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VIA AIR MAIL

México, D.F., April 14, 1943

No. 9262

Subject: Observations on Inflationary Tendencies in Mexico and the Attitude of Officials of the Mexican Government thereon.

STRICTLY CONFIDENTIAL

The Honorable  
The Secretary of State,  
Washington, D.C.

Sir:

I have the honor to inform the Department that a quite definite inflationary tendency is becoming felt in Mexico to the degree that it is causing alarm in governmental and private circles. The problem is more complicated by the fact that the appropriate and adequate measures have not been taken, up to now, to stop or limit this inflation, and there seems to be a certain reluctance on the part of at least some high officials of the Mexican Government to take the appropriate measures which are imposing themselves.

That an inflationary tendency was bound to develop in Mexico was clearly to be foreseen, and was foreseen by this Embassy, in view of our considerable buying program of minerals and metals and other strategic materials in Mexico for war purposes, and in view of the increasing amount of money in the form of dollars and dollar exchange consequently flowing into the country. In view of the limitations upon the production of consumer goods in the United States and the obvious impossibility of our country to furnish certain machinery, equipment, and other materials desired by Mexico normally, and in view of the increased purchasing power developed in Mexico, the importation of goods from the United States into Mexico is naturally not meeting the level of demand and the increased purchasing power.

The Mexican Government, while keenly conscious of this problem, has so far not taken any steps of adequate character in the way of price controls, nor any of the other measures which would ordinarily absorb at least a part of this increased purchasing power by the public. All this is an internal problem for Mexico to deal with in the same manner that we and other countries have found it necessary to deal with it, but so far there has been a disinclination or at least a reluctance on the part of those officials of the Mexican Government particularly charged with the responsibility in these matters, to take appropriate steps.

There is, however, every reason to believe that the President of Mexico and the Ministry of Foreign Relations thoroughly understand the situation. But the position is not so clear in the Ministries of Finance, Economy, and Agriculture. It is believed that there is in these latter Ministries an adequate understanding of the problem, but they

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feel themselves somewhat overwhelmed by it.

In the meantime, a slowly developing tendency which is, however, progressing at an alarming rate, is showing itself on the part of the masses who are suffering from increased prices of foodstuffs, in particular, to place the responsibility for the inflationary tendency on the United States. It is this particular phase of the matter which prompts me to write to the Department in the detail in which I shall write this despatch, and what I shall say should have the careful consideration of the appropriate officials of the Department, as well as of certain agencies of our Government.

In view of the fact that the relationships between Mexico and the United States have become during the last few years more understanding, more cordial, and more reciprocally helpful, it is obvious that the present situation in Mexico presents many unfavorable aspects so far as we are concerned, and so far as our future relationships with Mexico are concerned, if appropriate measures are not taken by the Mexican Government to stop these inflationary tendencies and to solve certain financial problems which it has before it. While these are problems primarily for Mexico to solve, I wish at the outset to state that I am confident that in the Department and in the other agencies of Government, we will have understanding of the fact that for the Mexican Government it is more difficult, through its lack of experience and certain machinery, to handle these problems, than it is for us, in a country with a more highly organized government and a more disciplined and on the whole more understanding, public.

Several weeks ago, Mr. Suárez, the Minister of Finance, requested me to call at the Ministry, and after discussing an entirely secondary matter, gave me a full account of the financial situation in Mexico, and went into great detail with respect to the preoccupation of the Mexican authorities due to the increased dollar balances in the Bank of Mexico, which had reached formidable proportions. He referred to the increases in price of many commodities already obvious, and the unfavorable effects they were having among the public. He referred to the measures which we took in the United States and England to prevent inflation, and said that several of these were not feasible in Mexico. The Mexican Government was, for example, increasing taxes, but that it could not do so in anything like the ratio which we had done in the United States, in view of the poverty of the great mass of the Mexican people. He said that the Mexican Government was endeavoring to sell more bonds to the Mexican public and was succeeding, but that it could not do this in anything like the same ratio in the United States. He said that he saw the only solution to the inflationary tendency in Mexico in the making of more goods available from the United States, as the sole source, to the Mexican market, in order that the increased buying power of the Mexican public could be absorbed and the balances in the Bank of Mexico reduced. When I mentioned the fact that he had not referred to price controls as one of the most important means of controlling inflation, he reverted to the statement that the only solution was increased purchases of goods in, and deliveries from the United States.

