 59, N. A.
the economic dislocations brought about by the worsening depression. Also, many Salvadorans whose intentions were merely social reform were likewise labeled Communists when in fact they harbored no Communist ideas. As elsewhere in the Western Hemisphere, the leftist radicals became excellent targets for accusing fingers and were blamed as the culprits in many incidents for which they had no responsibility. The Communist rebels sporadically clashed with the forces of General Martínez in the early part of 1932 and culminated in one of the bloodiest confrontations in Latin American history.

At midnight on January 22, 1932, bands of Indian campesinos began to attack isolated fincas in the western part of El Salvador. The uprising was for the most part confined to the region between San Salvador, Ahuachapan and Acajutla, the coffee growing center of El Salvador. Towns and villages were taken and sacked by Indians armed with machetes and other small weapons. There was no fighting in the capital city but there existed the fear that some troops would be disloyal to the government.

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39 McCafferty to Stimson, February 5, 1932, file 816.00 General Conditions/29, R.G. 59, N. A.

40 McCafferty to Stimson, February 5, 1932, file 816.00 General Conditions/28, R.G. 59, N. A.
The rebellious Indians were the descendants of the Pipiles, the original inhabitants of the region. Like in other countries, their lands were taken away from their ejidos during the latter part of the nineteenth century and they became impoverished workers on their own lands. Moreover, the treatment of the workers helped to worsen the situation inasmuch as they were abused and exploited by the finqueros. In 1932 many of them were convinced by the Communist agitators that they had a justifiable case against the finqueros' oppression. They were promised a portion of land for their families by the radical agitators. Moreover, they were to share in the redistribution of wealth after the revolution. Thus, the Indians attacked the symbols of their oppression, the authorities and any ladino. The descriptions of the atrocities, looting and general madness of Indians stimulated by alcohol terrified the entire Salvadoran population. The government, which had been forewarned by Jorge Ubico of the impending Communist-led rebellion, reacted quickly and plans for counterattacks were immediately

\[41\text{Ibid.}\]
\[42\text{Interview with Sr. Peñate, December 1975, San Salvador.}\]
laid. General José Tomás Calderón was given the responsibility of crushing the revolt. On the whole, the Salvadoran population supported General Martínez's actions because they too feared Communism.\textsuperscript{43}

As news of the attacks reached each village, panic ensued as escaping ladinos described their eyewitness accounts of maiming, eye gouging, and other brutal activities of the rampaging Indians. But the military suppression of the uprising was quick and violent. Towns and villages were retaken by well armed troops whom the villagers welcomed as "saviours." Brief but violent confrontations occurred as soldiers machine gunned "waves of onrushing Indians."\textsuperscript{44} All suspected rebels were executed on the spot by firing squads. Many were suspected simply because they were Indians and were summarily executed. Many who had given support to Communist programs in the past were likewise executed. The basis for suspicion became so flimsy that many people feared for their lives simply because they

\textsuperscript{43} Interviews with Ambassador Serrano, Sr. Peña, and Sr. Domínguez, December 1975, San Salvador.

\textsuperscript{44} Interview with Sr. Peña, December 1975, San Salvador. Sr. Peña was one of the soldiers assigned to retake the town of Sonsonate from the Indians. He was as terrified by the ferocity of the attacks as the villagers although he was behind the machine gun.
appeared to be Indians. Between January 23 when the government counterattack and reprisals began and April 10 when order was completely restored, over ten thousand Salvadorans were killed. There were no official counts of the number of people killed, but some estimates place the total number killed at over twenty-five thousand. 45

Because of his quick and effective action, General Martínez became the champion of anti-Communism throughout Central America. He and his soldiers became the "saviours" of the towns and villages in El Salvador. He used the opportunity to strengthen his relationship with his troops and solidify his position as President. Moreover, he used the threat of further Communist outbreaks as an excuse to increase the strength of the military and police. 46

45 Jorge Schlesinger, Revolución comunista, Guatemala en peligro? (Guatemala: Union Tipografica Castaneda Avila y Cia 1946), p. 4; Poppino, International Communism in Latin America, p. 141; Interviews with Sr. and Sra. Felix Domínguez Revelo, Sra. Amana Calderón, July 1971, San Salvador; Sra. Lolita Barauna, June 1975, New Orleans. The interviewees all agreed that General Martínez exceeded the force required to crush the revolt. At the same time, however, they also agreed that they were terrified by the atrocities and felt the need to crush the uprising at any cost.

46 McCafferty to Stimson, February 2, 1932, file 816.00/845, R.G. 59, N. A.
The United States' concern with the activities of Communists everywhere helped to soften the harsh reality of the massacre. The efforts of General Martínez to put down the uprising received a favorable reaction from the State Department. Although American and Canadian cruisers and destroyers were sent to nearby ports, no foreign troops set foot on Salvadoran soil. Secretary Stimson was relieved that no American troops landed, but noted in his diary that General Martínez, "the man who is president and who is the only pillar against the success of what seems to be a nasty proletarian revolution...we are unable to recognize under the 1923 rule." Thus, in spite of the sympathy, recognition was not granted. The change in the American position did not take place until 1934 when the New Deal changed many old ideas.

The Good Neighbor Grants Recognition

When the term of President Herbert Hoover ended in March of 1933, a new era in United States-Latin American relations was ushered in—the era of the "Good Neighbor" policy. The serious economic condition of the United

47Stimson Diary, January 25, 1932.
States at the arrival of Franklin D. Roosevelt to the presidency did not leave him much time for foreign policy matters. Domestic problems required his full attention. Thus, his advisors, primarily Secretary of State Cordell Hull and Assistant Secretary Sumner Welles, were responsible for establishing the foreign policies. In Latin American affairs the influence of Sumner Welles was significant. During the pre-inauguration period of Franklin D. Roosevelt's term, Welles presented his views on Inter-American Relations in a memo to his newly-elected friend. The memorandum provided the guidelines later followed by the Good Neighbor policy and was an important keystone to Salvadoran-American relations during the 1930's and 1940's. Welles stated that:

The creation and maintenance of the most cordial and intimate friendship between the United States and the other republics of the American Continent must be regarded as a keystone of our foreign policy. The erroneous interpretations given to the Monroe Doctrine over a period of many decades have constituted a constant cause for apprehension and for misrepresentation of the true purposes of the government of the United States. The Monroe Doctrine declares that the United States will not permit any non-American nation to encroach upon the political independence of any American republic; and that the United

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States will not consent to the acquisition in any manner of the control of additional territory in this Hemisphere by any non-American Power. These principles have until now been proclaimed solely on the authority of the United States and they will not be abandoned. But they are essentially principles of continental self-defense. And they are as vitally important to every other republic of this Hemisphere as they are to the United States itself. I would welcome their adoption by every American republic as a portion of its national policy. In that manner alone, in my opinion, can there be permanently abolished the impression which has persisted that these simple principles of self-defense can involve a threat to the sovereignty or to the national well-being of any republic of the Western Hemisphere.

In addition, Welles suggested that the United States should not resort to armed intervention, should promote commerce and when a question arose, consult with other American republics. The views of Welles were well taken by President Roosevelt, and he incorporated some of the ideas in a major speech on Pan American Day in April 12, 1933 and thus launched the Good Neighbor policy.

In addition to Welles, the influence of Josephus Daniels, Roosevelt's old mentor at the Department of Navy, was also significant. In his new position as

ambassador to Mexico, Daniels helped to guide President Roosevelt to take a milder, more humanitarian position in the area of United States-Caribbean relations. 50 The old "big stick" and "dollar diplomacy" of the past had to be replaced with a better policy.

The actual practice of "good neighborliness" was probably best exemplified initially by the new Secretary of State Cordell Hull at the Montevideo Conference in 1933. Mr. Hull, long a student of international commercial relations, had been concerned about the adverse effects of high tariff walls which the United States had built around itself. At the same time, it had "withdrawn from the market as a customer of certain Latin American nations..." 51 As a result, Hull went to the conference with the objective in mind that an attempt to resolve the economic ills of the world could be successful if tariff walls were brought down. The Resolution on Economic, Commercial and Tariff Policy, also known as the Hull Plan, was one of the accomplishments of the Montevideo Conference. For its part, the


United States through the Resolution, announced its desire to negotiate reciprocal trade agreements with the nations of the world.

The American success at the Montevideo Conference was in part due to the efforts of Secretary Hull himself. His dignified, yet sympathetic and friendly manner, enabled him to win respect and admiration from the other delegates. The fact that he represented a new administration, not identified with the old imperialism, helped to convince the wary Latin American delegates of his sincerity. As it turned out, the conference proved to be a notable juncture in United States-Latin American relations. As soon as it ended, the State Department set about to establish a course for stable relations for the future and remedy the wrongs of the past. Among the problems which needed to be remedied was the bothersome issue of non-recognition.

However, before any positive action was taken by the United States on the non-recognition matter, the policy was subjected to a great deal of criticism at home and abroad. The criticisms emanated from different source.

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52 Ibid.


corners of the United States and for different reasons. President Lawrence A. Lowell of Harvard University attacked the policy during a speech on February 1, 1933. He agreed with other critics that the policy lowered the stature of the United States in the family of nations and that it continued the outdated big stick practices of the past. On April 30, 1933, an investor from Maryland wrote an angry letter to Secretary Hull in which he suggested that the State Department recognize the Salvadoran government "so U. S. bondholders may receive their interest." He blamed the problem on "old pot belly Hoover and his crazy religious gang of bigots." He further warned that the situation be corrected "at once" or else "Roosevelt will be blamed," Other correspondence with the State Department, in less threatening tones, also urged recognition of General Martínez for economic reasons.

55 Stimson Diary, February 1, 1933.
56 Mr. Embebee (Berlin, Maryland) to Hull, April 30, 1933, file 816.51c39/229, R.G. 59, N. A.
57 Memorandum of conversation between Col. J. F. H. Johnson (President of Botany Worsted Mills) and Edwin C. Wilson, April 14, 1932, file 816.51c39/138, R.G. 59, N. A; Matthew Salsinger to State Department, April 24, 1932, file 816.51c39/144, R.G. 59, N. A.
appointees, also urged the State Department to recognize El Salvador. Josephus Daniels, Ambassador to Mexico urged that recognition be granted "with a view to restoring the friendly relations which previously existed between the United States and El Salvador." While these requests for recognition came from individuals not directly involved with Salvadoran affairs, the bulk of the inquiries regarding recognition came from individuals acting directly as agents of General Martínez.

Immediately after taking office, General Martínez actively solicited the aid of various individuals in an attempt to sway the State Department to grant recognition. He requested the executives of American companies in El Salvador to express to Washington their satisfaction with the de facto government.

The efforts of Salvadoran "agents" to gain recognition from the United States were based upon the following rationales: (1) that General Martínez

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57 Memorandum of conversation between Col. J. F. H. Johnson (President of Botany Worsted Mills) and Edwin C. Wilson, April 14, 1932, file 816.51c39/138, R. G. 59, N. A. Matthew Salsinger to State Department, April 24, 1932, file 816.51c39/144, R. G. 59, N. A.

58 Ambassador Josephus Daniels (Mexico) to Hull, June 16, 1933, file 816.01/302, R. G. 59, N.A.

59 McCafferty to Stimson, February 5, 1932, file 816.00 General Conditions/28, R. G. 59, N.A.
was not involved in the 1931 coup and therefore he became president by virtue of his being vice-president; (2) Articles 81 and 92 of the Salvadoran constitution guaranteed him the position; the constitution of El Salvador was the ultimate law in the country and the United States had violated it through the use of the 1923 Treaty; (3) the danger of Communism was real; (4) the general population supported the de facto regime and wanted the government to continue because of its efficiency and honesty; (5) the 1923 Treaty could be circumvented if he were allowed to serve as vice president for a period then rise to the presidency after the interim head (first designate) stepped down.

The arguments were used by Salvadoran representatives in an effort to gain recognition for General Martínez. Antonio A. Vidaurre, Salvadoran Minister to Costa Rica, attempted to convince American Minister in San Jose, Charles Eberhardt of the Communist threat. He pointed out that the January 22 uprising was instigated by non-Salvadorans. Moreover, he believed the successful efforts to quash the Communists deserved recognition from the United States.60 In another

60 Memorandum from Minister Charles Eberhardt (Costa Rica) to Stimson, February 25, 1932, file 816.01/110, R. G. 59, N. A.
instance Justice Gustavo Guerrero of the World Court and Salvadoran delegate to the 1907 conference, spoke with Secretary of State Stimson in an effort to convince him that General Martínez was not involved in the 1931 revolt which placed him in office. The result was a negative response from the United States in each instance.

The most active representative of the cause of General Martínez, however, was a Costa Rican. Luis Anderson, a prominent international lawyer and also a delegate to the 1907 conference, attempted to convince many influential Americans of the constitutionality of General Martínez's actions. He brought his case before the United States Minister in Costa Rica, as well as Senators and State Department officials in Washington. While they sympathized with his arguments, the American position remained unchanged. The efforts of all of General Martínez's agents failed to convince the State Department officials of the need to grant recognition. The 1923 Treaty remained paramount.

Stimson Diary, April 22, May 3, 1932.

Memorandum of a telephone conversation between Senator William King and Assistant Secretary of State Francis White, February 20, 1932, file 816.01/119, R. G. 59, N. A. Senator King had been asked by his friend Luis Anderson to seek recognition for General Martínez. His efforts failed. Eberhardt to Stimson, February 25, 1932, file 816.01/110, R. G. 59, N. A.
While the United States felt morally bound to the treaty, European nations did not. Based on reports from their representatives in El Salvador, the threat of further disorders due to continued Communist activities seemed real indeed. They were convinced that General Martínez was the only one able to keep the nation peaceful and economically stable. Britain among the European nations took the initiative in this re-examination of the recognition matter. The British Charge' in San Salvador, Robert Goldie, was very much impressed with General Martínez's suppression of the Communists and his control of the nation, but was fearful that continued non-recognition meant that his control would be gradually undermined and instability would return. The British had unofficially granted what was tantamount to recognition when the British Minister in Guatemala, on September 5, 1932, addressed a telegram to the Salvadoran Minister of Foreign Affairs requesting provisional recognition while the new British Charge' in San Salvador awaited his credentials by mail.\(^{63}\) Another important matter which the British had to consider in the recognition issue was economic. A commercial treaty between the two nations was due to expire on

\(^{63}\)McCafferty to Stimson, October 4, 1932, file 816.00 General Conditions/36, R. G. 59, N. A.
September 23, 1932. The British Minister in Guatemala "forced" his Charge in San Salvador to recognize General Martínez because he was "bluffed" into believing that recognition was a prerequisite for a renewal. On September 23, 1932 the British officially recognized El Salvador. Shortly thereafter, the treaty was renewed for another year.

France was likewise anxious to renew a Preferential Tariff Treaty. In addition, she wanted to sign a special convention for the protection of rights to names of certain products sold in El Salvador. Both objectives were reached by France after she granted recognition to the government of General Martínez on September 19, 1932. Charge' McCafferty observed that "it seems fairly certain that the recognition of the Martínez regime by France has been used as a bargaining consideration..." Other European nations followed the actions of Britain and France shortly thereafter.

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64 Minister Sheldon Whitehouse (Guatemala) to White, October 19, 1932, file 816.01/258, R. G. 59, N. A. Whitehouse accused the British Minister to Guatemala of being "a complete jackass" and held him responsible for hurrying up the British recognition of El Salvador.

65 McCafferty to Stimson, October 4, 1932, file 816.00 General Conditions/36, R. G. 59, N. A.
Among El Salvador's sister states, Mexico and Costa Rica took the initiative in the attempt to get recognition. Mexico, by virtue of the "Estrada Doctrine" did not withhold recognition at all and thus helped to encourage General Martínez to resist American pressure. Ironically, Costa Rica, formerly the major advocate of the non-recognition article of the 1923 Treaty, was in 1932 the leader in calling for its abrogation. New leaders had emerged in Costa Rica who shared Martínez's fear of Communism in Central America. Leonidas Pacheco, Costa Rica's Foreign Minister, urged the other Central American nations to denounce the 1923 Treaty which "though noble in its intents, failed to accomplish the goals it had set up." When her neighbors refused to cooperate, Costa Rica decided to act independently and formally denounced the treaty on December 24, 1932. Two days later, El Salvador likewise denounced the treaty.

With the denunciations, the beginning of the end had come for the 1923 Treaty and the United States was placed in a very delicate situation. Honduras, Guatemala and Nicaragua looked to America for leadership on the matter, but the United States could not officially act.

until the Central American nations took the initiative. The impasse was finally broken after Costa Rica officially recognized El Salvador on January 1, 1934. The following day a plan for recognition, drawn up by Assistant Secretary of State Sumner Welles, was sent to American ministers throughout Latin America for their consideration. The procedure was as follows:

...That agreement be reached between the Presidents of Guatemala, Honduras and Nicaragua providing in effect that, in view of the denunciation by Costa Rica and El Salvador of the treaty and pending a revision of that treaty, the three Presidents declare that their Governments, while regarding the treaty as being in force with respect to the relations maintained by the three states with each other, do not regard it as being in force with respect to the relations of those states with Costa Rica and El Salvador. Following the signature of such an agreement, the three Governments in question would extend recognition to the Martinez Government; the United States would extend recognition simultaneously. The agreement between the three Presidents would also provide for the calling at a later date of another Conference of the Central American states to consider a revision of the General Treaty of Peace and Amity...

Our thought is to broach this plan informally to President Sacasa of Nicaragua through Minister Lane, with the suggestion that Sacasa, if the idea appeals to him, either might put it forward as his own initiative with the Presidents of Guatemala and Honduras...

It would be our consistent purpose throughout the suggested negotiation to have the initiative taken by the Central
The decision to finally grant recognition was justified by the American Charge in San Salvador who wrote to Secretary Hull that "the Martínez regime has shown itself honest and conscientious and has endeavored to carry on the government in an efficient manner in spite of the great difficulties brought on by the world depression." On January 26, 1934 the United States officially recognized General Martínez as President of El Salvador. Thus, a source of difficulty in the relations between the United States and El Salvador was removed. While some improvement subsequently occurred, the economic problems brought on by the depression created additional difficulties between the two nations. But by then the Good Neighbor policy had become well established as the guiding light for Salvadoran-American relations.

67 Acting Secretary William Phillips to American Legation (Chile), January 2, 1934, file 816.01/344 A, R. G. 59, N. A.

68 McCafferty to Hull, January 4, 1934, file 816.00/934, R. G. 59, N. A.
Throughout the first thirty years of the twentieth century, in diplomatic relations with new Latin American governments, the United States traditionally emphasized the use of the formal act of recognition. This seal of approval from the United States had over the years become so important that without it no nation in Central America could be expected to survive. The collapse of the Tinoco regime in Costa Rica in 1919 and the Orellana regime in Guatemala in 1930 were both attributable to the non-recognition policy of the United States. Thus, recognition and acceptance into the world community was of vital importance for new governments in the area.