Mr. Suárez



Mr. Suárez indicated that if this inflationary tendency continued, or if it were necessary to revalue the peso, the inevitable result would be increases in the prices of the strategic materials we were securing from Mexico, and the revision of practically all the agreements which we have between the two governments for the purchase of minerals and metals and other strategic materials. He indicated that such revisions would involve very considerably increased costs of these materials for us. He said that unless some steps were taken by us in increased deliveries of materials to Mexico, he feared that this inflationary tendency in Mexico could not be controlled by the Mexican Government and that it would have repercussions not only in the cost but very possibly even in the delivery of materials in which we are interested.

With respect to the foregoing, I observed to Mr. Suárez that he knew what our policy was with regard to the delivery of materials to the other American Republics. I said we were following a policy of strict equity and of endeavoring to treat the public in the other American Republics in exactly the same manner as the consuming public in the United States. With regard to the delivery of materials, he knew what a tremendous effort we were making in the way and that practically two-thirds of our whole industrial capacity was devoted to the winning of a war which had to be won, in the interest of Mexico as much as in our own. I did not have statistics before me, but I was sure that the statistics would show that we were delivering to Mexico materials in as adequate volume as to any of the other American Republics, and in my opinion, very probably more so, due to the favorable position Mexico enjoyed in not having to depend on seaborne traffic. I said that it was impossible to conceive of the increased delivery of goods to Mexico in the sense and degree that he indicated, as the war effort of the United States made this quite impracticable.

With regard to the inflationary tendency so obvious in Mexico, I said that I realized that the taxing device and bond selling he mentioned could not be used in the same degree in Mexico that we used them in the United States because of the poverty of the great mass of the people, but that certainly price control measures were not only feasible, but in my opinion a far more definite brake on prices than increased deliveries of materials could possibly be. I did not see how such increased deliveries of materials, even if this were possible, would in any way effectively curb inflationary tendencies in Mexico.

Mr. Suárez then went on to say that he was thinking shortly of going to the United States to discuss questions affecting the financial situation of the Mexican Government and the problems created by the alarming and increasing dollar balances in Mexico, and also to discuss the possibility of increased deliveries to Mexico of materials from the United States as a means of curbing inflation and taking care of this dollar balance situation. I said that so far as these financial and stabilization measures were concerned, I was not in a position to discuss them, as I did not have adequate background. I thought he would have to discuss these with our Treasury. Such discussions could take place here with the Mexican Treasury through some of our people coming from Washington, but I agreed with the thought ex-

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pressed by Mr. Suárez that such financial problems could best be discussed by him with our Treasury and other officials in Washington.

With respect to the suggestion that he would discuss during such a visit increased deliveries of materials, I said that it was obvious that any such discussions would have to take place there, but that I did not believe that it was advisable to initiate such discussions. In this particular respect Mr. Suárez said that if there were something that could be done in transferring unused plants in the United States to Mexico, it would be possible to absorb at least a considerable part of these dollar balances. I said in this connection that the possibilities in this respect would be limited but that I expected shortly in Mexico as one of my Assistants, Mr. Stancliff, who had a knowledge of the idle plant situation in the United States, and who would come here to aid me in determining what possibilities there might be in transferring idle plants. I made it clear, however, that I thought it was unwise for the Mexican Government to put confidence in the increased importation of materials or the securing of idle plant equipment as an adequate solution to the inflationary tendency, and its financial problem. I said that I thought it would create a rather unhappy impression to talk about increased materials for Mexico except in certain limited lines, when our people had this tremendous war problem on their hands every day and when to so large an extent the Mexican economic life had been undisturbed, as compared with ours.