Because of the significance of this sanction by the United States, the new governments faced the difficult task of trying to determine their national priorities vis-a-vis their neighbors. What was good in the eyes of the United States or for that matter, the whole of Central America, was not necessarily good for the individual state. If the fundamental premise in the foreign policy of every nation is the preservation of national integrity, then the fulfillment of requirements for acceptance into the community of nations must remain
secondary to national self-interest. The effectiveness of the foreign policy of a nation must therefore be judged by how well its leaders preserve the integrity and sovereignty of the nation.

On December 20, 1931, El Salvador faced a serious dilemma. Because of the 1923 Treaty, the United States refused to grant recognition to the government of General Martínez. Yet, the Salvadoran constitution guaranteed General Martínez the right to hold his office. Moreover, because the Salvadoran Congress (in 1923) had ratified the treaty with certain reservations on the non-recognition article (II), General Martínez concluded that it did not apply in his case. Despite these rejoinders, the United States maintained its non-recognition position and stood by Article II of the 1923 Treaty. Indeed, Article II was included to prevent such occurrences as the coup of 1931 in El Salvador. But in 1923, the treaty authors depended upon the fact that the existence of United States military and economic power (and the willingness to use it) was adequate to force any would-be rebel to take heed before acting. But by 1931 the traditional big stick policy of the United States had been mellowed somewhat and America was no longer willing to use force to enforce its policies. Thus, the State Department was itself placed in an awkward position of standing by a policy but not willing
to take the next step of using force to carry out its wishes.

Thus, the non-recognition policy had become an albatross around the neck of the State Department and was subjected to criticism from many sides. Even Secretary of State Henry Stimson expressed his doubts (to his diary) about the efficacy of such a policy although he never publicly stated it. Likewise, Raymond Leslie Buell of the Foreign Policy Association of New York, a noted authority on Latin America and Lawrence Dennis, a former diplomat assigned to Central America, also criticized the non-recognition policy. Dennis' article in *Foreign Affairs* accurately pointed out the problem of the eventuality of a revolutionary government defying the United States and still managing to survive. Such was exactly the case of General Martínez's regime. Still, the United States, because it had become the staunchest supporter of the 1923 Treaty, had no choice but to maintain its non-recognition position.

Because of this stand, the United States became the subject of criticism throughout Latin America. The press of Mexico was especially vehement in its attacks on American policy. On the other hand, Mexico self-righteously proclaimed that because of its Estrada Doctrine, it did not judge the acceptability of a new
government. El Salvador's immediate neighbors, because they had been signatories to the 1923 Treaty and because of internal political considerations, stood by the United States position. The pressure on El Salvador was intense, especially from Guatemala which urged the United States to use force to oust General Martínez.

The tension which had arisen out of the non-recognition issue manifested itself in the strained economic relations between the United States and El Salvador. The most significant act was the 1932 Salvadoran default on its 1922 loan from the United States, although it was probably justifiable because of the dramatic drop in coffee prices in the previous year. There were, however, other acts of economic harassment of American firms with government contracts which the Salvadoran government voided illegally and on very short notice causing the companies great losses. While the American losses were extensive, the loss of lives suffered by the Salvadorans in the matanza was even worse. Some attribute it to the non-recognition stand of the United States.

Radical leftists had been in El Salvador since the early 1920's agitating the campesinos on the coffee fincas. To be sure, they had just causes to bring out to the open because for years the finqueros had exploited their workers. On January 22, 1932 the leftists,
convinced that the unrecognized government was unstable and therefore ripe for a revolt, organized the campesinos to attack fincas and towns in the western, coffee growing region of El Salvador. General Martínez, however, was ready and immediately launched a massive counterattack on a scale far beyond what was necessary to quell the rebellion. As a result, more than ten thousand peasants were killed in the bloody matánza which ensued. Because the action was shielded behind a struggle against the expansion of Communism, the harsh reality of the massacre was softened in the eyes of the American officials. Although they sympathized with their anti-Communist neighbor, they still refused to recognize his government. In his efforts to gain recognition General Martínez also utilized the services of intermediaries to plead his cause to American officials. Still, no recognition was granted. It was not until the enunciation of the "Good Neighbor" policy that a change of position occurred.

With the inauguration of Franklin D. Roosevelt came the change in the United States policy toward Latin America. The big stick and dollar diplomacy of old were replaced as were the men associated with such policies. Cordell Hull and Sumner Welles took charge of United States foreign policy toward Latin America. They were forced to act favorably on the Salvadoran issue by
other nations not bound to the 1923 Treaty but in the past, out of respect for the United States, had supported the non-recognition policy. By late 1932 however, economic realities along with fears that continued non-recognition only increased the danger of further instability, caused the European nations to act in contravention to United States policy. In September of 1932 Britain and France led the other European nations and recognized El Salvador. By December 24, 1932 Costa Rica officially denounced the treaty and two days later El Salvador followed suit.

Thus, with the denunciations, the end had come for the policy. On January 26, 1934 the United States recognized the Salvadoran government and ended a very difficult period for the two nations.
CHAPTER IV

ECONOMIC RELATIONS

Perils of a One-Crop Economy

One of the premises of the emerging Good Neighbor policy under Presidents Hoover and Roosevelt was the notion that United States power would be used less to advance the interests of private investors in the Western Hemisphere. This was tested in Latin America during the early 1930's when many nations defaulted on their obligations to American bondholders. The economic difficulties caused by the worldwide depression became the focus of attention in relations between the United States and Latin American nations. Relations with El Salvador were no different.

El Salvador was a one-crop agricultural country, its economy based on the production and export of coffee. As late as 1940, it could still be said that "with the exception of Venezuela, where petroleum predominates, no other country in Latin America is so dependent on the export of a single product than
El Salvador."1 While it produced sufficient food crops for its needs, industrial development other than that related to agriculture was virtually negligible. As a broad but true generalization, it may be said that El Salvador exported coffee and imported everything else save basic foodstuffs for the bulk of its people. Exports of coffee in great measure determined the value of Salvadoran imports since there were few other sources of foreign exchange. Moreover, shifts in the prices of/or markets for coffee were immediately reflected in both the foreign and domestic trade of El Salvador.2

Because of the small nation's economic dependence on coffee, it suffered greatly from the collapse in price during the economic crisis of the 1930's. Between 1929 and 1940, the price of coffee dropped more than seventy percent from 20.39 cents per pound to 6.17 cents per pound.


2Ibid.
Table I

Decline in the Price of Coffee, 1929-1940

<table>
<thead>
<tr>
<th>Period</th>
<th>1929</th>
<th>1932</th>
<th>1936</th>
<th>1937</th>
<th>1938</th>
<th>1939</th>
<th>1940</th>
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The significance of coffee to Salvadoran-American relations centered on the fact that after 1934, the bulk of El Salvador's coffee exports were to the United States. Moreover, the proportion of coffee in the total exports of El Salvador increased substantially from sixty-nine percent in 1920 to ninety-five percent in 1934. Although the percentage decreased somewhat in the period just before World War II, it remained relatively high, averaging above eighty percent of the total exports.


4Brannon, El Salvador, esquema estadística de la vida nacional, pp. 23-24.
Unlike some of the other coffee growing nations of the world, El Salvador was fortunate in that much of the coffee it produced belonged to the mild, "blue" variety (Coffea arabica) which commanded a higher price than Brazilian coffee. American importers used the mild coffee as a blend to temper the stronger type imported in large quantities from Brazil. As a result, El Salvador enjoyed a relatively secure market in the United States. Moreover, El Salvador's major export entered the United States free of duty.\(^5\) The 1926 Treaty of Friendship, Commerce and Consular Rights facilitated the trade between the two nations.\(^6\) Between 1926 and 1932 the United States purchased an average of twenty percent of El Salvador's total coffee exports annually. At the same time, however, the bulk of its coffee exports went to Germany, Scandinavia, United States Tariff Commission, The Foreign Trade of Latin America, p. 5; Wallich and Adler, Public Finance in a Developing Country: El Salvador- A Case Study, pp. 28, 203; Ellis to Hull, November 28, 1941, Item no. 7008, Office of Strategic Services, R. G. 226, N. A.

\(^5\) Translation of a Report by Dr. Juan Ernesto Vasquez, Delegate of El Salvador to the Meeting of Finance Ministers of the American Republics, held at Guatemala City, November 14-21, 1939. Military Intelligence Division, February 1940, Item no. 4000, Folder 3860-End, Box 819, El Salvador 3850-4130, G-2 Regional File 1933-1944, R. G. 165, N. A.
and other European nations which purchased an average of fifty-four percent of her total coffee exports each year. These European nations preferred the milder tasting coffee from El Salvador and Colombia to that of Brazil. While El Salvador had no difficulty in selling its coffee to the United States and Europe, the price at which it was forced to sell during the depression was disastrous for the economy. The price of coffee had been artificially stabilized by Brazil during the 1921-1930 period by means of a valorization plan whereby the government withheld from the market surplus stocks when the crops were large and prices low. These stocks were later released when crops were small and prices rose. While the plan helped to stabilize coffee prices, it also stimulated production in other coffee producing nations and encouraged the development of new coffee lands in Brazil thus increasing future supply and aggravating the problem. The stabilization plan ended in 1931 when Brazil imposed a prohibitive tax on new coffee tree plantings and an export tax to provide funds for the purchase and destruction of large coffee stocks. The result was a severe drop in the price of coffee in world markets. With

the onset of the severe coffee price crash between 1929 and 1931, when the price of the commodity dropped more than forty percent, the foundation of El Salvador's economy was all but shattered. In an effort to save the faltering economy President Araujo sent the fiscal representative, William Renwick, to New York to negotiate a short term loan using liquor revenues as security. However, before the negotiations were completed disgruntled, Salvadoran military forces had taken matters into their own hands with the December 1931 coup d'état. As a result of the revolution, President Araujo was driven out of the country and a new government under General Martínez took control of the shaky Salvadoran economy.

The new government faced severe economic problems brought on by the depression as well as the financial maladministration of the preceding administrations. The crisis was exacerbated by a "Communist" uprising

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8 United States Tariff Commission, Report no. 144, p. 258. The price of the commodity dropped in spite of Brazil's valorization efforts. During the period between 1931-1932 Brazil destroyed more than thirty-two percent of its coffee production to keep the price artificially high.

9 Memorandum of a conversation between Edwin C. Wilson and William Renwick. Wilson to Stimson, December 5, 1931, file 816.00/820, R. G. 59, N. A.
in January 1932 which caused panic among the coffee planters in the western departments. Because of the economic crisis, many planters were unable to pay their debts and were in danger of losing their mortgages on their fincas. The rebuilding task faced by the new regime was indeed difficult. General Martínez was fortunate to have had the able assistance of Miguel Tomás Molina, Minister of Finance, who set out to reestablish confidence in the financial integrity of the country. Several measures were taken to stabilize the economy. First, a drastic cut was made in the budget to balance it with the anticipated reduced revenues. Secondly, legislation was passed declaring a moratorium on all operations with interest for a period of four years. Moreover, interest rates were reduced by forty percent and extensions were granted to delinquent loans. Thirdly, to appease the campesinos, General Martínez reorganized and expanded the land distribution program. Lastly, General Martínez, in his effort to stabilize the economy, defaulted on his nation's obligations to foreign lenders.

On February 23, 1932 El Salvador stopped payments on its 1922 loan from American and British investors.

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10McCafferty to Stimson, September 26, 1932, file 816.00/902, R. G. 59, N. A.; Interview with Ambassador Serrano, December 1975, San Salvador.
It was to be the first of several payment suspensions during the regime of General Martínez. The default was mitigated however, by the fact that El Salvador was only one of many Latin American countries to fall behind on its financial obligations to United States bondholders. Moreover, El Salvador was not the first to suspend payments; Bolivia defaulted on January 1, 1931; Peru on April 1, 1931; and Chile on June 1, 1931. By 1935, of a total of $1,538,431,980 outstanding loans in Latin America, $1,175,383,400 were in arrears. This represented over seventy-six percent of the total amount in default.\(^{11}\) During the 1930's, eight out of ten Latin American nations with obligations to American bondholders defaulted.\(^{12}\)

The failure of El Salvador to live up to its financial obligations was significant in United States-El Salvador relations not only because it further complicated the non-recognition matter, but because it


\(^{12}\) Dr. Max Winkler (President and Director of Research, American Council of Foreign Bondholders, Inc.) to Roosevelt, May 11, 1935, O. F. File 4194, F. D. R. Papers, Franklin Delano Roosevelt Library.
had the potential of developing into a much more difficult problem. The dilemma stemmed from a clause in the 1922 loan contract. Article XVI of the financial agreement stipulated that if a default occurred, the Fiscal Agent (Manufacturers Trust Company of New York) would then be authorized to create a customs administration and appoint a collector general for customs subject to approval by the Secretary of State and the Salvadoran government. Because El Salvador's economy depended wholly on foreign trade, the implementation of such an arrangement would have placed the total financial administration of El Salvador in the hands of an American. The State Department hoped to avert such a delicate situation, and decided not to honor its contractual obligation to act on behalf of American creditors. It did not want to intervene in the affairs of El Salvador. The parties which had negotiated the 1922 contract had not foreseen this eventuality.

The Effect of Default on Salvadoran-American Relations

The default by El Salvador was more than just an effort to stabilize the nation's finances. It may also have been an attempt by General Martínez to test how far he could go with the new American policy of non-
intervention. Although the total government revenues were down substantially in comparison to the preceding five years, the income from customs duties were adequate to service the loans, although barely so.\textsuperscript{13}

In El Salvador, as in other Latin American countries, social and economic dislocations brought about by the depression of the 1930's caused a wave of economic nationalism to sweep through the nation. In an effort to find an ogre to blame for their problems, many in Latin America resorted to the standard accusations of exploitation and imperialism. In some countries the protestors found the very visible American companies to be easy targets. Although there were no American companies in El Salvador with the tarnished image of a United Fruit Company or a Standard Oil Corporation, Salvadorans found that they could vent their anger at the fiscal representative of the bondholders as well as the American diplomats because of the non-recognition position taken by the United States. Thus, the default on the bonded debt was seen by some Salvadorans as a protest against economic dependency on the United States as well as a realignment of their national

priorities. Some of them believed that the terms of the 1922 loan were too burdensome and jeopardized the national integrity of the nation. According to Victor Barrière, former Director of Budget and son-in-law of General Martínez, "the terms were onerous because it placed the collection of public funds in the hands of a foreign authority. The collection of taxes is an act of sovereignty that cannot be delegated to any power..."

Moreover, he added that "it was a matter of patriotic pride not to accept the presence of a fiscal representative in El Salvador collecting the public funds directly."\(^{14}\)

Sensing this feeling in El Salvador, along with the realization that many other nations had done the same without serious repercussions, the State Department was loath to carry out the dictates of Article XVI of the loan contract. Under the terms of the agreement, the State Department was obliged to select and transmit to El Salvador the name of one of the collector general nominees recommended by the fiscal representative.

The dilemma faced by the State Department was based on how the transmittal of the name would be perceived by El Salvador. Washington feared that it would be seen

\(^{14}\) Interview with Sr. Barrière, December 1975, San Salvador.
as tacit recognition of El Salvador's government. On the other hand, it was feared that the failure to approve and transmit the name would be interpreted by American bankers and bondholders as an abandonment of the State Department's contractual obligations.

The department's legal advisor sought to resolve the dilemma by alluding to some precedents dating back to 1875 wherein successful contacts were made by American officials with unrecognized countries. Moreover, he pointed out the distinction between the transmission of the name of the nominee to the Republic of El Salvador versus the transmission of a name to the government of General Martínez. In this manner, contact could be made with the state of El Salvador without in any way giving the impression of recognition to the government of General Martínez.15

The State Department, however, refused to follow the advice of its legal counsel and took the position that since the United States did not recognize the government of General Martínez, it could not transmit the recommendations of the fiscal agent. It could in no way participate in the proceedings.16 The decision was

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15 Legal Advisor (J. R. B.) to Wilson, February 26, 1932, file 816.51C39/131, R. G. 59, N. A.

made after weighing the possible consequences of various actions. To force a collector general on El Salvador, the smallest of the continental Latin American nations, was bound to be seen as outright "imperialism" especially since defaults were commonplace throughout the world.\textsuperscript{17} Furthermore, it had become the policy of President Hoover and Secretary of State Stimson not to use force, or any semblance of force, in the maintenance of contracts between American citizens and foreign nations or their citizens.\textsuperscript{18}

While the State Department's decision not to become involved was aimed at improving the American image and keeping friendly relations with Latin America, it was not seen in that light in some quarters. In Guatemalan government circles, for example, it was believed that the American desire to force the government of General Martínez to resume payments on the bond obligations was the main reason behind her refusal to


grant recognition to that government. In America, the action taken by the State Department resulted in angry protests from bondholders who concluded that their own government had defaulted on its obligation to support them. It was their firm belief that the State Department during the 1922 negotiations had promised to assist the bondholders in case of default. As a result, letters were sent to Congressmen and Senators pleading for intercession with the State Department. Other letters were sent directly to the Secretary of State which indicated the bondholders' disappointment with the Department's efforts. An angry bondholder, Matthew Salsinger of Maryland, sent the following letter to the State Department:

Sirs:

I purchased these "A" bonds because the State Department allowed the name of this country to appear in the contract as arbiter and collector (in case of default). I lived in Salvador and know that the country got full value for the funds in roads, sanitation, watersupply, sewage, etc.

Now, when the government of El Salvador gives notice of default, the State Department advises 'We, (The U.S.) have no relation to the loan except to arbitrate or point to the collector of customs... Thus,' I as bondholder to a party and contract which I have no power,

19 Minister Sheldon Whitehouse (Guatemala) to Edwin C. Wilson, October 19, 1932, file 816.01/258, R. G. 59, N. A.
and as a citizen of the U. S., to enforce, am allowed to do what I can for myself...  

In a reply to an inquiry from another bondholder, Mrs. James Marshall in London, Edwin C. Wilson carefully explained the exact role of the State Department during the 1922 loan negotiations as well as its final contractual obligations. He pointed out that "the United States has no relation to this Salvadoran loan except with respect to facilitating the arbitration and determination of disputes that may arise between the parties, and the appointment of a collector of customs in case of a default." Furthermore, he pointed out the disclaimers issued by the Department in 1923 to correct erroneous statements in the advertising and press releases which gave the impression that secret agreements had been made by the Department of State. He noted that "the impression was incorrect as the agreement was negotiated between the Government of Salvador and the representatives of the bankers concerned. It is in no sense a treaty." He concluded that the State Department could in no way intercede on behalf of the bondholders.  

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20. Matthew Salsinger (through his attorney C. B. Richards and Co. of New York) to State Department, April 24, 1932, file 816.51C39/144, R. G. 59, N. A.