Mr. Suárez said that he would shortly discuss these problems with the President, and the possibility of a visit to the United States. I have not seen or discussed the matter with Mr. Suárez since.

Just after the above conversation, Mr. Eduardo Villaseñor made an address in the National School of Economy, as part of a series of six lectures, the opening one of which was given by the Minister of Foreign Relations, Dr. Padilla. The address of Mr. Villaseñor, who is President of the Bank of Mexico, has been fully reported upon in despatch No. 9112, of April 10, 1943, with which despatch a copy of the full text of Mr. Villaseñor's address was transmitted. In view of the fact that Mr. Villaseñor is a highly intelligent man and has been considered friendly to, or at least understanding of the United States, his address is most remarkable, and it should have the study of the Department, the Treasury, Commerce, and other organizations of our Government, including the War Production Board and the Board of Economic Warfare. I wish, however, to emphasize that too great importance should not be placed on the address of Mr. Villaseñor, for I am confident that it does not represent the considered views of the Mexican Government.

Mr. Villaseñor in his address was highly critical of the United States and of its failure to send what he considered adequate quantities of materials to Mexico. He criticized the method of issuing priorities and licenses, both in Mexico and the United States. He gave the impression that if we so wished, we could furnish larger quantities of materials to Mexico, and definitely left the impression that we should. He referred to the dangers of inflation, but made



no particular reference to the most obvious remedy in the hands of the Mexican Government, in the form of price controls. I will not go into a full analysis of his address, as it has been covered in the despatch above referred to and as the address itself requires careful study by the agencies of our Government, in spite of the fact that it cannot be considered as an official pronouncement. I should, however, refer to the following statement specifically, as showing how completely lacking in understanding, or perhaps deliberately misleading, certain parts of the address are. He stated that he considered that "as long as completely useless" industries continued to function in the United States, Mexico could hardly be expected to abandon its own factories overnight. Furthermore, types of factories which could be converted to war production in the United States had no choice in Mexico except to close up and dismiss their workers. Mr. Villaseñor made this statement, when he knows to what degree private initiative and small industries have suffered in the United States, and to what degree it has been necessary for us to close some of our best small industrial establishments in the United States at a very real sacrifice. On the other hand, I do not know of a single industry of any importance in Mexico that Mr. Villaseñor could cite to show that any industry in Mexico has as yet been obliged to close up and dismiss its workers as a result of failure to get materials from the United States. I am merely mentioning this as an indication of the tendentious character of the address.

However, what is more important is that Mr. Villaseñor ended his address by saying that there were three suggestions for a remedy, some of which the Mexican Government might find it necessary to translate into policy:

1. Restriction of the public works program.
2. Abandonment of the traditional freedom of exchange and establishment of a control on the entrance of funds.
3. A restriction on the acquisition of Mexican property by foreign investors.

He expressed the opinion that, faced by such possibilities as the foregoing, our Government might agree to the sale to Mexico of machinery, equipment, parts, and raw materials that it needed.

The address caused a great deal of immediate adverse comment in the most responsible circles in Mexico, but of course there was a certain amount of favorable comment in certain banking and financial circles. There was considerable speculation as to whether Mr. Villaseñor had spoken with the knowledge and consent of persons more highly placed than he in the government. In this connection I thought it desirable that Mr. Lockett, the Economic Counselor, at the first opportunity, should endeavor to get the reaction of the Minister of Finance, Mr. Suárez, to Mr. Villaseñor's address. Mr. Lockett, on April 8, had a conversation with Mr. Suárez on other matters and referred incidentally to the concern which I felt over Mr. Villaseñor's address, on the ground that it would give a very misleading impression to the Mexican public and create very unfavorable reactions, both in Mexico and the United States. I transmit herewith (En-

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closure No. 1), a copy of a memorandum of the conversation which Mr. Lockett had with Mr. Suárez and which is of such importance that I will not endeavor to give a resumé of it in this despatch. It, like Mr. Villaseñor's address, transmitted with despatch No. 9112, of April 10, should be read carefully. The conversation which Mr. Lockett had with Mr. Suárez will show that Mr. Suárez was familiar with Mr. Villaseñor's remarks before they were made, and that they must have had at least a certain approval from Mr. Suárez, as otherwise Mr. Villaseñor, as President of the Bank of Mexico, would not have felt himself in a position to make the remarks.