The Quest for a Debt Settlement

While the State Department was unwilling to intercede on behalf of the bondholders, there were others who willingly gave them assistance. Immediately after the default, American financial interests formed bondholders protective committees modeled after the British "Council of Foreign Bondholders." But unlike their predecessors in England, which had been in existence since 1868, the American committees were driven by different motives. Whereas the English protective committee functioned as a non-profit organization, the American committees were formed to take advantage of a profit opportunity. Although the organizers were experienced financial men, they were inexperienced in default negotiations. This had been the first time, since the United States became the world's creditor, that major loan defaults had occurred.

To further complicate matters for the holders of Salvadoran bonds, two rival bondholders committees were formed. One, "The Protecting Committee for the Republic of El Salvador," was headed by Montgomery Schuyler,

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president of the Yorkville Bank in New York and formerly United States Minister to El Salvador. He was joined by J. Lawrence Gilson of Manufacturers Bank and Trust and Henry B. Price, head of Minor C. Keith Inc. The rival group was the "El Salvador Bondholders Protective Committee," headed by F. J. Lisman, president of a financial firm bearing his name which had been the major distributor of the outstanding Salvadoran bonds. Along with him were R. W. Hebard of R. W. Hebard and Company, a construction firm with large government contracts in El Salvador as well as a large holder of the bonds. Also in the group was Fred Lavis, president of I.R.C.A.\(^23\) Lisman asserted that as a partner of the house of issue, he was under a "moral obligation" to assist the holders of the defaulted securities. As it turned out, his moral obligation was a pretext for profit making.\(^24\)

The American bondholders were therefore placed in a quandary as to what line of action to pursue.


\(^{24}\) Securities and Exchange Commission, Report, Part V, p. 141. The British bondholders formed their own committee which worked closely with their American counterpart.
On the one hand, their own government refused their requests for assistance and maintained a hands off policy and on the other, two committees, each purporting to have their best interest at heart, sought their cooperation. The primary objective of each of the committees was to convince the holders of the bonds to deposit their certificates in the respective depository banks. During the early stages of the solicitations the committees failed to gain the trust of the bondholders who refused to part with their certificates. Gradually however, the bondholders, seeing no other alternative, deposited their bonds with the committees. Lisman's group had the advantage in that Lisman's company had the list of bondholders available whereas Schuyler's did not. As a result, within five months after the committee was organized, the Lisman group had acquired over twenty-one percent of the outstanding certificates while Schuyler had less than five percent. The State Department quickly realized that the existence of two rival committees only made the negotiations with El Salvador more complex. Therefore, at its urging, the two committees merged; the name of F. J. Lisman's committee prevailed and Mr. Lawrence Gilson became the Committee's chairman.\footnote{Securites and Exchange Commission, \textit{Report}, Part V, p. 285.}
The problems faced by the Committee for Salvadoran bondholders was similar to those of bondholders of other Latin American countries. As the defaults became more prevalent, the State Department, in an effort to deal with the situation, sponsored the establishment of the Foreign Bondholders' Protective Council on December 13, 1933. The purpose of the Council was to effectively coordinate the efforts of the various interested parties in their negotiations with the defaulting nations. The State Department made it clear however, that the Council had no official status or powers to negotiate on behalf of the United States government. Rather, it was a quasi official agency through which the bondholders negotiated with the defaulting countries.\textsuperscript{26} The holders of bonds from most of the defaulting Latin American countries were represented by the Bondholder Council. The holders of Salvadoran bonds were unique and, in some ways, more fortunate in that they were represented by their own aggressive committee which was able to negotiate for their investments more effectively.

The problem with defaults during the 1930's was only one of the many economic crises faced by the New Deal of President Roosevelt. But it was one which the President believed could have been avoided. In fact, he was especially resentful of the way that bankers' loans were used to advance private interests in Latin America during the free-lending years of the 1920's. Such loans were usually associated with exhorbitant rates and excessive commissions which did not endear the United States to her southern neighbors. President Roosevelt blamed some of the problems faced by the United States during the 1930's on such past mistakes and sought to correct them through the practice of non-intervention as embodied in the Good Neighbor program. He felt that it was "important to remove any legitimate grounds of criticism." Thus, one of the foundations of his New Deal's foreign policy toward Latin America was the continuation of President Hoover's non-intervention policy. The position was maintained during the numerous defaults throughout the 1930's and 1940's.


28 Stimson Diary, March 28, 1933.
In addition to the desire to develop the Good Neighbor concept, another reason may have existed for the American tolerance of what could be considered a challenging attitude by some of the Latin American leaders. Because the depression had brought economic instability to many countries of the area, the New Dealers realized that only strict discipline enabled some of the Latin American governments to maintain political stability. As a result, they tolerated what were considered totalitarian regimes as they appeared throughout the region. The government of General Martínez fell into such a classification, especially in light of the 1932 matanza. Moreover, his challenge to the United States on the matter of the 1923 Treaty made him stand out among the Central American leaders. It was believed in some quarters that he defaulted on the 1922 loan not only because of the obvious economic reasons but also to test the resolve of the Americans. Although his authoritarian measures in El Salvador clashed with the basic American principles of democracy, the New Dealers tolerated him and others like him.

According to historian Frederick Pike, it is possible that such tolerance stemmed from the fact that the United States itself, "in its desperate search for remedies to the depression leaned toward the use of
corporatist tactics in the early days of the New Deal; therefore it could respond with tolerance and forbearance when Latin American governments introduced corporatist and/or socialist experiments...as they moved toward 'statism' and controlled economies."^{29}

Some who examined Roosevelt's early New Deal closely, saw many similarities to Mussolini's corporate form of government. *Fortune* magazine noted that, "the Corporate State is to Mussolini what the New Deal is to Roosevelt."^{30} Moreover, a noted economist, Calvin E. Hoover of Duke University said in a speech before the American Economic Association in 1934 that "Roosevelt's philosophy of government-business cooperation followed the pattern of Italian Fascism..."^{31} James MacGregor Burns in his study of Roosevelt's politics, *Roosevelt: The Lion and the Fox*, observed that "the NRA, with its functional representation of business and labor groups, and the AAA, dominated by the big farm groups, showed some likeness to the corporate state


fashioned by Benito Mussolini with its syndicates of workers and employers."32 Thus, the New Dealers could not be too critical of the Central American governments for their authoritarianism, and as a result

...those who devised and first implemented the Good Neighbor Policy seemed willing to allow Latin Americans a much freer hand in dealing with the economic interests of United States citizens. Thus, the Roosevelt administration refrained from directly assisting the Foreign Bondholders' Protective Council in its efforts to force Latin American governments to resume payments on foreign debt.33

For the most part, the State Department attempted to maintain a neutral position in the bondholders matter. But it was not always easy and it was especially difficult for the men in the field. In an effort to give the impression that they spoke with authorization from the State Department, the Bondholder Committee representatives, whenever in El Salvador, endeavored to associate the American legation with their negotiations. Moreover, the Committee made sure that the Department was kept informed of all activities during the negotiations, although the State Department had publicly stated that it could not participate in any


way other than to facilitate matters. The beleaguered American Minister in San Salvador reported that the Bondholder Committee representatives always attempted to associate the Legation with their efforts and that...

...each of the representatives has promptly reported to the Legation upon arrival in the country, frequent calls have been made upon the Minister, the Legation has been kept informed of even minor steps in procedure, copies of all correspondence between the Government and the Committee or its representatives have been brought to the Legation personally by the representative of the Bondholders' Protective Committee.

In a small place like San Salvador such tactics unfailingly serve to connect the Legation with the proceedings, in the minds of the Government, the press and the public. 34

Apparently, the Committee's tactics succeeded because the Salvadoran bondholders were among the first to have a resumption of the loan service.

Debt Payment Arrangements

On July 29, 1932, just six months after the default began, El Salvador and the Bondholders Protective Committee signed an agreement whereby the Salvadoran government, represented by Roberto Aguilar, agreed to remit to the selected New York bank fifteen percent of

34 Corrigan to Hull, April 3, 1936, file 816.51C39/448, R. G. 59, N. A.
its customs collections from August 1, 1932, through December 31, 1932, and twenty percent from January 1, 1933 to December 31, 1934. The amount pledged was substantially less than the seventy percent of the customs collection agreed to under the original contract in 1922. Because the amount remitted was not adequate to pay for all three series of bonds, the Committee was forced to allocate the available sums to the holders who had deposited their bonds to its hands. 35 Because some bondholders refused to entrust their certificates to the Committee, they did not receive any payments on their investment. The holders of Series A bonds received full payment on their interest due. Holders of Series B (English) and C received their interest partly in cash and partly in four percent deferred interest certificate. Of the $251,387.33 remitted by El Salvador during the life of the Aguilar agreement $176,290.33 went to the bondholders and $75,097.50 went to the Committee for fees and expenses. 36 Although the bondholders received less than they were entitled to, they were more fortunate than

35 White to Bonsal, July 29, 1941, file FW 816.51/1085, R. G. 59, N. A.

many other holders of Latin American certificates who failed to receive any payments at all. The severity of the depression's impact on the price of coffee was sufficient reason for many nations not to resume payments. Although El Salvador was just as badly affected by the economic crisis, it was the first of the Latin American nations to resume payments on its indebtedness.\(^{37}\)

However, after less than a year under the Aguilar agreement, the Salvadoran government once again suspended payment on its external debt. On January 14, 1933, the fiscal representative was ordered by the Salvadoran Minister of Finance Miguel Tomás Molina, to deposit all his collections from customs duties into a special account in the Banco Agrícola Comercial. According to Molina, it was not really a suspension but "a temporary measure pending negotiations for a new agreement for postponement of payments."\(^{38}\) American Charge' W. J. McCafferty speculated that "the suspension may have been carried out in order to help defray the cost of expanding the Salvadoran military forces along with the added costs incurred in the effort to secure the

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\(^{38}\) McCafferty to Stimson, January 18, 1933, file 816.51C39/216, R. G. 59, N. A.
recognition of the de facto regime by the United States and other Central American Republics.\textsuperscript{39} As a result of the new payment suspension, the Committee sent Fred Lavis to join the British Bondholders' representative J. C. Armstrong in San Salvador in an effort to negotiate a satisfactory readjustment agreement. It was the first of three journeys to El Salvador by Mr. Lavis during the next three years on behalf of the American bondholders.\textsuperscript{40} The result of his initial effort was successful and a temporary settlement was signed on May 5, 1933. El Salvador agreed to transmit to a selected New York Bank, twenty percent of its customs revenues for the two year period from January 1, 1933 to December 31, 1934 in lieu of the remittances provided for under the original 1922 loan contract. The sum was used to pay for interest on the issues as well as for committee fees and expenses. Under the 1933 plan, those bondholders who had deposited their certificates with the Committee received substantial payments. During the life of the 1933 agreement, El Salvador paid the bondholders approximately $2,200,000.\textsuperscript{41}

\textsuperscript{39}Ibid.
The temporary settlement lasted only until 1935 when again, the interest payments on all three series were suspended. After prolonged negotiations between the Bondholders Committee, represented by Fred Lavis and Douglas Bradford, and El Salvador, represented by its Minister of Finance Dr. Rodrigo Samayoa, a "permanent" readjustment agreement was signed on April 27, 1936. Under the agreement the interest rates on the bonds were permanently reduced to a more tolerable level. The interest on Series A bonds was reduced from eight percent to 5.5 percent, Series B bonds from six percent to four percent, and Series C bonds from seven percent to 3.5 percent. Along with the interest rate reductions, the Salvadoran government insisted that the total amount which could be utilized to service the loan each year be limited to $850,000.42

Although it "scrupulously avoided the appearance of taking any part in the negotiations or of making any endeavor to determine their direction," the State Department through its Legation in San Salvador, played an important role in facilitating the negotiations.43


43 Corrigan to Hull, April 3, 1936, file 816.51C39/448, R. G. 59, N. A.
The so-called permanent settlement, however, lasted only two years when again the loan service was suspended. But unlike the earlier suspensions, which were partly due to political and nationalistic motives, the November 27, 1937 default was due strictly to economic pressures. On November 2, 1937 Brazil, in an effort to stimulate exports, decided to modify its valorization program and cut the tax on its exports by seventy-five percent. The decision had far-reaching effects since the valorization plan of Brazil had helped to maintain the price of coffee at higher levels than the market would have allowed. To accomplish its modified valorization plan, Brazil's National Coffee Institute burned and dumped into the sea millions of bags of coffee.44

In the period from late 1937 and throughout 1938 Brazil produced over 2,940,000,000 pounds of coffee but destroyed over 1,913,000,000 pounds or sixty-five percent of its total production. Although the proportion of the amount destroyed had increased more than twenty-two percent over the previous year's figures, the price of the commodity went down dramatically. Still the degree of price decline was much less than would have been the case had there been no valorization plan. Brazil's

decision to end export limitations on its coffee caused the price of the commodity to drop by thirty percent from the previous year's price.\textsuperscript{45}

The effects on El Salvador's economy were far-reaching. It became immediately apparent in early November 1937 that with the price of coffee at about equal to the cost of production, Salvadoran exports could be expected to drop substantially. In turn, the country's power to purchase imports would likewise be cut drastically.\textsuperscript{46} As a result, the Salvadoran coffee industry became panic-stricken. In order to assuage the fears of the businessmen, the Salvadoran cabinet met in emergency session and announced on November 10, 1937 the government plans for assistance. The Minister of Finance, Dr. Rodrigo Samayoa, assured them that: (1) no speculation would be allowed and further, that the rate of exchange (2.5-1) of the colon would not be modified in relation to the United States dollar, (2) the Salvadoran minister in Washington had been ordered to discuss the matter with the representatives

\textsuperscript{45}Military Intelligence Division, Report no. 4000, June 1939, folder El Salvador 3860-End, Box 816, R. G. 165, N. A.

\textsuperscript{46}Minister Robert Frazer (El Salvador) to Hull, December 9, 1937, file 816.51C39/324.
of Brazil, Colombia, and other coffee exporting countries of the world, (3) bank credits would be granted so that coffee growers' activities would not be interrupted in any way, (4) commercial banks were ordered to assist the government in credit and exchange control and (5) bank officials, government leaders and coffee producers would meet regularly to discuss the problems they faced. The most effective measure taken by the government however, was the drastic reduction on the coffee export tax which was cut by sixty-seven percent retroactive to November 2, when Brazil's actions had caused world coffee prices to collapse. The Salvadoran export tax was reduced from $2.57 per 100 kilograms to 95 cents per 100 kilograms and remained at that level until 1943. To counteract the serious loss of revenue which resulted from the sixty-seven percent reduction of the export tax, on January 1, 1938, the government again suspended debt service on the 1922 loan. In 1937-1938 the debt service represented twelve percent of El Salvador's national budget. The funds saved in this manner ($850,000 annually) were then freed to provide financial assistance to the coffee producers and exporters.

47 Vice Consul Joseph E. Maleady (El Salvador) to Hull, November 10, 1937, file 816.6133/53, R. G. 59, N. A.

48 Minister Walter Thurston (El Salvador) to Hull, March 30, 1943, 816.51/1139, R. G. 59, N. A.
Furthermore, the added financial strength helped to stabilize the colon at the exchange rate of 2.5 to 1 dollar as established in 1934.49

Throughout 1938 and 1939 the debt service suspension was continued although Dr. Samayoa assured the fiscal representative that service would be "again considered as soon as feasible." The American Charge in San Salvador, Walter W. Hoffman noted that the finances of El Salvador had stabilized by the middle of 1939 and that the Salvadoran government could service the external debt without making too great a sacrifice. All that would have to be done would be to eliminate the "increase" in expenditures by the government. He also noted, however, that political considerations were given priority and "domestic spending cutbacks were not."

It became more expedient for General Martínez to use the $850,000 saved annually for internal expansion programs in order to gain more support from people who might otherwise be alienated were he to promote a program of rigid economy in favor of the foreign bondholders.50

As World War II expanded, the default by the Salvadorans


50 Hoffman to Hull, July 11, 1939, file 816.51/1009, R. G. 59, N. A.
became less of an issue to Washington although negotiations between El Salvador and the Bondholders' Committee continued on a very low level. But El Salvador simply would not resume payments while other nations, which had defaulted on much larger sums, did nothing to alleviate the financial burdens of the American bondholders. Moreover, it became clear to Salvadorans that better terms might possibly be obtained if further negotiations were carried out.

Also, during the war, another avenue was explored by the Salvadorans in their effort to ease their financial obligations to American bondholders. Because of the default, the open market price of the Salvadoran bonds dropped substantially. As a result, El Salvador's Minister to Washington, Dr. Héctor David Castro, was advised by the head of the Export-Import Bank (Mr. Pier-son) to "purchase its own bonds at as low a price as it could get...because everyone else was doing it." 51 El Salvador did not begin to "repatriate" the bonds until 1942 when it began to repurchase them in the open market at a price of "approximately 20 percent of their principal amount." The bonds had been bought by speculators

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51 Copy of a memorandum of interviews by Mr. H. Gardner Ainsworth of the Legation with Héctor Herrera, President of the Mortgage Bank, and William Renwick, fiscal representative in Thurston to Hull, March 30, 1943, file 816.51/1139, R. G. 59, N. A.
during the lowest ebb of the 1938 default at substantially lower levels than twenty percent of principal.\footnote{52}

After the repurchases by El Salvador, the Bondholders' Committee realized that the likelihood of debt service resumption was minimal inasmuch as the reason given by El Salvador for its failure to comply to its financial obligation was the lack of government funds.

As a result, the Committee decided that it could no longer serve the bondholders effectively and dissolved itself on April 30, 1943. It was replaced by the Foreign Bondholders' Protective Council in the representation of the Salvadoran bondholders.\footnote{53}

Throughout the period of its existence, from March 1932 through April 1943, the Bondholders Committee was able to get a relatively large sum for its clients through the three agreements of May 1933, December 1934 and April 1936. Total remittances made by El Salvador for the bondholders under the agreements, exceeded $4,500,000.\footnote{54} The amount was especially substantial when compared to the negligible sums the Bondholders' Council was able to get for its bondholders. At the same

\footnote{52}{Joseph Carter (Secretary of Bondholders Committee) to Chief of Financial Division Frederick Livesey (State Department), March 19, 1943, file 816.51/1138-\(\frac{3}{4}\), R. G. 59, N. A.}
\footnote{53}{Ibid.}
\footnote{54}{Ibid.}
time however, the Committee was criticized for the large sums it deducted for its services. A comparison of expenses by the two organizations reveal that the Salvadoran bondholders had to pay a premium price for the services of their Committee. The Bondholders' Council, from 1933-1936, expended a total sum of $252,953.39 while representing the bondholders of several Latin American nations. On the other hand, the Salvadoran Committee representing only the bondholders of one country expended during the same period $400,000. The reason for the large difference in charges was that the Lisman Committee assessed its bondholders fifteen percent for its services while the Council limited its charges to one percent of the face value of the amount received from the Latin American nations.55

In an investigation of the bondholders problems in 1937, the Securities and Exchange Commission admonished the Lisman Committee and singled it out as "an outstanding example of the manner in which a committee may exercise its power to... deal with the security holders arbitrarily and oppressively..."56 In soliciting the deposit

55White to Bonsal, July 29, 1941, file FW 816.51/1085, R. G. 59, N. A.

of certificates, the Committee stressed that the fee for services would be limited to one percent of the principal amount of bonds deposited. However, when El Salvador refused to bear the burden of the committee fees plus expenses, the one percent was raised to fifteen percent by simply amending the original agreement. Anyone who wished to withdraw his certificates had to pay a penalty fee of $10 per $1,000 deposited and was denied any of the benefits which later accrued to the depositors. Thus the bondholders were forced to accept the amendment to the original agreement.