As it was not clear to this Embassy whether Mr. Villaseñor's address would be published in full, I suggested to Mr. Lockett that at his next call at the Bank of Mexico, he ask Mr. Villaseñor for a copy. When Mr. Lockett did this, Mr. Villaseñor indicated to him that the speech had had the approval of the President of Mexico before it was made. As I was absolutely confident that no speech containing the remarks and the indirect threats which Mr. Villaseñor's address contained would have the approval of the President of Mexico, who has shown consistently an understanding of the situations brought about by the war and of our relationships, I took occasion to inform myself whether the President had in fact approved this address and I find that on the eve of Mr. Villaseñor's making the address in the National School of Economy, a copy of the speech was handed to the President with the statement that it was an address which Mr. Villaseñor would make that evening, but with no request for, or indication that his approval was desired. As a matter of fact, it may be taken for granted that the President did not give his approval to Mr. Villaseñor's address and did not actually read it until after it had been made.

It appears, therefore, that Mr. Villaseñor was expressing not only his own views, or at least those which he wished to put over, but to a certain extent at least, those of Mr. Suárez, and perhaps in a lesser degree, those of certain other Ministers of the Government. I wish to emphasize that the address does not represent the views of the Ministry of Foreign Relations, which is concerned over the possible repercussions of the address in the United States, and particularly among the Mexican public. In my opinion, the address does convey the views of a certain group of bankers in Mexico who have been bringing various pressures on the government to bring pressures on us with regard to increased deliveries of materials, and who are dissatisfied that they have not been able to make the profit out of the war which they anticipated, and because they are not able to carry on certain highly profitable operations which they could see readily possible under certain circumstances.

I had been asked before I went to Washington for a brief stay in January, to make one of these addresses before the National School of Economy, and I agreed to do so, but was not able to prepare the address until my return to Mexico City. My address was prepared at least three weeks before Mr. Villaseñor delivered his, and mine was delivered two days after Mr. Villaseñor delivered his. It so happens nevertheless that my address is, in a very large measure, a refutation of the statements made by Mr. Villaseñor, although as a matter of fact, I did not change a single word in the

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text of my address after Mr. Villaseñor delivered his. I had foreseen these attacks on us, and for this reason, chose for my theme in this cycle of lectures, "The Repercussions of the War on the Industry and Economy of the United States." There is being transmitted herewith as Enclosure No. 2 to this despatch, a copy of the address.

This address of mine has been given full publicity in the complete text in at least one of the leading Mexico City newspapers and it has to a very considerable extent already corrected the situation created by Mr. Villaseñor's remarks.

It is a fact that the increasing dollar balances in the Bank of Mexico referred to in Mr. Lockett's memorandum hereto attached are a proper cause of concern to the Mexican Government. These large dollar balances are almost entirely due to our very considerable purchases of raw materials in Mexico. The thesis, however, sustained by Mr. Villaseñor and certain others, that we should deliver goods to Mexico in the same measure that Mexico delivers these strategic materials to us, is untenable under any circumstances and even in normal times; and of course in these times it is quite impossible for us to make such deliveries in such quantity, even if we had the will to do so. These elements in Mexico which sustain the thesis of Mr. Villaseñor that this is a unique position in which Mexico finds herself, really know that Mexico merely has the same problems, only in somewhat different forms, that practically all countries today have.

The fact is that the Mexican Government finds itself somewhat nonplussed by the situation which it has to confront and it has so far felt that it could not take certain measures such as price controls because they involve a certain degree of political unpopularity. It is not believed, however, that responsible officers of the Mexican Government would consciously endeavor to create the situation with respect to the United States such as Mr. Villaseñor's speech would tend to create in the sense that the situation here is due, particularly price increases, to the refusal of the United States to give Mexico sufficient raw materials.