On another matter the Committee was criticized by the Securities and Exchange Commission, the State Department and Foreign Bondholders Protective Council for the manner in which it dealt with certain bondholders—those who did not deposit their certificates with the Committee. It was the position of the Lisman Committee that such bondholders were not entitled to share the benefits which accrued to those who deposited

57 Ibid.

58 Ibid., p. 668; Securities and Exchange Commission, Report, Part V, pp. 459-460; Memorandum of Conversation between Francis White (Foreign Bondholders' Protective Council) and Philip Bonsal, Chief of the Division of American Republics (State Department), July 23, 1941, file 816.51/1085, R.G. 59, N. A.
with the Committee which represented about ninety-five percent of all bondholders. The position of the Committee did not change under the criticism and the State Department ultimately altered its position to coincide with the Committee's. John Cabot of the State Department's Division of American Republics agreed that the non-depositors be excluded because to pay them would probably have resulted in "numerous withdrawals of deposited bonds, which would probably wreck the last hope of a return to the Agreement of April 1936." He did not wish the non-depositors to "secure all the advantages of the past agreement, and any prospective one, made by the Committee, while having none of the responsibility or expense."^0

On yet another matter, the Securities and Exchange Commission criticized the members of the Lisman Committee for personally profiting on the problems of the American investors whom they represented. Committee members used the inside information available to them to buy and sell Salvadoran bonds. Between March 1932-September 1935 Lisman's company bought $392,500 of Salvadoran Bonds and CD's and sold $396,500 at a profit of $5,548.98. During the same period Fred Lavis bought and sold the

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59 John Cabot to Philip Bonsal, July 25, 1941, file FW 816.51/1085, R. G. 59, N. A.
60 Ibid.
bonds and netted $564.00 in profits. R. W. Hebard likewise profited in the same manner.61

Despite all of the criticisms the Salvadoran Committee was able to accomplish more for its bondholders than the Council was able to do for its clients. While he agreed with the criticisms, John Cabot also noted that the Committee "through self-interest secured a hard boiled realistic settlement which was of benefit to the bondholders, while the Council went in for ineffectual legal hair splitting and got nowhere."62

The fruitless efforts of the Council after 1943 when it replaced the dissolved Committee, bore out the truth of Cabot's statement. Although the debt issue took a backseat to the war during the early 1940's, negotiations did take place although on a smaller scale. In the summer of 1943, a Salvadoran economic mission headed by Arturo Bustamante, Undersecretary of Finance, and Victor Barriere, President of the Salvadoran Court of Accounts, met with Dr. Dana Munro of the Bondholders Protective Council. The meetings were held during the


62 Cabot to Bonsal, July 25, 1941, file FW 816.51/1085, R. G. 59, N. A.
month of July and the first week of August 1943. The objective of the Salvadoran mission was to obtain a readjustment of the loan. The discussions however, became strained when the Salvadorans insisted that the terms be readjusted lower in the same manner that the Colombian debt was restructured. Señor Bustamante pointed out that El Salvador "could hardly be expected to do better than Colombia, which was a great, rich country." Dr. Munro retorted that Colombia was in many ways "less developed than Salvador and that the Colombian debt...was very much greater than that of Salvador." The new proposal offered by El Salvador would have replaced the existing series of bonds with a new thirty year bond bearing interest at three percent. It also provided for the abolishment of the office of the fiscal representative. The Bondholders Protective Council could not accept the new terms and as a result, the negotiations ended in failure. Further negotiations

63 Interview with Sr. Barriere, December 1975, San Salvador.

64 Memoranda of conversations with Sr. Bustamante and Sr. Barriere of the Salvadoran Economic Mission in Dana Munro (Bondholders Protective Council) to Frederick Livesey (Chief, Financial Division, State Department), August 17, 1943, file 816.51/1175, R. G. 59, N. A.

65 Ibid.
were carried out in later years but the loan payments were not resumed until 1946 and then only after the terms were readjusted favorably for the Salvadoran government.\textsuperscript{66}

The problems with the 1922 loan had taught General Martínez a lesson in economics which he attempted to impart to his fellow Salvadorans. In the "Martínez Doctrine" which he proclaimed in June 1937 before the Salvadoran Congress, he stated: "I propose as the keystone of the national policy that the government never again contract new loans." The quotation was placed on a bronze plaque in the hall of Congress.\textsuperscript{67}

Areas of Economic Cooperation

While the loan default created some tension between the United States and El Salvador, other developments occurred which helped to facilitate closer economic ties between the two nations. During the period between 1920 and the early 1930's, the bulk of El Salvador's trade had been carried out with European countries. Germany and the Scandinavian countries were large buyers of El Salvador's "mild" coffee. Table II indicates the destination of El Salvador's coffee exports during the 1929-1938


Table II

Coffee Exports from El Salvador to Principal Markets 1929-1938

(In thousands of pounds)

<table>
<thead>
<tr>
<th></th>
<th>1929</th>
<th>1932</th>
<th>1936</th>
<th>1937</th>
<th>1938</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent of coffee in total exports</td>
<td>93</td>
<td>92</td>
<td>89</td>
<td>91</td>
<td>87</td>
</tr>
<tr>
<td>Total coffee exports</td>
<td>103,137</td>
<td>87,423</td>
<td>108,927</td>
<td>149,071</td>
<td>149,071</td>
</tr>
<tr>
<td>United States</td>
<td>18,928</td>
<td>12,058</td>
<td>60,646</td>
<td>90,856</td>
<td>75,265</td>
</tr>
<tr>
<td>Germany</td>
<td>34,759</td>
<td>31,254</td>
<td>16,555</td>
<td>17,582</td>
<td>12,781</td>
</tr>
<tr>
<td>Norway</td>
<td>9,161</td>
<td>9,314</td>
<td>8,669</td>
<td>11,316</td>
<td>13,473</td>
</tr>
<tr>
<td>Sweden</td>
<td>9,530</td>
<td>6,022</td>
<td>7,241</td>
<td>7,171</td>
<td>8,150</td>
</tr>
<tr>
<td>Italy</td>
<td>9,418</td>
<td>10,909</td>
<td>679</td>
<td>4,392</td>
<td>1,032</td>
</tr>
<tr>
<td>France</td>
<td>1,980</td>
<td>4,686</td>
<td>3,870</td>
<td>4,400</td>
<td>1,094</td>
</tr>
<tr>
<td>Finland</td>
<td>1,331</td>
<td>318</td>
<td>1,056</td>
<td>1,686</td>
<td>1,990</td>
</tr>
<tr>
<td>Netherlands</td>
<td>10,542</td>
<td>8,969</td>
<td>1,443</td>
<td>943</td>
<td>881</td>
</tr>
<tr>
<td>All other</td>
<td>7,488</td>
<td>3,893</td>
<td>8,768</td>
<td>10,725</td>
<td>34,405</td>
</tr>
<tr>
<td>Percent to the United States</td>
<td>18.4</td>
<td>13.8</td>
<td>55.7</td>
<td>60</td>
<td>50.5</td>
</tr>
</tbody>
</table>

68 United States Tariff Commission, Report no. 144, p. 263.
period. During the early part of the period, El Salvador was the principal supplier of "mild" coffee to Germany. As also indicated in the table, by 1936, there had occurred a pronounced shift in the trade figures whereby the United States became the primary destination of exports from El Salvador. The basic reason for the shift was the German introduction of the compensation or ASKI system. ASKI was the symbol for Ausländer-Sonderkonten für Inlandszahlungen (Foreigners' Special Accounts for Inland Payments). Germany's use of blocked accounts began in 1933-1934 as an effort to collect debts owed to it by nations in central and eastern Europe. Because of the accumulation of a large amount of unpaid claims and the shortage of foreign currency in Germany as well as her own requirements for raw materials, she was forced to insist on payment either in money or in kind. Thus, clearing agreements began. Under the system developed, payments for products exported to Germany were in a currency called "Sondermark," redeemable only in Germany, as payment for German goods. Thus, Salvadoran exporters who shipped coffee to Germany, instead of receiving drafts

69 United States Tariff Commission, Report no. 144, pp. 261, 263.

in New York, were advised that a blocked credit had been opened in their accounts in German banks. The credit on their accounts were used to pay for German goods.\footnote{Translation of a Report by Dr. Juan Vasquez, M.I.D., February 1940, Item no. 4000, folder 3860-End, Box 819, El Salvador 3850-4130, R. G. 165, N. A.; McCann, \textit{The Brazilian-American Alliance 1937-1945}, p. 24.}

The \textit{ASKI} system did not work well for El Salvador because it exported much more than it imported from Germany. In the years from 1930-1934 El Salvador sent an average of 29.60 percent of its total exports to Germany. During the same period it imported only 9.8 percent of its total imports from Germany.\footnote{Wallich and Adler, \textit{Public Finance in a Developing Country: El Salvador - A Case Study}, pp. 31-32.} Under the compensation system in order for El Salvador to make full use of the credits earned through exports, she would have had to increase her imports from Germany threefold. As a result of the imbalance El Salvador, in search for new markets, turned to the United States. Germany turned to Costa Rica and Colombia for her new supplies of "mild" coffee.\footnote{United States Tariff Commission, \textit{Report} no. 144, p. 261.} Thus, the German compensation system, together with the free-trade program of Cordell Hull brought about the increased trade with the United States during the 1930's.
The basis of the commercial relations between the United States and El Salvador was governed by the Treaty of Friendship, Commerce and Consular Rights of 1926 and by the Commercial Agreement of 1937. The latter agreement was a reciprocal trade pact which provided for certain tariff exemptions for products each nation imported from the other. For El Salvador the primary exemption was her export of coffee. Since coffee represented over ninety percent of her exports, the agreement clearly had a favorable effect on El Salvador's trade. Between 1928 and 1938 the Salvadoran coffee exports to the United States increased substantially.\textsuperscript{74} Tables III and IV indicate some of the principal exports and imports between the United States and El Salvador during the years 1930-1940.

During the war years, as was the case with other Latin American countries, El Salvador's trade shifted substantially from Europe to America as the naval blockade successfully kept trading vessels out of European waters. The nations at war curtailed the importation of coffee by their civilians. Table V shows the volume of El Salvador's exports to the United States during the war years 1940-1944 which adequately compensated for the lost European market.

\textsuperscript{74} Translation of a Report by Dr. Juan Vasquez, M.I.D., February 1940, Item no. 4000, folder 3860-End, Box 819, El Salvador 3850-4130, R. G. 165, N. A.
Table III

Principal Exports by El Salvador to the United States (in thousands of dollars), 1930-1940

<table>
<thead>
<tr>
<th>Year</th>
<th>Coffee</th>
<th>Balsam</th>
<th>Sisal</th>
<th>Total Exports to United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>1930</td>
<td>2,501</td>
<td>43</td>
<td>145</td>
<td>2,875</td>
</tr>
<tr>
<td>1932</td>
<td>1,077</td>
<td>25</td>
<td>23</td>
<td>1,143</td>
</tr>
<tr>
<td>1934</td>
<td>2,470</td>
<td>35</td>
<td>1</td>
<td>2,527</td>
</tr>
<tr>
<td>1936</td>
<td>4,806</td>
<td>55</td>
<td>110</td>
<td>5,026</td>
</tr>
<tr>
<td>1938</td>
<td>5,550</td>
<td>44</td>
<td>12</td>
<td>5,673</td>
</tr>
<tr>
<td>1940</td>
<td>6,906</td>
<td>59</td>
<td>17</td>
<td>7,003</td>
</tr>
</tbody>
</table>

\*Balsam—medicinal gum used as a base for perfumes and medicines.

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bForeign Commerce and Navigation, Calendar Year 1932, pp. 342-343.

cForeign Commerce and Navigation, Calendar Year 1934, p. 343.

dForeign Commerce and Navigation, Calendar Year 1936, p. 411.

eForeign Commerce and Navigation, Calendar Year 1938, p. 393.

fForeign Commerce and Navigation, Calendar Year 1940, p. 336.
### Table IV

**Principal Imports by El Salvador from the United States (in thousands of dollars), 1930-1940**

<table>
<thead>
<tr>
<th></th>
<th>1930&lt;sup&gt;a&lt;/sup&gt;</th>
<th>1932&lt;sup&gt;b&lt;/sup&gt;</th>
<th>1934&lt;sup&gt;c&lt;/sup&gt;</th>
<th>1936&lt;sup&gt;d&lt;/sup&gt;</th>
<th>1938&lt;sup&gt;e&lt;/sup&gt;</th>
<th>1940&lt;sup&gt;f&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat &amp; Flour</td>
<td>610</td>
<td>379</td>
<td>312</td>
<td>98</td>
<td>262</td>
<td>210</td>
</tr>
<tr>
<td>Cotton Cloth</td>
<td>805</td>
<td>650</td>
<td>763</td>
<td>420</td>
<td>384</td>
<td>254</td>
</tr>
<tr>
<td>Cotton Material</td>
<td>180</td>
<td>175</td>
<td>220</td>
<td>179</td>
<td>215</td>
<td>468</td>
</tr>
<tr>
<td>Total Imports</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>from United</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>States</td>
<td>4,457</td>
<td>2,289</td>
<td>3,130</td>
<td>2,795</td>
<td>3,525</td>
<td>4,682</td>
</tr>
</tbody>
</table>

<sup>a</sup>Foreign Commerce and Navigation, Calendar Year 1930, p. 679.<n><sup>b</sup>Foreign Commerce and Navigation, Calendar Year 1932, pp. 342-343.<n><sup>c</sup>Foreign Commerce and Navigation, Calendar Year 1934, p. 343.<n><sup>d</sup>Foreign Commerce and Navigation, Calendar Year 1936, p. 411.<n><sup>e</sup>Foreign Commerce and Navigation, Calendar Year 1938, p. 393.<n><sup>f</sup>Foreign Commerce and Navigation, Calendar Year 1940, p. 336.
<table>
<thead>
<tr>
<th></th>
<th>1940&lt;sup&gt;a&lt;/sup&gt;</th>
<th>1941&lt;sup&gt;b&lt;/sup&gt;</th>
<th>1942&lt;sup&gt;c&lt;/sup&gt;</th>
<th>1943&lt;sup&gt;d&lt;/sup&gt;</th>
<th>1944&lt;sup&gt;e&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>7,003</td>
<td>7,209</td>
<td>11,900</td>
<td>14,492</td>
<td>14,537</td>
</tr>
<tr>
<td>Coffee</td>
<td>6,906</td>
<td>7,021</td>
<td>11,691</td>
<td>14,214</td>
<td>14,255</td>
</tr>
<tr>
<td>Percent</td>
<td>98</td>
<td>97</td>
<td>98</td>
<td>98</td>
<td>98</td>
</tr>
</tbody>
</table>

Another factor contributed to the improved economic relations between the two nations during the period. On November 28, 1940 the Inter-American Coffee Convention was signed by the United States and fourteen coffee producing nations under which for a three-year period,

<sup>a</sup>Foreign Commerce and Navigation, Calendar Year 1940, p. 336.
<sup>b</sup>Foreign Commerce and Navigation, Calendar Year 1941, p. 362.
<sup>c</sup>Foreign Commerce and Navigation, Calendar Year 1942, p. 293.
<sup>d</sup>Foreign Commerce and Navigation, Calendar Year 1943, Volume 1, Section B, p. 23.
<sup>e</sup>Foreign Commerce and Navigation, Calendar Year 1944, Volume 1, Section B, p. 23.
annual export quotas were set for each producing country, both for shipments to the United States and for shipments to all other markets outside the United States. The agreement was designed to stabilize and improve the markets by keeping the price of coffee at normal levels. Under the agreement, El Salvador was allocated 79,365,600 pounds which could be exported to the United States. In 1941 the quota was raised to 80.7 million pounds. The United States for its part, did not guarantee any fixed or minimum prices, but it did agree to limit its coffee importations for the 1940/41 coffee year to 15,900,000 bags (132 pounds each) and it assumed the responsibility for setting up the machinery for the control of imports. By so doing, the United States made it possible for the coffee growing nations to keep the price of coffee at normal levels. In the case of El Salvador, the 1940/41 crop was sold to the United States for approximately $8,525,000. Had the Coffee Convention not been in effect, the price at which the crop would have sold could not have been over $3,500,000. Thus, with the price of coffee artificially maintained, the American people indirectly subsidized the Salvadoran

economy. Without the Convention the price of the commodity would surely have gone down.\textsuperscript{76} But the Coffee Convention was also beneficial to the United States because it helped to accomplish its goal to preserve the political and economic stability not only of El Salvador but also of the whole of Latin America.

\textsuperscript{76}Vice Consul Overton Ellis (El Salvador) to Hull, November 28, 1941, Item no. 7008, Office of Strategic Services, R. G. 226, N. A.
SUMMARY

One of the problems faced by El Salvador during the 1930's was the result of its dependence on coffee as the foundation of its economy. As such her economic stability depended on the price of the commodity remaining stable. Although she produced the mild coffee which commanded a higher price in world markets, to a large degree its price was still determined by the action of the Brazilian government which had artificially normalized world coffee prices with a valorization plan. In 1931, when other economic pressures forced Brazil to abandon its price support program, the price of coffee tumbled precipitously. El Salvador was affected in a direct manner and the foundation of its economy was shattered.

In an effort to stabilize her economy the government of El Salvador enacted several measures, one of which was the suspension of her debt payments to American bondholders on February 23, 1932. The default had far-reaching effects on United States-Salvadoran relations which were already strained by the American non-recognition of General Martínez's government.

The State Department acted to avoid further deterioration of relations between the two nations by not carrying out its contractual obligation under
the 1922 loan agreement. Under the contract it was to select a person to be the collector general from among those recommended by the fiscal representative and then transmit the name to El Salvador for final approval. The problem arose when Washington, fearful that such a transmission might be misinterpreted by El Salvador as tacit recognition, decided not to carry out its obligation. The State Department was reluctant to act because so many other Latin American nations had also defaulted and to force a small nation to submission would certainly be seen as outright imperialism by many.