It is true, however, and we must take into account, that it is more difficult for the Mexican Government to cope with these problems than it is for us, as we have a more highly organized economy, a more definitely organized government, and a more responsive public. On the other hand, there is every reason to believe that a considerable mass of the Mexican public is increasingly understanding of the inevitable repercussions of the war and that it would welcome measures such as price controls, even though these latter would not be so well received in financial circles.

Aside from the very considerable monthly increase in the dollars available here in the Bank of Mexico, it is probable that a certain amount of capital which for one reason or another wishes to escape from the United States, is finding its way into Mexico. It is believed, however, that the degree to which such capital has come from the United States is in no sense as large as Mr. Villaseñor would indicate in his lecture. Such movement of capital from the United States merely to avoid restrictions in the United States, or certain possible measures which they might find there, is of course un-

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desirable and there may be some reason in measures which the Mexican Government may find it necessary to take to limit the importation of such unproductive capital from the United States to Mexico. There may be reason and adequate basis for us to collaborate with the Mexican Government in the flight of such capital from the United States to Mexico. There has also been a tendency increasingly of certain capital in the United States to endeavor to absorb an interest in Mexican industries which are successful. It has to be noted that this American capital coming to Mexico recently has only been seeking, for the main part, to buy an interest in going Mexican industries. This also is naturally viewed with disfavor by the Mexican Government for it sees no reason why American capital should take over existing Mexican interest in Mexican industries. The Mexican Government undoubtedly would have no objection to American capital which would, under Mexican law, seek new productive outlets in Mexico in the way of constructive enterprises. As a matter of fact, the indications increasingly are that the Mexican Government will welcome such constructive enterprise in the industrial field in Mexico. It is quite obvious, however, that the establishment of industrial enterprises in Mexico through the intervention of Mexican or American capital, or both, for the duration of the war, is practically impossible except on the most limited scale, for the same reasons as in the United States. The basic equipment, and in many cases the materials, for such industries, would have to come from the United States where, as we know, they are not available for domestic purposes, and therefore not for export.

It is important in this connection to bear in mind that the interest which certain American capital has shown in Mexico in the last half year has not been altogether constructive nor helpful, and has caused certain legitimate concern to the Mexican Government and to certain financial and industrial interests here. This does not in any sense imply that there is an objection to American capital, as such. It is a basic objection to American capital absorbing Mexican interest in going Mexican concerns. Our basic policy, as a whole, should be, for our long range relationships, to encourage Mexican industrial ventures being as much as possible in Mexican hands.

It is also true that, as has already been stated, the increased taxing capacity in Mexico is extremely limited due to the poverty of the overwhelming mass of the people, which makes impossible such tax measures as are used in the United States. In a similar way the capacity of the Mexican public to absorb bonds of the Mexican Government is limited. These are factors which we must bear in mind and which do add to the difficulty of the Mexican Government, for it does not have available to it certain instruments in solving its problems which are available to us.

I now wish to refer to a matter which is of primary importance, not only in the Mexican economic picture, but in our relations with Mexico. I refer to the purchases of foodstuffs in Mexico for public or private purposes in the United States. It is my definite and clearly defined opinion that we should take immediately all steps to see that such purchases are stopped, or otherwise we will be creating a public sentiment against us in a people which is rapidly beginning to feel the pinch of hunger under increased prices of certain essential foodstuffs.