While Washington's decision may have improved America's image in Latin America, it greatly angered the American bondholders who felt that they had been abandoned by their own government.

Left to fend for themselves, the bondholders were organized by American financial interests who saw a profit opportunity arise. After some initial confusion, the Salvadoran Bondholders Committee was formed to act as the representative body for most of the bondholders. The Committee headed by Lawrence Gilson of Manufacturers Bank and Trust Company of New York and Fred Lavis of I.R.C.A., was able, through hard-headed negotiations, to reach a settlement with the government of El Salvador. Although the State Department remained neutral throughout the negotiations, it aided the bondholders by facilitating
the discussions. The New Dealers of Roosevelt moreover, helped matters by not pressuring El Salvador too much and by tolerating its actions despite the fact that it sometimes embarrassed the Americans through General Martínez's resistance to non-recognition.

The efforts of the Committee paid off on July 29, 1932 when an agreement was signed whereby El Salvador agreed to resume payments on the debt. Although the subsequent payments were less than the original agreement, the bondholders were satisfied because they knew that El Salvador was the first Latin American nation to make such resumptions after default. Bondholders for other nations were not so fortunate. The Aguilar agreement of 1932 however lasted only until January 14, 1933 when again the debt service was suspended. Another settlement was made by May 5, 1933 and it lasted until 1935 when again it was suspended. A firmer agreement was not signed until 1936, but although it was labeled a "permanent" agreement, it did not last after November 27, 1937.

On November 2, 1937 Brazil shook the coffee industry when it again modified its valorization program and lowered the tax on its coffee exports. The result was a severe drop in coffee prices. The effect on El Salvador was immediate and in reaction General Martínez again suspended debt service on the 1922 loan. The 1937 suspension lasted for over eight years and it was not until 1946 that debt
repayments were again resumed. By then relations between El Salvador and the United States had improved considerably.

Although the Committee was strongly criticized by some bondholders and the Securities and Exchange Commission for some of its activities, it was able to do more for its bondholders than other organizations which attempted to do the same job for other nations.

While the default created some moments of apprehension in the overall relations between the United States and El Salvador, there were other areas of cooperation which helped facilitate closer ties between the two nations. One was the action of Germany when it instituted the compensation or ASKI system of trade. While this system worked well with other Latin American nations (especially Brazil) it did not for El Salvador. As a result, El Salvador's trade shifted from Germany and Europe to the United States. Secondly, trade agreements such as the Reciprocal Trade Agreement of 1937 and the Inter-American Coffee Convention of 1940, helped to facilitate closer economic ties between the two nations. Lastly, as the war in Europe expanded, economic relations between El Salvador and the United States grew closer together.
CHAPTER V

THE LATER YEARS: TOTALITARIANISM AND WAR

The Movement Toward Totalitarianism

By the middle of 1937, after recognition was no longer an issue and the bondholder problem was "permanently" settled, Salvadoran-American relations improved considerably. The State Department seemed satisfied with the American relationship with El Salvador. The American Minister, Dr. Frank P. Corrigan, wrote in glowing terms of the regime under General Martínez:

President Maximiliano Martínez's administration has gained the approval of the greater part of the people. He has not been a Dictator in the opprobrious sense. He permits free expression of opinion if he considers it well intentioned and not subversive. He is personally democratic and approachable. The economic condition of the country has greatly improved during his incumbency. The adoption of a sound money policy through the establishment of the Central Reserve Bank and the strengthening of the national credit by the completion of a satisfactory settlement of the external debt are outstanding achievements of his administration, the value of which is being appreciated.\(^1\)

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\(^1\)Corrigan to Hull, May 29, 1937, file 816.00/1004, R. G. 59, N. A.
However, Dr. Corrigan's comments on the democracy under General Martínez and the settlement of the external debt proved to be somewhat premature as the political and economic climate changed in the ensuing months. When Brazil decided to end limitations on its coffee exports on November 2, 1937, the price of the commodity plummeted. The effect on El Salvador's economy was such that by late November, the debt service on the 1922 loan was again suspended and the tension between El Salvador and the American bondholders returned. The other matter regarding the democratic ideas of Martínez was likewise altered when the Salvadoran leader began to openly praise the achievements of the totalitarian governments in Europe.

Two months after his May letter, Dr. Corrigan's opinion of General Martínez's regime changed appreciably. In another letter to the Secretary of State he expressed a desire to use the moral influence of the office of Minister to discourage the "beginning of a Dictatorship." In a telegram reply Assistant Secretary Sumner Welles strongly suggested that there be no involvement in any way in the internal affairs of the Salvadoran government.

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2Corrigan to Hull, July 29, 1937, file 816.00/1010, R. G. 59, N. A.

3Welles to Corrigan, August 13, 1937, file 816.00/1010, R. G. 59, N. A.
By the middle of 1938, the complexion of General Martínez's regime had become patently more totalitarian. In a dispatch to the Secretary of State the American Minister to Guatemala, Fay Allen Desportes, related that...

...the British Minister to Guatemala advised me yesterday that he had just received confidential reports from El Salvador giving further evidence that President Martínez of that Republic has turned Fascist in the letter and the spirit.4

By early 1939, Dr. Corrigan's fears (expressed in his letter of July 29, 1937) had materialized as General Martínez repealed the 1886 Constitution in order to perpetuate himself in office. In opposition to his continuismo, some of his early supporters abandoned his "Pro-Patria Party" and joined the opposition. Such was the case of General Manuel Castaneda, one of General Martínez's earliest associates, who had helped him crush the 1932 uprising. Miguel Tomás Molina, who had helped to re-establish economic stability during the early 1930's, Dr. Maximiliano Brannon, Sub-secretary of Finance, and Augustín Alfaro, Chief Audit Officer, all left the government to protest its totalitarian nature. Although formerly in full accord with General Martínez, they agreed with the extension of his Presidential term and

4Minister Fay Allen Desportes (Guatemala) to Hull, August 19, 1938, file 816.00/1052, R. G. 59, N. A.
his continuation of a de facto dictatorship. Later, General Castaneda further accused his former chief of being the most "anti-democratic" leader in the Americas and of having delivered sections of the economy to "Nazi-Fascist Imperialism."\(^5\) Thus, what had begun as admittedly an authoritarian but benevolent government had evolved into what many considered to be an oppressive, dictatorial regime. The tactics used by General Martínez were viewed by American diplomats as fascist in nature. This characterization, combined with significantly increased imports from Germany in the years 1935-1937, along with the presence of German and Italian advisors in San Salvador, seemed to give credence to the belief that the influence of the Axis powers in El Salvador was considerable. The characterization however, was not wholly accurate.

The government of General Martínez had developed over the years as a military regime which emphasized the practice of self-discipline. The previous administrations had failed in the effort to establish a representative democracy and were blamed for the economic and political

\(^5\)Translation of a memorandum from, "The Executive Committee of the Salvadoran Popular Union" to the American Legation, January 20, 1939, file 816.00/1065, R. G. 59, N. A.; Thurston to Hull, February 3, 1944, file 816.00/1190, R. G. 59, N. A.
crises of 1930-1931. Moreover, the military leaders, along with General Martínez, were convinced that the only way El Salvador could weather the crises of the early 1930's was with the establishment of a disciplined population and a centralized government. It was a rationale for the establishment of a "corporatist" system of government. The success of General Martínez in suppressing the "Communist" uprising in 1932 reinforced a belief in the need for a strong central government to deal with such dangers. Further support came from other dictatorial leaders with governments not unlike his own. Men such as Getulio Vargas (Brazil), Jorge Ubico (Guatemala), Anastasio Somoza (Nicaragua), and Fulgencio Batista (Cuba) also emerged amid economic and political chaos in their countries. Apparently, when faced with anarchy or tyranny, Latin American governments opted for the latter. The Salvadorans were no different. In their desire for law and order, the people gave tacit support to the authoritarian rule of General Martínez.

Like many other politicians, scholars and businessmen during the 1930's, General Martínez was attracted by the successes of Benito Mussolini and, to some degree, by those of Adolph Hitler. He saw similarities in his actions and theirs. Like him, Mussolini and Hitler had saved their countries from Communism. And Mussolini was seen as a strongman, not unlike the Latin caudillo.
General Martínez also supported another European strongman whose beliefs paralleled his, Francisco Franco of Spain. General Martínez was among the first to recognize Franco's government in 1936.6

Later, shortly before his exile, General Martínez, in a rambling discussion with an American businessman, expressed what had been his philosophy throughout the 1930's. He admired fascist ideas and heralded its bright future. The corporate system, he said, as originated in Italy and developed by Germany, was the system of the future and that it was the desirable system for El Salvador.7

As early as 1933, General Martínez's ideas regarding the corporate state had become evident to the American Charge' in San Salvador W. Quincy Stanton who noted in a dispatch to the Secretary of state that

The Administration is showing 'Fascist' leanings - Central American model - with the emphasis upon supremacy of the: 1. Military unit, 2. a greater degree of Corporate State convening the coffee and sugar export control projects, 3. relatively heavy State participation in economic interests... 4. suppression of popular legislative activities, 5. the necessity of maintaining the present regime at all costs...

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7 Memorandum of conversation between a prominent American businessman in San Salvador, Ricardo Kriete and General Martínez on May 2, 1944 in Thurston to Hull, May 4, 1944, file 816.00/1323, R. G. 59, N. A.
Patently, the philosophy of the Salvadoran regime is not exactly comparable to the European Fascists, for one reason because of the scanty industry in this country and the predominance of agriculture or for the inferior racial quality of its population.8

At the time, however, General Martínez was no different from other leaders throughout the world who sought to find answers to the problems brought on by the depression. Rulers from Vargas to Ubico to Batista compared the capitalist and democratic system vis-a-vis other economic and political systems and borrowed from each those elements considered vital for a country to survive the depression. For some, fascism was preferable to Communism. The early economic successes of Hitler and Mussolini made the corporate state system appear very attractive indeed.

German and Italian Inroads in Latin America

In 1933, as Hitler rose to power he found himself heading a nation on the verge of collapse. Germany was burdened with huge debts it could not meet and was seriously weakened by a very unfavorable balance of trade. But Hitler's efforts to restore Germany's

8 Charge' d'Affaires W. Quincy Stanton (El Salvador) to Hull, July 1, 1933, file 816.00 General Conditions/45, R. G. 59, N. A.
industrial and military prowess was hampered by a shortage of raw materials, a scanty supply of internationally acceptable currency, and high tariff walls set up by Western Europe and the United States. Thus, Germany had to turn to Southeastern Europe and Latin America for its raw materials as well as markets for its manufactured goods. In Latin America, by the use of imaginative trade practices (compensation system) Germany's market share and economic influence grew rapidly over the next few years. In El Salvador the effect of the trade offensive was clearly visible in the increased volume of imports from Germany. As indicated in Figure I, during the period from 1930-1934 the average percentage of imports from Germany represented only nine percent of El Salvador's total imports. During the 1934-1937 period the average rose to twenty-five percent of El Salvador's total imports. While some of this increase affected American interests, the bulk replaced imports from Asian and other European countries. Even larger increases occurred in other Central and South American nations notably Guatemala, Brazil and Argentina.

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FIGURE I

Percent Distribution of Salvadoran Imports by Country of Origin, 1930-1944.\textsuperscript{10}

\textsuperscript{10}Wallich and Adler, \textit{Public Finance in a Developing Country: El Salvador - A Case Study}, p. 32.
While Germany's compensation system allowed it to substantially increase total trade with many Latin American countries, it was not a complete success in El Salvador. Because exports far exceeded imports from Germany in monetary terms, the ASKI system did not work favorably for El Salvador. As a result, by 1939 it diverted most of its exports from Germany to the United States as indicated by the graph in Figure II.

Italy's trade with El Salvador suffered during the 1930's except possibly in the area of military hardware. Whereas the Salvadoran coffee exports to Italy averaged approximately 9.5 million pounds annually during the years 1929-1932, it averaged less than 3.2 million pounds in the period 1936-1938.\(^\text{11}\) The military equipment purchases by El Salvador was better.

Early in 1938, Captain Juan Nunez, Chief of El Salvador's Air Force, announced the purchase of four Caproni bombers from Italy. The fourth was purchased "knocked down" to serve as parts. The planes were advanced light bombers to be used as either scout or pursuit aircraft as well as for bombing purposes. The planes were purchased for $39,000 each with payment made partly in cash and in coffee payable over an

\(^{11}\)United States Tariff Commission, Report no. 144, p. 263.
FIGURE II

Percent Distribution of Salvadoran Exports
by Country of Destination, 1930-1944.\(^{12}\)

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extended period of time. The coffee value was determined by the price of coffee on the date of shipment of the planes. The $39,000 price included the costs of sending a Salvadoran pilot and mechanic for three months to Italy and of sending an Italian pilot to El Salvador to train other pilots.

El Salvador's Minister of Defense, General Andres Menéndez, had initially tried to purchase similar planes from the United States but failed in his efforts. Although the American planes cost less at $38,000 apiece, the negotiations collapsed because the American company, North American Aircraft Corporation, refused to accept coffee as part payment. Moreover, the company refused to pay for the expenses of training Salvadoran pilots and mechanics. With all of the extras the Italian planes were actually two-thirds of the cost of the American planes. The Italian government was obviously eager to sell the planes even though it made little money on the transaction. As the war developed, the United States softened trading conditions in the effort to win the support of the Salvadorans and other Latin Americans.

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13 Vice Consul Overton Ellis (El Salvador) to Hull, February 4, 1938, file 816.248/35, R. G. 59, N. A.

14 Ellis to Hull, February 17, 1938, file 816.248/38, R. G. 59, N. A.
In addition to the economic inroads by the Axis powers in El Salvador, they also experienced some success in spreading Nazi-Fascist ideas through the exchange of military missions. Italy, in a bid to gain more influence in the area, accepted for training four aviators from El Salvador at no cost to the Central American nation. They were Capt. Julio Sosa, Lt. Francisco Ponce and two second-year students from the Military Academy. Moreover, two officers, Captains Oscar Osorio and Manuel de J. Cordova of the Artillery Regiment, were also sent on August 5, 1938, to Italy for training at the Academy of War at Torino. The training mission coincided with the Salvadoran order to purchase Italian armaments which included thirty-two tractor-drawn seventy-five (75) mm guns and shells. The weapons cost $12,500 each for a total of $400,000 and a like amount for ammunition. The order was to have been paid with twenty percent in cash and eighty percent in coffee. In the ensuing year however, the order was cancelled due to Italy's inability to


fulfill its obligation. Furthermore, Italy's efforts to reduce coffee consumption at home due to the worsening crisis in the Mediterranean resulted in the deterioration of the once friendly relationship with El Salvador. Although he was still a proponent of fascist ideas, General Martínez, anxious to buy guns, turned toward the United States for his supplies. As the European war developed, he was able to acquire the needed weaponry from the United States.

On another front, the Axis powers were able to make additional inroads in Latin America. They were able to gain some influence in cultural matters after they offered "numerous and generous fellowships" to Latin American students and professors to study in their schools and subsidized their own professors for placement on the faculties of Latin American universities. In some Salvadoran schools, Spanish priests with fascist views were brought in with the blessings of the government and, at one school in San Salvador, the children were even taught to give the fascist salute. Another Spanish priest held an important position in El Salvador--that

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17Ellis to Hull, July 12, 1939, file 816.24/66, R. G. 59, N. A.

of confessor to Sra. Concha M. Martínez, the wife of General Martínez. Padre Mario Casariego arrived in El Salvador during the early part of 1939 after studying for the priesthood in Rome. Like many Spaniards in El Salvador he disliked Americans and used his position to win over Sra. Martínez to his cause. According to a report by Captain C. E. Massey, the Military Attaché in Balboa, Canal Zone, Padre Casariego, because of his influence on Sra. Martínez, had often been referred to as the "Rasputin" of El Salvador. General Martínez himself was not influenced by the Catholic priest as he was an avid Theosophist and Mason. However, he was influenced by a German friend, Hugo Rinher, who was also a Theosophist and "crystal gazer." The basis of the friendship between General Martínez and Rinher, however, remained on the level of religious and occult matters.

Probably the most significant influence of the Axis powers in El Salvador was on the military. For years German military advisors had been an important part of the Salvadoran military administration. Other

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19 Military Attache' Captain C. B. Massey (Balboa, Canal Zone) to Assistant Chief of Staff, G-2, December 14, 1943, Item no. 2600, folder El Salvador 2400-2950, Box 817, El Salvador 2400-3020, R. G. 165, N. A.

Latin American military organizations had likewise utilized German military know-how. Moreover, it was not uncommon for these nations to have an officer from Germany or Chile to head sections of the local military units. As an example, in 1932 the chief of El Salvador's Guardia Nacional was General Armando Llanos of Chile. By 1938, however, the negative effects of the European and African exploits of Germany, Spain and Italy caused some observers to cast a suspicious eye at the appointment of a German or Italian military officer in the armed forces of El Salvador. Such was the case when General Eberhardt Bohnstedt was appointed by General Martínez to be the director of the Escuela Militar on April 24, 1938. The appointment alarmed some people because Bohnstedt was a retired Colonel from the German Army and had been under contract to the Salvadoran government for several years as an instructor and technical advisor to the military. Moreover, his rise to the directorship was seen as a bad omen because at about

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21 Interview with Sr. Peñate, December 1975, San Salvador.

22 McCafferty to Stimson, May 18, 1932, file 816.00 General Conditions/31, R. G. 59, N. A.


24 Frazer to Hull, September 8, 1939, file 816.29/51, R. G. 59, N. A.
the same time, Colonel Ernesto Bara was removed from
the post of Military Chief of the Department of
Chalatenango. The removal was significant to some because
Colonel Bara was of French descent and had served in the
French army during World War I. The implication
which surfaced was that General Martínez was gradually
easing in Nazi sympathizers into the military and
government offices while at the same time forcing out
those who were pro-Allies. This, however, was not the
case. The selection of Bohnstedt was based strictly on
General Martínez’s admiration of his excellent military
training and not because of his political orientation.

The appointment of another German to a high
government post in San Salvador caused some consternation
among certain American observers. Baron Wilhelm von
Hundelhausen was appointed as the manager of the important
Banco Hipotecario (Mortgage Bank) of El Salvador when it
was organized in 1935. His selection, like that of
Bohnstedt, was based strictly on his training and other
qualifications. He was in fact chosen by the bank’s
president, Hector Herrera, who had become acquainted

26 Interview with Ambassador Serrano, Sr. Parriere
and Sr. Peñate, December 1975, San Salvador.
with him while studying in Germany during the early 1930's. The motivation behind the selection of Hundelhausen was simply a desire to have the best qualified person at the post just as General Martínez, in his efforts to form the Salvadoran Central Reserve Bank, looked to English and American bankers for organizational advice.  