As is well known, Mexico is a country which on the whole, so far as foodstuffs are concerned, is not self-sufficient. It is therefore unwise for us as a Government, or for private purchasers from the United States, to purchase foodstuffs in Mexico unless with the approval of the Mexican Government. The recent endeavor on the part of an agency of our Government to purchase rice was an unfortunate example of how public clamor can be roused against us. Rice is one of the staple foods of the masses in Mexico, and even of the middle and upper classes. There is probably sufficient rice in Mexico at this time for ordinary needs, and Mexico is a rice-producing country. There may even be a small surplus of rice in Mexico at this time. The fact, however, is that rice is scarce on the market, and this basic food in Mexico has recently in many sectors of the country, almost doubled in price and in some cases, more than doubled. There is no doubt that speculators within Mexico are exceedingly active and that some of these are political personages. The fact, however, that rice is not on the market has caused these increased prices, and the publicity given to the purchase of 6,000 tons by our government created a disastrous impression and fed the public impression that the scarcities in the market were being caused by purchases by us. The Mexican Government, as will be recalled, did not permit this shipment of rice from Mexico. It could not do so even though we informed the Mexican Government that the rice was really intended for shipment to Cuba.

In this connection, it should be stated that this is another matter in which we are making a fundamental mistake through certain agencies of our Government. If this rice which an agency of our Government intended to purchase was meant for Cuba, the sale was one which should have been more appropriately made by Mexico to Cuba, rather than through our direct intervention. There is an increasing tendency on the part of the American Republics, including Mexico, to resent this effort, which is well-intentioned, on the part of agencies of our Government to control the trade of these countries. Our own efforts are well-intentioned because, in view of our position and responsibilities, we have to try to maintain a certain balance between shipments of food to various countries. As a result of this we have been acquiring surplus foods in one country to make them available to another, and thus disturbing the ordinary channels of trade. There are certain disturbances in the ordinary channels of trade which are inevitable in war, but every country desires, even in war, to maintain its normal trade relations with its former customers as far as this may be feasible. In this question of rice for Cuba it would therefore have been much more appropriate, instead of our trying to buy it on our account in Mexico and shipping it to Cuba, to have entered into conversations with the Mexican Government or to have facilitated conversations between the Mexican Government and Cuba so that Cuba might have acquired any surplus rice available in Mexico. In this way, we would have avoided this constantly increasing criticism in Mexico, which is also appearing in others of the American Republics, that we are interfering with the channels of trade and are acting in a dictatorial sense, and this gives food to those who are preaching that we are endeavoring to establish hegemony after the war.

There is no doubt that the Mexican Government has so far

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not taken adequate measures to prevent speculation in foodstuffs. It is also true that the transportation system in Mexico, which fortunately has passed its low point, has been a factor in increasing the price of foodstuffs produced in Mexico at the consuming centers in the country, due to slowness of transport, or insufficiency thereof. These are questions which lie within the power of the Mexican Government to solve.

With regard to certain foodstuffs, there will unquestionably be surpluses in Mexico which we can acquire, and the Mexican Government has been consistently willing, as the procurement agencies of our Government know, that we should acquire such surpluses when they are established. We should, however, only endeavor to acquire such surpluses with the consent and approval of the Mexican Government.

It is to the credit of the Mexican Government that from time to time statements have been made by public officials to the effect that the increases in prices of foodstuffs are not due to exportation to the United States or to purchases by the United States Government. What I wish to emphasize, however, and which I cannot emphasize too strongly, is that the popular tendency is to blame such increases in prices on these purchases by the United States. This is becoming a matter of serious concern to this Embassy and must be to our Government, and I know that it is a matter of concern to those high officials of the Mexican Government who wish to maintain the popular basis for collaboration with our Government in the war and in the future.

It will be recalled that I have in previous communications to the Department, made the strong recommendation that no purchases of foodstuffs should be made in Mexico without the consent of the Mexican Government, and that all purchases of foodstuffs made by us should be through our procurement and development office in Mexico, so far as our Government is concerned.

So far as private purchases by individuals from the United States in Mexico are concerned, the appropriate control measures are within the jurisdiction of the Mexican Government, which has a sovereign right to prevent their exportation from Mexico unless the exportation has the approval under license, of the Mexican Government. I can foresee that it will be necessary for the Mexican Government to take very definite measures to control the exportation of foodstuffs, and that in these control measures, our Government, and particularly our authorities at the border, must render their collaboration.