By 1938, however, because of the Axis activities in Europe, American concern with the German presence in Latin America became more evident. Thus, Germans who held high ranking positions in government were suspected of being Nazi agents or subversives. Although there was some basis for suspicion, much of the alleged "dangerous" activities of Germans in El Salvador were exaggerated. Just as during the 1932 revolt anyone who advocated social reform or disagreed with General Martínez's regime was tagged a Communist, during the late 1930's and early 1940's anyone with a German name or who advocated strict discipline was labeled a Nazi or Fascist agent. The American Military Attachés were especially active in seeking out alleged German and Italian agents and their sympathizers.

The man considered to be the number one Nazi agent

Interview with Ambassador Serrano and Sr. Barriere, December 1975, San Salvador.
in El Salvador was Baron von Hundelhausen. Cmdr. W. R. Phillips, Naval Attaché in Balboa, Canal Zone, related some information regarding Nazi plans to the American Legation in San Salvador in which it was alleged that Hundelhausen had held a meeting at his house in November 1937. Hundelhausen was reported to have presided over a Nazi party meeting which considered the "possibility of Nazis in Central America using their strength to assist Martínez in upsetting the government of Honduras and making himself president of both countries and from there to absorb the rest of Central America. It was also stated at the meeting that there were 25,000 Nazis in the Bunds of Central America and that Martínez was a favorite of the Nazi administration in Germany."28 Baron Hundelhausen was also accused of being the major source of German propaganda which circulated in El Salvador in the form of handbills, pamphlets, fly leaves and newspaper ads. Most of the propaganda material originated in Guatemala City where the German minister conducted his activities freely.29 Another German,

28 Military Attaché Cmdr. W. R. Phillips (Balboa, Canal Zone) to Legation (El Salvador), August 11, 1938, file 816.20/47, R. G. 59, N. A.

29 Confidential memorandum (unsigned) to Roosevelt, January 7, 1941, Box 54, Presidents' Secretary File, South and Central America, Franklin D. Roosevelt Library; Frazer to Hull, September 8, 1939, file 816.20/51; Frazer to Hull, October 13, 1939, file 816.5017/2, R. G. 59, N. A.
Reinhold Weitz of the Agenta Unidos in San Salvador was alleged to have been the chief of the Nazi laborang and lived "like a millionaire on a salary of $150.00 per month." As the war developed, the American Military Attachés carefully watched the activities of approximately five hundred German, Italian and Japanese aliens in El Salvador.

Aside from the aliens in El Salvador who supported Nazi-Fascist ideas, sympathizers were also to be found among Salvadorans themselves. This was especially true in the army officer corps. Of the military officers, two individuals stood out as prominent pro-Nazi sympathizers, General Luis Andreu and Colonel Juan Merino. Both held very important posts and were of great concern to American officials in El Salvador. General Andreu was the Department Commander of La Union, the site of El Salvador's most important port facility on the Gulf of Fonseca. Colonel Merino was the Commandant of the National Police of El Salvador. Other individuals who sympathized with pro-Nazi ideas were the Chiefs of Police of the Departments of Santa Ana and Santa Tecia.

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30 Phillips to Legation, August 11, 1938, file 816.20/47, R. G. 59, N. A.
as well as the Commandant of the port of Acajutla. While these men were fascist in orientation, they did not work to subvert the Salvadoran government for Germany. Indeed, their only connection with Germany was the similarity in their ideas on discipline and authority.

Because all of the above-mentioned individuals were appointees of General Martínez, there was no question as to where he stood on the Axis matter especially during the last part of his first full term and the early part of his second term in office 1938-1941. When newspapers attacked the influence of the Nazis and Fascist on the Salvadoran government, their editors were reprimanded by General Martínez. In 1938 Napoleon Viera Altamirano, editor of Diario de Hoy was exiled for criticizing the growth of Axis influence in El Salvador. The pages of Diario Latino and La Prensa Gráfica, two leading Salvadoran dailies, show clearly the effect of

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32 Interview with Sr. Peñate and Ambassador Serrano, December 1975, San Salvador.

33 New York Times, August 1, 17, 1938.
censorship as nothing critical of the government was ever published during the later stages of the Martínez regime. Despite government censorship the newspaper editors were still able to express their opposition by clever manipulation of their articles or cartoons. They accomplished this by printing censored items upside down or by purposely leaving the editorial spaces blank. They were further able to make back-hand slaps at General Martínez by simply not covering important events or by not mentioning his name at all for months at a time.34

The successes of the Axis forces in Europe caused General Martínez to be more open in his support of their ideas. When Italy joined the war in June 10, 1940, about three hundred men dressed in Italian "Blackshirts" paraded through downtown San Salvador. When the Salvadoran spectators reacted unfavorably with boos and hoots they were immediately suppressed by government troops.35

Despite General Martínez's position regarding the Axis powers, the majority of Salvadorans, among them government officials, sympathized clearly with the allied cause. Efforts by Axis-leaning Salvadorans to spread

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34Diario Latino, 1939-1941, passim.
their ideas in the schools by the importation of Fascist
Spanish priests were met with a great deal of opposition
by Salvadoran teachers. A union of teachers was organized
to fight the spread of Fascist ideas just as had been
done against Communism during the early 1930's. The
opposition to Nazi-Fascist ideas was not limited only to
organized protests or editorial "backhanded" newspaper
attacks. It also took the form of physical abuse for
certain individuals. Baron Hundelhausen, manager of the
Banco Hipotecario and honorary German Consul in San
Salvador, was subjected to physical threats. His home and
car were stoned by bands of roving youths and he was
insulted grossly whenever he passed the University. The
threat of bodily harm called for a guard around his
house.37

The climax of open resistance to the threat of
Nazi-Fascist influence was the public outcry for the
resignations of General Bohnstedt and Baron Hundelhausen
from their respective positions as the heads of the
Escuela Militar and the Banco Hipotecario. Their
resignations in September of 1939 brought a sigh of

37 Frazer to Hull, September 21, 1939, file 816.00 N/8, R. G. 59, N. A.
relief from American officials in San Salvador. The American opposition to their presence had been well known by the Salvadoran government.\textsuperscript{38} The tide of opinion gradually drew the government's position over to the pro-Democratic side.

Even General Martínez, himself an admirer of German and Italian achievements, was a Salvadoran nationalist first, above and beyond whatever sentiments he may have had regarding fascist ideas. Thus, although he tolerated Nazi-sympathizers and was himself a practitioner of totalitarian measures, he took every opportunity to reiterate pro-democratic, pro-United States, pro-Pan American, and anti-totalitarian principles.\textsuperscript{39} He was also enough of a politician to be able to drift along with the changing tides of time. When he saw that the sentiment among Salvadorans was toward the Allied cause, he too espoused their sentiments. He even allowed the resignations of General Bohnstedt and Baron Hundelhausen although he considered them valuable men. Moreover, in June 1940, a law was passed which prohibited the dissemination of foreign propaganda. As a result, Nazi

\textsuperscript{38}Frazer to Hull, September 8, 1939, file 816.00 N/8, R. G. 59, N. A.

\textsuperscript{39}Frazer to Hull, October 20, 1941, file 816.00/1088, R. G. 59, N. A.
activities were forced underground. In July 1940, the withdrawal of Baron Hundelhausen was requested by the government and he left El Salvador a short time thereafter. He was replaced as manager of the Banco Hipotecario by a pro-American, brilliant young man, Dr. Alfonso Rochac.

Among General Martínez's top cabinet officers, his Minister of Foreign Relations, Miguel Araujo, was probably the strongest opponent of Fascist influence in El Salvador. He openly denounced the totalitarian powers and publicly voiced his disapproval of the local German diplomatic representatives. The man who replaced Hundelhausen as German Consul was Richard von Heynitz, formerly Secretary of the German Legation in Guatemala. His patently pro-Nazi views irritated Araujo to the point that he refused to meet with him and insisted that all communications be in written form. Heynitz's relations with Salvadoran officials became so unpleasant that not long after his arrival in San Salvador, he was found dead. He allegedly committed suicide.  


41 Although no investigation was conducted into his death, it was suspected that he did not commit suicide. Ibid.
Salvador's eventual alignment with the Allied cause was probably due more to economic factors than to the strong pro-Allied positions of Foreign Minister Araujo and the majority of the Salvadoran people.

**American Reactions to the Spread of Fascism**

The rise of Fascist ideas in Europe had an impact on the United States as well as Latin America during the 1930's. The crises brought on by the depression caused many Americans to reassess their economic and political systems. Some turned to Socialism for their answers while others leaned toward Fascist ideas. Many businessmen saw in Mussolini's Italy the answers to the problems of America. The man who became the "dean" of the American Fascist movement was a former diplomat to Central America, Lawrence Dennis. He utilized his personal experiences in dealing with American involvement in Latin America as the basis for his call for a reassessment of the economic and social structure of American society. He concluded that the system could be saved only if stern discipline was imposed. That discipline was available through Fascism.

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42 Diggins, Mussolini and Fascism: The View from America, pp. 164-165, 190.

The New Deal proponents themselves had to resort to "corporatist" measures during the early days in an effort to turn the tide of the depression. Hence, they could not be too intolerant with their "good neighbors" when they too resorted to the use of such tactics in their struggle to bring stability to their countries. 44

In Central America, Jorge Ubico and General Martínez were the leading practitioners of such harsh measures in their efforts at continuismo.

During the early 1930's, while the American officials in El Salvador were concerned with the inroads made by Germany and Italy, their concern did not translate into any kind of action. Their inactivity on the matter stemmed from the early unconcern by Washington of the impending Axis threat in the area. The extent of the State Department's preparedness was limited to the acquisition of field reports on Nazi-Fascist activities. By 1938 however, because of the worsening European crisis, the State Department was aroused enough to realize the potential threat that Nazi influence presented in the Western Hemisphere. The primary fear was that

...given the opportunity and the support of arms and leadership, one or more of their

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transplanted colonies would in time start an Axis-inspired protest against an existing government in Latin America (the pattern designed and executed in the Sudetenland in 1939); that it soon would find occasion for local rebellion; and it thus would provide in the American hemisphere a ready-made bridgehead for intervention and later full-scale invasion from Europe. This, it was reasoned, could lead to a military occupation which, once established, would be far more difficult to dislodge than to have prevented in the first place. Of the local Nazi's hopes and intentions, there were rumors sufficient to make American diplomatic agents uneasy and thereafter to arouse in the State Department anxiety over a military coup that might be close at hand, and against which there was in 1938 no implemented plan of protection.\textsuperscript{45}

As the European war became more imminent the United States began a military program in Latin America to compete with the Axis efforts. In the ensuing competition for the favor of the Latin Americans, the United States pulled out all stops in its efforts, even to the point of underbidding (at a loss) the Germans and Italians.\textsuperscript{46} Hence, the United States military forces were able to offer professional instruction to the Latin American armed forces at almost no cost to them. The

\textsuperscript{45}Mark Skinner Watson, United States Army in World War II: The War Department, Chief of Staff: Pre-War Plans and Preparations (Washington: Department of the Army, 1950), p. 87.

\textsuperscript{46}Lieuwen, United States Policy in Latin America: A Short History, p. 191; Bemis, The Latin American Policy of the United States: An Historical Interpretation, pp. 355-356.
resultant monetary loss to America was compensated for by the increased influence that it was able to exert on the governments through the military hardware sales. As a result, the United States was able to gain the cooperation of the Latin Americans in its efforts to build a hemispheric defense against the Nazi-Fascist threat. 47

At the December 1938 Lima Inter-American Conference, the United States attempted to thwart the growing Axis menace in Latin America. One of the primary objectives of the American delegation at the Conference was to line up the democracies against the totalitarian states of Germany, Italy and Japan. The United States also hoped to have adopted a treaty to assure continental security or at least to implement the previously approved Buenos Aires declaration of Pan-American solidarity of 1936. The first American goal against totalitarianism was vigorously resisted by the Latin American delegates, many of whom represented dictatorial governments. They simply did not want their form of government interfered with just because it differed from that in the United States. Moreover, they did not want to destroy their trade relationships with Germany and Italy, the targets of the

47Whitaker, "From Dollar Diplomacy to the Good Neighbor," p. 17.
American attacks at the Conference. They were unwilling to destroy themselves economically just to please the United States. The United States had more luck in the implementation of its second goal to assure continental security. After weeks of heated debate the Declaration of Lima was signed on December 24, 1938. The treaty stated that in case the peace, security or territorial integrity of any American republic was threatened by foreign intervention, it would be of concern to all and that the proper response would be determined through consultations. On this matter the Central Americans, almost all "totalitarian," voted wholeheartedly with the United States.

As the European conflict worsened, the American influence on El Salvador increased. The belligerent nations took steps to curtail the importation and consumption of coffee by rationing the product. The

48 Speech by William Castle, former Assistant Secretary of State, before the Inter-American Congress, sponsored by the Graduate Faculty of Political Philosophy of Fordham University in New York City, April 22, 1939, file Addresses and Speeches, Castle Papers, Herbert Hoover Library, West Branch, Iowa.


increased trade with the United States, took up the slack in the lost trade with Europe. El Salvador sold over sixty percent of its major export (coffee) to the United States. Thus, the United States was guaranteed a greater degree of influence than Germany by virtue of its greater purchases of coffee. Further, because most Salvadorans were anti-Fascists, the Axis influence was considerably diminished.  

Salvadoran-American Relations During World War II

Like the other nations of the Western Hemisphere, El Salvador was directly affected by the outbreak of war in Europe. Being an export-oriented nation, El Salvador suffered from the disruption of normal commerce with Europe. The loss of the German coffee market and the cessation of the flow of merchandise from Germany was immediately felt by Salvadoran business interests. The government efforts to guard against undue price raising and profiteering helped to keep the majority of the Salvadoran population from suffering unduly from the effects of the war.  

The United States too was affected by the war in Europe, and at the height of German successes in Europe

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51 Martin, "Nazi Intrigues in Central America," p. 72.
52 Frazer to Hull, October 20, 1941, file 816.00/1088, R. G. 59, N. A.
The Americans began to mobilize their efforts to combat the Axis advances in the Western Hemisphere. The objective was as enunciated at the consultative meetings of Foreign Ministers at Panama in 1939, and Cuba in 1940, and generally stated at the Lima Conference, to develop a unified stand among the nations of the hemisphere against the Axis powers. In the Central American region the paramount concern of the United States was the security of the Panama Canal. On August 1, 1940, President Roosevelt approved a statement of policy which provided for the following:

a) For arming the countries named to the extent indicated, as determined in each case by our estimate of their requirements...

...Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama, Cuba, Haiti and the Cominican Republic. To insure internal stability.

b) For providing these arms on financial terms these republics can meet.

c) For assistance in the matter of military, naval and industrial personnel.53

The policy provided two avenues for American activities to combat the Axis menace. One was against internal subversive activities, and the other a joint cooperative effort among the nations of the Western Hemisphere for

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53 Conn and Fairchild, The United States Army in World War II, p. 213.
the defense of one by all. The joint effort included measures to maintain the stability of the monetary and commercial relationships of the American republics. In this regard, the Congress of the United States provided loans through the Export-Import Bank to provide the countries with the means to maintain their exchange, to develop transportation systems and to strengthen defenses.\footnote{Department Report to Hull, (date missing, probably January 1941), "Latin American Totalitarian Activities," folder 331, Latin American London Conference-Naval Conference, Box 76, Hull Papers.}

In El Salvador the objectives of the United States focused on the economic, military and cultural areas. The goal there, as in the rest of Central America, was to preserve the stability of the country and as a result, help to maintain the security of the Panama Canal. Because of Britain's war efforts (blockade), German and Italian trade with El Salvador diminished considerably while trade with the United States increased dramatically. Between 1940-1944 El Salvador directed an average of 77.2 percent of her total exports to the United States. This presented an average increase of 13.6 percent over the previous five years. A marked increase in imports from the United States also occurred during the same
period as American manufacturers replaced German and
other European suppliers. Moreover, with the signing
of the Inter-American Coffee Agreement in 1940, El
Salvador's economy over the next three years was
virtually saved from what would certainly have been a
severe setback. The American decision to purchase only
a limited amount of the Latin American coffee production
each year served to maintain the price at levels which
allowed El Salvador to make a healthier profit than
would have been available without the limitation.

In the military arena, the degree of cooperation
between El Salvador and the United States, likewise
increased as the war in Europe intensified. American
advisors began to arrive in San Salvador in the summer
of 1940. Captain Maxwell D. Taylor of the United States
Army and Marine Major Clayton C. Jerome were sent in to
consult with Salvadoran military officers. The result
of the American assessment of El Salvador's military

55 Translation of Report by Dr. Juan E. Vasquez, M.I.D.
February 1940, Item no. 4000 folder 3860-End, Box 819,
El Salvador 3850-4130, R. G. 165, N. A.

56 Ellis to Hull, November 19, 1941, O.S.S., Item
no. 7008, R. G. 226, N. A.

57 Hull to Frazer, June 5, 1940, file 810.20 Defense/
preparedness indicated that at full strength the nation's standing army during peacetime numbered only six thousand men, but that it could quickly be raised to forty thousand if necessary. However, according to the Minister of National Defense, General Andres Menéndez, the army was poorly armed except for the ten thousand Enfield rifles purchased from the United States in June 1940. The rifles proved to be useless to the Salvadorean army because the two million rounds of ammunition they had ordered did not arrive until a year later. By late 1941, the United States could send only five hundred thousand rounds to El Salvador. Still, in spite of its deficiencies, the conclusion of the American Military Attache in Costa Rica was that the Salvadorean army was the best of the Central American nations.

For its part, El Salvador cooperated with the American effort when it signed agreements which permitted American vessels to enter Salvadorean ports freely while on patrol duty along the Pacific coast of Central America. Likewise, the Army Air Corps was granted

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58 Frazer to Hull, July 22, 1940, file 816.24/79, R. G. 59, N. A.
59 Ibid.
permission to conduct photographic air missions over El Salvador. The use of air space over Central America had been granted by the nations of the area for the purpose of ferrying planes from the United States to Panama. Permission to stop at airfields or land in other areas in case of emergency was also granted by El Salvador and the other Central American governments. Although the official Salvadoran position regarding the war was neutral, like many other Latin American nations, Salvadoran actions indicated that they were very much on the side of the Allies.

Probably the best indication of the change of direction taken by El Salvador during the war was the appointment of an American officer to be the director of the Escuela Militar. On March 27, 1941, Lt. Col. Robert L. Christian was given a two-year contract to head the Salvadoran military school which, only two years previously, had been under the directorship of a German officer. The American influence continued throughout the war as Lt. Col. Rufus E. Byers replaced Lt. Col. Christian on May 21, 1943, with a two year appointment. Both

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62 Conn and Fairchild, The United States Army in World War II, p. 312.
Christian and Byers were fluent in Spanish and in their capacities each had precedence over Salvadoran officers of the same rank. During the same period the United States legation in San Salvador became fully staffed with military attachés from the Army and Navy departments. Also, to more intensely investigate the activities of suspected aliens or subversives, the legation acquired the services of a legal attaché in August 1942.

Since ideas and viewpoints were essential elements in hemispheric defense, the United States and El Salvador also conducted a cultural relations program. An exchange of students and professors between the two countries was actively promoted. By travel grants and scholarships outstanding Salvadorans were able to visit the United States. By the same token American students and lecturers were sent to El Salvador to exchange ideas. An association of prominent Salvadorans and Americans in San Salvador was formed to serve as a clearing house of information on educational institutions and facilities.


64 Frazier to Hull, September 3, 1942, M.I.D., Item no. 3500, folder 3500-3840, Box 818, El Salvador 3020-3850, R. G. 165, N. A. According to John Taylor of the Military Division of the National Archives, the Legal Attachés were representatives of the Office of Strategic Services.
in El Salvador and the United States. The association also provided financial aid to exchange students from both countries.\(^6\) The cultural program was part of the State Department's efforts to curtail the Nazi-Fascist influence throughout Latin America and to a large degree, was very successful in El Salvador because of the cooperation of the Salvadoran government.

The objectives of the cultural program were, of course, part of the overall propaganda efforts by the United States. Much of the work in this area was supervised by the office of the Coordinator of Inter-American Affairs in San Salvador. A 1942 assessment of the propaganda methods utilized and their effectiveness suggested that, 1) motion pictures which showed anti-Nazi themes were the most effective, 2) radio broadcasts, despite weak transmissions, were also very effective in generating a favorable opinion, 3) bribery accomplished certain objectives in a very direct manner, 4) occasional flights of United States army planes over the country were very effective in generating a feeling of security.

and at the same time showed American air power which the powerful Axis radio broadcasts minimized. It was further pointed out that printed material was not a very effective means of propaganda because of the high rate of illiteracy, although illustrated magazines were very popular. The propaganda measures, coupled with the well-publicized increase in American purchases of Salvadoran coffee proved to be very effective in winning the support of the Salvadoran people.

One of the reasons American countermeasures against the Axis push succeeded so well was the willingness of Congress to fund the programs. After the bombing of Pearl Harbor, El Salvador joined the United States in declaring war against Japan on December 8, 1941. On the following day, El Salvador received a $1,640,000 armaments and munitions loan through the Lend-Lease program. (Three days later on December 12, 1941, El Salvador declared war on Germany and Italy.) The terms were so attractive that the "Martínez Doctrine" prohibiting external loans was temporarily abandoned. Under the Lend-Lease program El Salvador was required

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66 Military Attache Major C. P. Baldwin (El Salvador) to War Department, M.I.D., October 7, 1942, Item no. 2900, folder El Salvador 2400-2950, Box 817, El Salvador 2400-3020, R. G. 165, N. A.
to repay only 54.88 percent of the loan over six years at no interest. 67 El Salvador also received a $500,000 grant to develop facilities to improve health and sanitation. Such facilities as water supply, sewage disposal and disease control were to be improved. In addition, American technical experts were sent to El Salvador to assist in the implementation of the projects. The work was done through the office of the Coordinator for Inter-American Affairs. 68 The largest sum of money granted to El Salvador during the war came from the Export-Import Bank. The money, $2.9 million, was used for public works programs such as in the construction of the Pan American and other highways, bridges, streets and improvements in the water supply systems in the interior. 69


69 Frazer to Hull, August 26, 1941, file 816.51/1081, R. G. 59, N. A.
The loan from the Export-Import Bank had been in negotiation for several months prior to December 1941. Two matters complicated the loan. The first was the reluctance of the United States to grant the new loan while El Salvador was still in default on its 1922 loan. No payments had been made since January 1938. It was felt that if El Salvador could afford to undertake its new loan obligations, it should first meet its old obligations. The other matter which complicated the loan proceedings was the American desire to exert its influence on El Salvador to oust certain Nazi sympathizers in government. The American Minister in San Salvador suggested that

...consideration might profitably be given when discussing these loan applications, of cleansing the Salvador government of a number of its ardently pro-Axis officials, certain of whom are in key positions. An oral assurance that this matter would be attended to could no doubt be relied on...

The writer feels that one good turn deserves another, and can perceive no reason, when we are giving so much, why we should not exact one or two of the things we want in return.

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70 Frazer to Hull, November 12, 1941, file 816.51/1098, R. G. 59, N. A.; Frazer to Hull, September 26, 1941, file 816.51/1092, R. G. 59, N. A.

71 Frazer to Hull, August 26, 1941, file 816.51/1081, R. G. 59, N. A.
Frazer's advice was heeded by the State Department and as a result, the negotiations with the Export-Import Bank bogged down. In October 1941 General Martínez finally backed down and removed one of the two men who were personae non grata to the United States. On October 21, Col. Juan Merino, Chief of the Salvadoran National Police, was "kicked upstairs" to the post of Minister to Nicaragua. His replacement was a pro-American officer, Col. Rudesindo Monterrosa.72 Two months later, on December 2, 1941, General Luis Andreu, the Commander of La Union, was transferred to a less strategic location in the department of San Vicente and he too was replaced by a pro-American officer, Col. Jose Angel Avendano.73 The ouster of the two military officers was not only a conciliatory gesture by General Martínez but a risky one as well because both men were popular within the military without which General Martínez could not have ruled. With the concessions by General Martínez, the loan was granted by the United States.

72Military Attache' Lt. Col. J. H. Marsh to War Department, October 25, 1941, Item no. 3850, M.I.D., folder Stability Report, El Salvador 3020-3850, Box 818, R. G. 165, N. A.

73Marsh to War Department, December 6, 1941, Item no. 3020, M.I.D., folder Stability Report, El Salvador 3020-3850, Box 818, R. G. 165, N. A.
El Salvador also contributed to the war effort in other ways besides allowing the United States access to its airports, sea ports and certain other privileges. General Martínez joined some of his neighbors and backed the Roosevelt-Churchill agreements to "destroy anti-democratic doctrines." By January 1942, El Salvador had become an active participant in the Allied effort to intern and deport Axis nationals suspected of subversive activities. Several hundred German and Italian nationals were eventually deported to camps in the United States. By early 1942, only four hundred eighty German, Italian and Japanese nationals were left in El Salvador and of these twenty-six Germans, twenty-three Italians and two Japanese—all male—were interned at the National Police Headquarters. They were quartered in a dormitory on the second floor of the Police headquarters building but were permitted to make occasional visits, without guard, to points within the city limits.

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74 New York Times, December 2, 1941.
75 Interview with Sr. Peñate, December 1975, San Salvador.
76 Harsh to War Department, January 24, 1942, Item no. 3020, N.I.D., folder Stability Report, El Salvador 3020-3850, Box 818, R. G. 165, N. A.
An unsigned memorandum to the War Department, citing an F.B.I. Report as its source, criticized the way the internment process was handled protesting that the prisoners were treated with kid gloves and almost with deference by the Director of Immigration, Col. L. Dreyfus. The Immigration chief made no effort to hide his sympathy for the German and Italian detainees and allowed them regular visits by their families and servants who came laden with food. The visits often took the appearance of being a festive occasion. Thus, the report urged that the detainees be immediately removed to the United States.\footnote{Unsigned memorandum to War Department, May 27, 1942, Item no. 3100, K.I.D., folder 3000-4000, El Salvador 2400-3020, Box 817, R. G. 165, N. A.} Other measures taken against the Axis nationals were less stringent but nonetheless served to harass them—their telephones were disconnected, conversations were reported and travel was restricted.\footnote{Marsh to War Department, January 24, 1942, Item no. 3020, K.I.D., folder Stability Report, El Salvador 3020-3850, Box 818, R. G. 165, N. A.}

Although no Salvadoran troops were ever sent to the battlefront during World War II, Salvadoran men contributed directly to the war effort by serving as laborers in the maintenance of the Panama Canal. The security of the waterway was one of the high priority
items in America's defense plans. Among the contingency plans which received serious consideration by the United States Army was the expansion of the canal and its locks to accommodate larger warships. Some consideration was also given to the construction of additional locks as a precaution against bombing hits on the existing locks. During the 1940-1944 period, a total of 19,675 contract workers were brought into Panama from Central America and the West Indies to carry out the initial phases of the expansion projects as well as for the normal maintenance of the passageway. More than half of the total number of workers were from El Salvador.\(^7^9\) The work on the canal did not win friends for the United States. For some, the assignment to work there was the penalty for wrongdoing. Soldiers charged with misconduct were punished with a stint at the canal.\(^8^0\) Most of the Salvadoran workers sent to

\(^7^9\) Stetson Conn, Rose C. Engleman, Byron Fairchild, The United States Army in World War II: The Western Hemisphere, Guarding the United States and its Outposts (Washington: Department of Army, 1964), p. 322; Clipping from Diario Nuevo, San Salvador, March 8, 1944, Item no. 4810, folder miscellaneous, El Salvador 4730-5060, Box 821, R. G. 165, N. A.

\(^8^0\) Interview with Sr. Peñate, December 1975, San Salvador. Sr. Peñate was punished for misconduct in the army and sentenced to the Canal Zone for six months.
work at the canal returned home with a myriad of complaints about their stay in the camps which were "like cemeteries." Nevertheless, the Salvadoran efforts at the Canal Zone were significant in that thousands of American troops were freed from doing "non-essential" jobs.\(^1\)

**The Fall of the Martínez Regime**

Throughout the war, the matter of General Martínez's loyalty to the Allied cause remained in doubt. Although he outwardly supported the Allies and cooperated in the American effort to establish a secure Western Hemisphere, he privately stated his desire to see the Axis powers win. This was especially so during the early stages of the war before the United States had turned the tide against Germany.\(^2\) His position however, was almost an isolated one in El Salvador. Most of the population and even in his own administration officials were openly in favor of the allies. General Martínez

\(^{11}\)Ibid.; Clipping from *Diario Nuevo*, San Salvador, March 8, 1944, Item no. 4810, folder Miscellaneous, El Salvador 4730-5060, Box 821, R. G. 165, N. A.

\(^{22}\)Department Report to Hull, (date missing, probably January 1941), "Latin American Totalitarian Activities," folder 331, Latin American-London Conference-Naval Conference, Box 76, Cordell Hull Papers; Frazer to Hull, October 20, 1941, file 816.00/1088, R. G. 59, N. A.
was further out of tune from other Salvadorans when in late 1943 he began to implement his plan to retain office after the expiration of his third term on January 1, 1945. He began to enact certain repressive measures to harass the opposition. Individuals who were known to be against him found that they could not get passports, new automobile licenses, or telephones. Moreover, they were followed by uniformed or secret police. It became apparent that their democratic rights were slowly being eroded. General Martínez had completely lost his earlier benevolence and had become a one-man government with a cabinet full of yes-men. In January 1944, a Constitutional Assembly once again convened to alter the 1939 Constitution in order to grant General Martínez yet another term. By then the changes in the political atmosphere in El Salvador had become critical. While General Martínez may have been able to get away with authoritarian conduct early during his rule, by 1944 the atmosphere had changed. The Salvadorans' aversion to General Martínez's tactics in 1944 may have partly been brought about by the same worldwide revulsion with totalitarianism and dictatorships of the likes of Hitler and Mussolini. Vice-Consul Joseph E. Maleady assessed the situation in the following manner:

The President has now reached the point where he may be classified as 'the entire government.' While this has been true for
a long time, it is even more pronounced at present since he now hates to receive any advice that is not in line with his pre-conceived ideas and opinions.83

On April 2, 1944, the years of pent-up frustrations finally erupted when the younger officers, dissatisfied with low salaries and General Martínez's autocratic methods, openly rebelled. In the disturbances which followed, bands of roving youths marched to the American Embassy and attempted to persuade the Ambassador to show some sign of recognition for their efforts against dictatorship. Ambassador Thurston, however, abstained from making any comments on the events.84

General Martínez was on a picnic at La Libertad with his family when the uprising began that Sunday afternoon, April 2, 1944. Two truckloads of rebel troops were dispatched to capture General Martínez and his family. An indication of the apparent ineptness of the revolutionary forces was the failure of the two truckloads of soldiers to capture their quarry inspite of the fact that there was only one road to the beach. Upon his return to San Salvador General Martínez re-grouped his loyal troops in the National Guard and

83 Survey of Salvadoran politics by Vice Consul Joseph E. Maleady (El Salvador) in Thurston to Hull, February 3, 1944, file 816.00/1190, R. G. 59, N. A.

84 Thurston to Hull, April 2, 1944, file 816.00/1721; April 4, 1944, file 816.00/1236, R. G. 59, N. A.
Police. By late Sunday evening the forces loyal to General Martínez had secured the city and by the following day, April 3, 1944, all resistance from the rebel forces had ended. 85

Throughout the intermittent fighting during the revolt about one hundred deaths occurred, and while the citizens of San Salvador were concerned, there was no great fear or panic in the city. The Diplomatic Corps met on Monday the afternoon of April 3 in Ambassador's Thurston's office to discuss the situation and to decide what action if any to take. While the meeting was taking place a tank passed by the Embassy with its machine guns firing. The purpose of the shooting by the tank was to clear the way toward the Embassy where the driver, Col. Tito Calvo, sought asylum. Col. Calvo parked his Lend-Lease tank in front of the Embassy and along with two other officers asked the American Ambassador to grant them political asylum. After he was turned down by Ambassador Thurston, he asked the other diplomats from Mexico, Guatemala, Nicaragua and Costa Rica for protection. All refused to grant his request. After receiving assurances from General Martínez that the prisoners would be given the

85 Thurston to Hull, April 11, 1944, file 816.00/1259, R. G. 59, N. A.
benefits of Salvadoran law, Ambassador Thurston reluctantly relinquished Col. Calvo, Lt. Mancia, and 2nd Lt. Gavidia to General Martínez's soldiers. 86

Ambassador Thurston was justifiably apprehensive about turning the rebels over to General Martínez. The memory of the 1932 matanza was still fresh in the memories of many people. In a telegram to the Secretary of State, Ambassador Thurston expressed his fears that

...in view of the apparently wide scope of military and civilian participation in the uprising and the bitterness it must have aroused, there exists the danger of rather general retaliatory and punitive action by the government and I anticipate that we may be urged to interpose on humanitarian grounds. 87

His fears were realized when on April 10, 1944, ten officers were executed by firing squad for their role in the rebellion. 88 The executions suppressed the uprising but did not end the protests; it was only the

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86Thurston to Hull, April 5, 1944, file 816.00/1249, R. G. 59, N. A.

87Thurston to Hull, April 4, 1944, file 816.00/1236, R. G. 59, N. A.

88Thurston to Hull, April 12, 1944, file 816.00/1256, R. G. 59, N. A. Second Lt. Antonio Gavidia Castro, who was executed along with Col. Calvo was alleged to be the illegitimate son of General Martínez. Interview with Sr. Peñate and Ambassador Serrano, December 1975, San Salvador.
beginning. The death of Col. Tito Calvo and the others inspired other Salvadorans to resist the actions of General Martínez.

On April 28, 1944, a strike by students at the National University and doctors and interns at the main hospital took place to protest the executions. By May the strikes had spread to other institutions. The campaign of strikes and passive resistance were designed to compel General Martínez to resign. By May 5, 1944, virtually all employees of banking institutions were on strike and almost all the shops and businesses were closed. The whole city of San Salvador seemed to be on strike against General Martínez. As the strikes spread to other parts of the country, it reached such massive proportions that it would have taken another matanza to stop it. This time General Martínez did not have the necessary support nor the desire to initiate one. Furthermore, he did not have the "communist" ogre to blame for the troubles.

With no one to turn to, his army helpless before such massive resistance, General Martínez, upon the

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89 Thurston to Hull, April 28, 1944, file 186.00/1289, R. G. 59, N. A.

90 Thurston to Hull, May 5, 1944, file 816.00/1299, R. G. 59, N. A.
advice of his Cabinet, stepped down on May 9, 1944.

Two days later, he fled with his family to Guatemala.\(^{91}\)

\(^{91}\) Interview with Ambassador Serrano and Sr. Barriere, December 1975, San Salvador; Thurston to Hull, May 9, 1944, file 816.00/1317; May 11, 1944, file 816.001/ Martínez, May/77, R. G. 59, N. A.
SUMMARY

During prolonged periods of political and economic crisis many people are willing to tolerate authoritarianism in order to achieve some degree of peace and order. When given the option between anarchy and tyranny most will choose the latter.

El Salvador experienced such a dilemma during the early 1930's when the economic depression and Communist revolt created an atmosphere of fear and apprehension. As a result, the authoritarian, but "benevolent" rule of General Martínez had the support of most Salvadorans and the grudging toleration by the United States despite disagreements on some economic matters.

By the late 1930's however, the benevolence of the earlier period had disappeared as General Martínez began to implement his plan to perpetuate himself in office. His efforts at continuismo in 1939 resulted in opposition from prominent Salvadorans who had formerly been his strongest supporters during his earlier terms in office. General Manuel Castaneda, who had been his right-hand man during the 1932 rebellion, even accused him of being the most "anti democratic" leader in the Americas. Moreover, his authoritarian tactics of the late 1930's led observers to conclude that his rule was fascist in nature.
Actually the accusations of fascism were more exaggerated than deserved because although some of his practices could admittedly be labelled authoritarian General Martínez was far from being an advocate of the Axis powers' cause in Latin America. However, in the climate of the late 1930's when Hitler and Mussolini made everyone conscious of totalitarianism, it did not require too much disciplinarian action to be grouped into the fascist league. Other Latin American leaders practiced similar tactics and were likewise accused of harboring fascist sympathies. But then again, so did many other people throughout the world who, in seeking the answers to the problems of the 1930's, also turned to the ideas of Mussolini. Many Americans, even those among the New Dealers, sought to find the answers in corporatist ideas not unlike those practiced in Italy. Therefore, when General Martínez looked toward Europe for his ideas, he was not alone in his search for the answer to his problems.

Other factors helped to facilitate the ideological orientation toward Germany and Italy. Between 1934 and 1937 the trade between El Salvador and Germany rose substantially as Germany launched a major trade offensive. Likewise the Italians were successful in selling a number of planes to El Salvador and at the same time training Salvadoran pilots to fly and service them. The Axis
nations were also able to carry on a successful exchange of professors as well as send military advisers to El Salvador. The appointment of General Bohnstedt to be Director of the Escuela Militar was especially significant and contributed a great deal to the accusation that General Martínez was a fascist sympathizer. Likewise, the appointment of Baron Hundelhausen, a German and suspected Nazi, to be Director of the Banco Hipotecario caused further consternation among American diplomats in San Salvador.