There is no one way in which I can see through which popular feeling can be aroused against us more strongly than through continued purchases by us as a Government, or by private American interests, of foodstuffs in Mexico. The fact is that there are few foodstuffs in which there are surpluses in Mexico. The food which we could acquire as surpluses in Mexico is infinitesimal, and even in acquiring certain minimum surpluses, we can create strong popular feeling against us, because there will be an inevitable tendency on the part of the public to place the responsibility on us for the high prices which may be entirely due to the action of speculators in the country, or to the lack of adequately carried through price controls of the Mexican Government.

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I am definitely of the opinion that it would be to our interest if we could make a strong, categorical statement to the Mexican Government that we do not desire to acquire any foodstuffs in Mexico except such as the Mexican Government may offer us. I am of the opinion that such a statement, if made by us to the Mexican Government, should be given wide publicity, so that the great mass of the Mexican people will understand, through a categorical statement of our Government to the Mexican Government, that we are not buying foodstuffs in Mexico except as the Mexican Government offers us surpluses. This will be the only effective way that I can see through which we can stop the responsibility being placed on us for the increased prices of essential foodstuffs in Mexico.

It must be borne in mind that, although Mexico is in the war, this does not mean that all Mexicans are highly favorable toward the United States. We are still the country of which they are most critical and of which they are most prone to believe ill. We shall also have to keep in mind that there are certain extremely left elements in Mexico which, while rendering lip service to the idea of collaboration by Mexico with the United States in the war, are really completely unfriendly to the United States and have no interest in the war except as it might mean a triumph of Russia and of what they consider communistic and exceedingly radical ideas throughout the world, and particularly in the Western Hemisphere. These highly radical left elements in Mexico, in spite of all the developments in the United States and our sound institutions, think of the United States, or at least definitely picture it, as the Capitalistic Colossus.

Then too, there is an extremely right element, which has no friendly feeling for the United States and which believes in autocratic methods and in former systems of arbitrary government and control in the hands of a few, which previously existed in Mexico. These extreme right elements see in the collaboration with the United States, a danger to their own future and ideas, for they know that collaboration with the United States will mean greater equity and social justice within Mexico.

Both of these extreme right and extreme left elements, while rendering lip service to the President of Mexico and to the collaboration of Mexico in the war and with the United States, are nevertheless deeply discontented, and they are insidiously endeavoring to attack those Ministers of the Government who are most intelligently and understandingly carrying through the program of collaboration. They do not dare to attack the President, whose line of collaboration is so clearly defined and whose friendly sentiments to us are so clear, but they are endeavoring to undermine and to eliminate some of his most responsible Ministers who are the understanding exponents of the President's wise policy. This, incidentally, is one of the reasons why the Ministry of Foreign Relations, headed by Dr. Padilla, is constantly under attack, as he is in many respects the principal exponent of collaboration in the war and with the United States, and of the understanding policies of President Avila Camacho. In other words, certain elements in Mexico are prepared to seize every possible means of attacking collaboration with the United States, and are trying to do so through attacks on some of the most responsible Ministers of the Government.

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In some respects, the address of Mr. Villaseñor can only be regarded as an indirect attack against the Ministry of Foreign Affairs, as it is definitely an attack upon the policies of the United States. The extraordinary feature of this whole address is that it was made by a man who knows better and who is sponsored by men who know better. Those who are propagating the ideas which Mr. Villaseñor put forward are permitting an internal political consideration and struggles for personal power and position and in certain cases, ideological considerations, to interfere with so delicate a matter as the internal economy of Mexico and the relationships with the United States.

One of the immediate repercussions of Mr. Villaseñor's address has been to revive the rumors that the peso will be revaluated at 3.60 to the dollar. The Minister of Finance has made a statement to the effect that no such step is contemplated. The President of the Bank of Mexico informally states to those who inquire, that he does not believe that the fears with regard to the change in the value of the peso are well founded. The public statements with regard to these rumors havenot been as direct as they should be. It is obvious that there is a definite movement in certain financial circles to bring pressures on our Government, particularly through the delivery of greater quantities of materials to Mexico, through a threat in the change of the value of the peso. These persons who are interested in increasing the value of the peso are only thinking of the benefit coming to them through speculation and are giving no thought as to the disastrous consequences which an increase in the value of the peso would have on the great mass of the Mexican people who are already suffering from great poverty and low buying power.