In addition to the aliens, there were also Salvadorans whose ideological orientations were toward fascist ideas. General Luis Andreu and Colonel Juan Merino were important officers in General Martínez's military. Their positions further gave credence to the allegations that General Martínez's government was fascist oriented. Moreover, General Martínez's conduct toward all who opposed his ideas convinced many of his real political orientation toward fascism. As a result, the Salvadorans, the majority of whom were pro-allies, successfully applied pressure to oust Bohnstedt and Hundelhausen. Both resigned in September 1939.

The United States had not taken any direct action on the Axis inroads in Latin America until 1938 when the European arena became inflamed. As a result, the United States initiated several steps to counteract the Axis
influence. One measure was an increase in military aid to Latin American nations, while another was the convening of a Pan-American Conference to declare opposition to the spread of Axis ideas. In Salvadoran-American economic relations, no stimulus was necessary since most of the European markets for Salvadoran products had disappeared and the United States became the primary market for Salvadoran exports. As a result, United States influence in El Salvador increased significantly.

In 1940 American arms were sold to El Salvador's army which, although small, was considered to be the best in Central America. On March 27, 1941, Lt. Col. Robert Christian became Director of the Escuela Militar, which only two years previously had been under the directorship of a German officer.

America's influence was also felt on the economic front. On December 9, 1941, after El Salvador declared war on Japan, the United States granted it a Lend-Lease armaments and munitions loan valued at $1.6 million dollars. Other loans through the Export-Import Bank were also granted after General Martínez consented to the American suggestion that he oust General Andreu and Colonel Merino, two pro-Nazi sympathizers.

In addition to cooperating with the American efforts, El Salvador also contributed by providing the Panama Canal with most of its workers during the war. Also, El Salvador
participated in the internment and deportation of German, Japanese and Italian nationals.

World War II altered the ideas of many people in the world. The attitude toward authoritarianism changed. The worldwide revulsion to totalitarianism, as reflected in Mussolini and Hitler, also affected the Salvadoran people. When General Martínez again sought to perpetuate himself in office in January, 1944, the Salvadorans led by a rebellious faction of the military resisted. After an abortive coup was crushed, a massive strike ensued and General Martínez, no longer willing to carry out another matanza, stepped down. On May 11, 1944 he fled with his family to Guatemala.

The United States, asked to intervene for "humanitarian reasons," had learned a lesson and refused to become involved in the internal affairs of El Salvador.
CHAPTER VI

CONCLUSION

During the critical days of April and May 1944, the American Ambassador to El Salvador, Walter Thurston, wrote to his superior in the State Department that he feared the government reprisals to the uprising would be violent and bloody. The last rebellion against General Martínez in 1932, had resulted in the massacre of over ten thousand Salvadorans. The Ambassador suggested that the United States might be asked to "interpose on humanitarian grounds."¹ In reply, the Secretary of State, not wishing to become embroiled, emphasized that the problem was an internal matter and no authority to intercede would be granted. However, he did permit his Ambassador to "discreetly" mention to General Martínez that the eyes of the world were upon El Salvador and to warn him that "severe or inhuman reprisals would seriously injure the standing of the Salvadoran government with our press and public opinion."² In yet another appeal to

¹Thurston to Hull, April 4, 1944, file 816.00/1236, R. G. 59, N. A.

²Hull to Thurston, April 6, 1944, file 816.00/1236, R. G. 59, N. A.

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grant assistance, Thurston forwarded to the Secretary of State a letter by Agustín Alfaro, a prominent Salvadoran, to Overton Ellis of the United States Embassy in San Salvador. In his letter, Alfaro pleaded for American intercession against continuismo and repression by General Martínez. Señor Alfaro noted that the United States gained the trust and friendship of the Salvadorans by its aid and encouragement during the war along with other good neighborly policies. He feared that this hard-earned friendship would be lost if, during this time of need, the United States did not come to their aid. As the situation worsened, the diplomatic corps in San Salvador approached the American Ambassador and requested that the United States directly intervene to avoid bloodshed. The Peruvian Charge d'Affaires, speaking on behalf of the diplomatic corps, threatened that "United States prestige would be damaged if it merely stood by impassively while a popular movement took place." The State Department reply to all requests for intercession was negative. The United States would not intervene in the internal affairs of

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3 Thurston to Hull, April 21, 1944, file 816.00/1277, R. G. 59, N. A.

4 Thurston to Hull, May 5, 1944, file 816.00/1303, R. G. 59, N. A.
El Salvador. The policy of strict neutrality was to be maintained. 5

This reaction in 1944 was far different from the one taken by the United States in 1931-1932 when it took a very active part in the crisis before and after the coup which brought General Martínez to power. By the end of his term in office, Salvadoran-American diplomatic relations had undergone a complete transformation. It had evolved from Charles Curtis' inept intervention during the 1931 coup to Walter Thurston's cautious neutrality during the 1944 rebellion. The desire to help was still there in 1944, but the lessons had been learned. Intervention in the internal affairs of another country had often led to unforeseen complications and in too many instances in the past the United States found it difficult to extricate herself from the entanglement. As another Ambassador, George F. Kennan, later observed, participation in the internal affairs of other nations was inadvisable because

...even benevolence, when addressed to a foreign people represents a form of intervention into their internal affairs and always receives, at best, a divided reception. 6

5 Hull to Thurston, May 6, 1944, file 816.00/1303, R. G. 59, N. A.

By 1944 however, the relationship between the small Central American country and its large "neighbor to the north," had matured substantially after going through a difficult period during the 1930's.

A nation's foreign policy is predicated on the fundamental premise that the national interest is paramount when determining goals, objectives and corresponding courses of action. The national interest is often difficult to define so that policymakers often act according to what they perceive to be the best interests of their people. General Martínez fully believed that the best interests of Salvadorans was in preserving territorial integrity and the nation's sovereignty from a large foreign power. At the same time, he also recognized that in protecting the national interest, he should not lose sight of his nation's dependence on coffee exports to the United States. Therefore, his was a delicate balancing act to keep outside political considerations from dictating internal economic policies.

In the same manner, the proponents of the Good Neighbor policy of the United States also determined that the national interest be given top priority in all considerations. For example, in advocating his free-trade policies, Secretary of State Cordell Hull fully expected the United States to benefit in the long run.
He hoped that by lowering the tariff barriers, Latin American nations would benefit, but at the same time, so too would the United States. In the same manner, President Roosevelt, insisted that American bankers conduct themselves properly in Latin America so that the United States' image might be improved and consequently enable it to increase its economic penetration of the region.

But whereas a small nation like El Salvador could not afford to compromise its national sovereignty by conceding to the wishes of a larger power, the United States, in its own national interest, could afford to be less demanding in order to improve relations for the future. This was basically the message of the Good Neighbor policy to Latin America. Not all Americans agreed with the way the policy was implemented however.

In a critical speech against the foreign policy of the New Deal, former Assistant Secretary of State William Castle, noted that the United States had gone too far in its effort to correct the wrongs of the past in Latin America. Under Roosevelt, he said, the government was "forced to adopt a policy of self-abnegation, to make the United States appear ready to give up all its rights rather than risk offense...It does not make them (Latin Americans) love us; although it gives them
a chance to feather their nests at our expense." Castle was obviously referring to the matter of loan defaults. Many bondholders too, believed that the United States had not given them adequate support in their effort to get payments.

When the goals and objectives of two nations are complementary, the diplomatic tasks of their representatives become less difficult. In Salvadoran-American relations during the period of General Martínez 1931-1944, goals were not as divergent as those between other nations. Each complemented the other. El Salvador had "mild" coffee which United States importers wanted to purchase in order to blend with the stronger Brazilian product. In turn, El Salvador desired recognition in the world community, and the United States could be instrumental in helping her to achieve it. Furthermore, the United States had the means with which to meet El Salvador's need for financial assistance.

However, complementary goals were not common during the early 1900's. During that time, although Salvadoran-American relations began on a cordial footing, the foundations for future problems were being laid.

American concern for the security of the Panama Canal prompted moves for political stability in the area.

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7 Speech by William Castle, April 22, 1939, file Addresses and Speeches, Castle Papers, Herbert Hoover Library.
To accomplish this goal the United States believed it necessary to promote democratic practices, especially among the nations of Central America and the Caribbean. At the same time, the United States did not hesitate to use its "moral influence" in this regard. In some cases, this prompted direct intervention in the internal affairs of the countries involved.

In an attempt to maintain stability and to prevent recurring coups d'etat, the Central American nations, with the encouragement of the United States, concluded the 1907 and 1923 Central American Treaties of Peace and Amity. Though noble in its conception, the treaties failed in their objectives. They served to keep those who were already in power secure in their positions, notwithstanding the questionable nature of their rule. The Salvadoran Congress took exception to Article II of the 1923 Treaty, which dealt with non-recognition of revolutionary governments. But since no one could foresee the future implications of such an inflexible treaty, no serious issue was made of it at the time.

Another matter during the 1920's which later complicated relations for El Salvador and other Latin American nations was the free-lending practice of American bankers. In dire financial straits, El Salvador needed the funds that American bankers offered. Both sides entered into arrangements under false assumptions. Amer-
ican bankers made loans with the belief that the United States Department of State fully backed them and, in a sense, guaranteed their payment. They advertised this misconception to prospective bond buyers in spite of the fact that the State Department disclaimed any guarantees for repayment of the debts.

In 1922, El Salvador borrowed over sixteen million dollars from American and British bondholders, one of the first Latin American nations to receive such a loan. The terms were onerous even by the standards of the day. But El Salvador was on the verge of bankruptcy and badly needed the funds. Fortunately for the small nation, her coffee production was adequate to keep up the maintenance of the loan service. It was not until the depression of the 1930's that serious problems arose from the loans.

To further exacerbate matters, El Salvador had the misfortune to receive American diplomats whose poor attitudes toward their assignments and the people they were to deal with left much to be desired. Montgomery Schuyler exemplified this attitude best in the conduct of his duties as minister. He is remembered by some in El Salvador as a man "muy duro, muy violento." He did not make many friends among the Salvadorans. One of his successors, Minister Charles B. Curtis suffered a similar experience because of his poor performance during the
1931 coup d'etat. His erratic conduct during the coup caused even his superior, Secretary of State Henry L. Stimson, to lose faith in him.

With the occurrence of the coup, political and economic problems lying dormant between the United States and El Salvador erupted. Article II of the 1923 Treaty prevented the United States from granting recognition to the new regime of General Maximiliano Hernández Martínez. Moreover, the severe drop in coffee prices forced El Salvador to default on its 1922 loan. Thus, with the Martínez presidency, an agonizing period in the relations between the United States and El Salvador began.

Undoubtedly, the most serious disagreement between El Salvador and the United States during the presidency of General Martínez 1931-1944, occurred in 1931-1934. The United States refused to recognize the government of General Martínez. The new Salvadoran government was forced to re-assess its national priorities. If the fundamental foreign policy objective of every nation is self-preservation, the requirements for acceptance by the community of nations must receive secondary consideration. Because of the 1923 Treaty, the United States refused to grant recognition to the government of General Martínez. Yet, the Salvadoran constitution guaranteed him the right to hold his office. Moreover, because the
Salvadoran Congress, in 1923, had ratified the treaty with certain reservations regarding the non-recognition provision, General Martínez concluded that Article II did not apply in his case. He received moral support from Mexico and other Latin American nations, most of whom believed that because he had firm control of his government and the popular support of the people, he qualified for de facto recognition. The United States, however, maintained its non-recognition position and stood by Article II of the 1923 Treaty. Indeed, Article II was designed to prevent such occurrences as the coup of 1931 in El Salvador. But in 1923, the treaty's authors tacitly depended on United States military and economic power, and the willingness to use it to force any would-be rebel to reconsider before acting. But by 1931, conditions had changed and America was no longer willing to use force to carry out its policies.

Thus, the applied doctrine of non-recognition had become a burden to the State Department. A major debate ensued in the United States over its usefulness. Some credited the policy with having provided stability by discouraging potential revolutionaries. Others contended that the provisions of the 1923 Treaty served to perpetuate tyrannical rulers in power. The State Department faced a dilemma. It could not recognize General Martínez because of the 1923 Treaty provisions,
yet despite non-recognition, the regime was stable and
destined to grow stronger. In early 1932, General
Martínez was strong enough to crush violently a Communist
attempt to take over his government. For his efforts
he was described by Secretary of State Henry L. Stimson
as a "bulwark" against Communism. Although the United
States sympathized with its anti-Communist neighbor, it
still refused to recognize his government.

The change came with the "Good Neighbor" policy
of President Franklin D. Roosevelt. The Americans were
influenced to act favorably on the Salvadoran question
by nations not bound to the 1923 Treaty. In late 1932,
it was apparent that continued non-recognition of El
Salvador only increased the danger of greater instability.
Britain and France, eager to do business in El Salvador
under normal economic and political conditions, led the
other European nations to recognize the regime of
General Martínez in September of 1932. On December 24,
1932, Costa Rica officially abrogated the 1923 Treaty
followed two days later by El Salvador. On January 26,
1934, the United States recognized the de facto govern-
ment of General Martínez.

Facing serious difficulties in his diplomatic
relations with the United States, General Martínez did
not allow foreign affairs to take precedence over
domestic matters. This was evident during the coffee
price crash of 1931-1932. In an effort to stabilize the Salvadoran economy, General Martínez enacted several measures, one of which was the suspension of her debt payments to American bondholders. The default had far-reaching effects on relations already strained by the non-recognition controversy. However, this time, the State Department decided to avoid further deterioration of relations by not observing its contractual obligation to facilitate a settlement under the 1922 loan agreement. Washington was reluctant to act. Other Latin American nations had also defaulted, and to pressure a small nation to pay would have done nothing more than add tarnish to the image of the United States in the area. While Washington's decision may have improved America's image in Latin America, it angered the American bondholders considerably. They felt "sacrificed" by their own government. Many of them truly believed that the State Department had guaranteed the payments.

But in 1933, under the leadership of Cordell Hull and Sumner Welles, the State Department affirmed that it would not intercede on behalf of the bondholders. The United States would no longer intervene in such an overt fashion in the internal affairs of another nation in order to advance the interests of private parties. Too much of this type of intervention had occurred in the past and the State Department was determined not to
continue the practice. Despite the protests of interested parties, the policy of non-intervention was maintained and the United States over-extended itself to insure consistency in its Good Neighbor policy toward El Salvador. The State Department's participation in the bondholders' dispute was limited to the promotion of negotiations between the Bondholders Protective Committee and the Salvadoran government. Through aggressive and persistent negotiations the Salvadoran Bondholders Protective Committee was more successful than other similar organizations in reaching agreements.

While the default created some moments of apprehension in the overall relations between the United States and El Salvador, there were areas of cooperation which fostered closer ties between the two nations. One was the action of Germany in 1934 when it instituted the compensation or ASKI system of trade. This did not work well for El Salvador. As a result, El Salvador's trade shifted from Germany to the United States. Secondly, trade agreements such as the Reciprocal Trade Agreement of 1937 and the Inter-American Coffee Convention of 1940 were reached. Under the 1940 agreement, the United States subsidized over one-third of El Salvador's coffee export. American consumers paid for the friendship of Latin American nations by buying their coffee at artificially higher prices. Without the
agreement, a surplus of coffee would certainly have lowered its market price with dire consequences for El Salvador.

A final assessment of Salvadoran-American economic relations reveals that the small country received major advantages. It was able to postpone service on the 1922 loan until after 1946, and then at greatly reduced terms. Its success in this matter was due in part to the unwillingness of the State Department to wholeheartedly support the Bondholders Protective Committee and Council. Throughout most of the 1930's El Salvador was able to maintain a favorable balance of trade with the United States while disposing of the bulk of its exports at substantially higher prices. It is clear that the State Department let bondholders and coffee consumers pay the price for the friendship and support of Salvadoreans and other Latin Americans, especially in the hemisphere defense program during the war. The United States, however, was also able to extract concessions in return for its economic assistance. One was the ousting of two high ranking Salvadoran military officers because of their fascist orientation.

Ideological differences also influenced relations between the two nations. General Martínez, like many other leaders during the early 1930's, admired the seeming success experienced by Italy under Mussolini.
He saw similarities in the way he and Mussolini fought Communism. Moreover, he believed that the chaotic circumstances which prevailed in El Salvador called for a highly centralized government and a planned economy like Italy's. The popular support that he received encouraged him. Apparently, the Salvadoran population, fearful and apprehensive because of the economic depression and the Communist threat, was willing to accept an authoritarian but "benevolent" ruler such as General Martínez.

But, while General Martínez was an admirer of totalitarian ideas as trade with Axis powers developed during the early 1930's, he was not above serving the best interests of El Salvador. Such was the case in 1939 when he responded to pressures and ousted General Eberhardt Bohnstedt and Baron Wilhelm von Hundelhausen from their posts as directors of the Escuela Militar and Banco Hipotecario respectively. Although a believer in totalitarian ideas, he openly supported the Allied cause and wholeheartedly supported the hemispheric defense efforts of the United States. His support of the American efforts led to the replacement of two army friends from public posts. In 1941, the ranking officers of the Department of La Unión, General Luis Andreu, and of the National Police, Col. Juan Merino, were both dismissed under pressure from the United States.
The difficult measures taken by General Martínez were balanced by liberal financial assistance from the United States. The Lend-Lease program enabled El Salvador to arm itself sufficiently to have one of the best military forces in Central America. Ironically, some of the equipment acquired through this program were used in the rebellion which led to the collapse of General Martínez's government. El Salvador was also able to receive a loan from the Export-Import Bank to build its badly needed highway system and other public works programs. The United States made the loan despite the fact that El Salvador was still in default on its 1922 loan.

Relations between the United States and El Salvador during the period of study reflect the traditional ingredients of domestic politics in a Latin American country, the changing priorities of a powerful neighbor, and the threat of European intervention. They mark a test of the Good Neighbor policy, a significant turn in the attitude and interest of the United States in Latin America.

A nation with a previous history of independence in its relations with the United States since the turn of the century, El Salvador had successfully avoided external intervention in domestic affairs, unlike the experience of Nicaragua, Cuba and the Dominican Republic.
However, the Martínez period represents the likely breaking-point as extended *de facto* authoritarian rule in El Salvador strained the non-recognition principle of the United States. This was further aggravated by the non-payment of outstanding loans by the smaller nation. These difficulties in the 1930's could conceivably have been the source of considerable ill-will had the United States interfered directly in El Salvador or had it forced on El Salvador the desired settlement on the default matter. The United States did not, however, adopt such policies. The policy declared by President Franklin D. Roosevelt in his 1933 inaugural address, later identified with Latin America, withstood the test. The Martínez period of government 1931-1944 in El Salvador proved the substance of President Roosevelt's statement on April 12, 1933, when he addressed the governing board of the Pan American Union. He stated that "The essential qualities of a true PanAmericanism must be the same as those which constitute a good neighbor, namely, mutual understanding and, through such understanding, a sympathetic appreciation of the other's point of view."\(^8\) The lesson was not lost throughout the Western Hemisphere.

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