It is important in this connection to again emphasize that public opinion in Mexico is easily influenced by statements unfriendly to the United States or critical of the United States, and it would be extremely dangerous in our relationships if the rapidly increasing cost of living should in the popular mind here be attributed to acts of the United States Government. The most unfortunate part of the situation is that remarks such as those made by Mr. Villaseñor have a definite tendency to accentuate any popular impression which may already exist in this respect. It should, of course, on the other hand, have been the duty of Mr. Villaseñor to clearly state the facts and to say that these things happening in Mexico are not due to any direct action of the United States.

I have deemed it necessary to make this preliminary report because the situation is one which may get out of hand if the Mexican Government does not take the appropriate steps. Those of us who live in Mexico and who have an understanding of her problems, realize that these situations with which the Government is faced are more difficult for it to solve than the same problems are for us in the United States, difficult as they may be for us.

It is obvious, however, that the Mexican Government must in the near future, take more definite and appropriate steps in order to stop the inflationary tendency and to prevent any change in the value of its currency. There is an

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unfortunate tendency, even in certain government circles here, to look to our country for the solution of Mexican problems. While the solution of these problems is a responsibility of the Mexican Government and people, it is a fact that we cannot avoid, that our own interest will make it necessary for us to endeavor to be as helpful as possible to the Mexican Government in the solution of these problems. It is important to us because if the solutions are not found, our interests are bound to suffer because of them, now and later.

For example, our procurement program in Mexico is an important one to us in the war effort and it would be a serious matter for us if the flow of strategic materials - minerals and metals from Mexico - should be slowed or stopped as a result of developments within Mexico. It would be highly undesirable for the relationships between our two countries for any untoward development to take place within Mexico which would endanger the present friendly and collaborative attitude. The present trends are somewhat disturbing. Whether the Mexican Government will take the appropriate measures to keep its house in order, only time can tell, but so far as the inflationary movement is concerned, it is obvious that steps cannot long be delayed. It is encouraging that some of the responsible members of the government are fully understanding of the problem and are prepared to take the appropriate steps. Of the understanding of the President of Mexico, there is no doubt whatever.

As a specific indication of developments which may have to be faced, I am informed by the head of our Procurement and Development Office in Mexico that he is already getting inquiries from those with whom we have purchase contracts concerning the revisions thereof. They wish to have placed in these contracts a clause protecting them against fluctuations in exchange. This concern on the part of the sellers is quite understandable, for if the peso should be revalued at 3.60 to one dollar instead of 4.85, it would mean that they would have to deliver in most cases at a loss, and would have to stop operations or production, with all the consequent results in the Mexican economy. I merely mention this unrest with respect to the exchange as it is something which is bound to be accentuated in the near future unless appropriate steps are taken by the Mexican Government to reassure the public as to its intentions with respect to the peso, and at the same time to take the appropriate measures to stop the present inflationary tendency.

The Department may be assured that the Embassy is following these matters very carefully. We are in constant touch with the highest officials of the Mexican Government. The Minister of Finance, Mr. Suárez, has indicated that he wishes to see me tomorrow, and it is no doubt on matters of financial policy and inflation. I shall keep the Department informed of that conversation.

This is a long, but still unsatisfactory resumé of the situation which has been developing. I have, however, wished to bring it to the attention of the Department and of those interested agencies of our Government in this preliminary form because of the importance of these developments to us from

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the near as well as the long range.

Respectfully yours,

G.S. Messersmith

Enclosures: 2

- (1) Copy of Memorandum prepared by Mr. Lockett  
and dated April 8, 1943
- (2) Copy of address made on April 8, 1943, by the Writer.  
(This not sent in hectograph, but in 10 mimeographed  
copies)

GSM/aw

To the Department in Original and Hectograph.