

Sierra Paracaima 1285
México, D. F.
September 6, 1955

Dear Jimmy:

Your letter of August 31 reached me on my return from Cuernavaca yesterday. First of all, this is one time you can be glad you are not in Mexico. We have never had such rain here I think in the memory of anyone here. Since we returned on July 1 from the States it has been raining continuously. There has been practically no sunshine at all. There has been one storm after another on either the Pacific or the Gulf side. From the company point of view the situation is satisfactory because the dams are practically full and Necaxa is running at full capacity. Mexico is filled with tourists and they must be having a sad time. The restaurants I think are doing a fine business. Incidentally, our friend von Marx is doing a fine business at the Rivoli. I think Marion is one of his best steady customers. I go once in a while. I am never there at noon or at night when the restaurant isn't practically continuously filled. He deserves whatever success he has had because he is giving good food and good service in a nice atmosphere. So far the rains have not done much crop damage or any other damage, but we are now approaching the season, as you know, in which the heaviest rains come, and there are indications that we may have some worse storms even than we have had. We spent the weekend in Cuernavaca as usual with friends, but it rained for 72 hours straight.

I cannot make this a very long letter or go into some things that I would like to go into, because it is already late in the morning and I am expecting some visitors before lunch and after lunch and have to be down for the Advisory Committee meeting in the company offices at 4 o'clock. I have been giving quite a good deal of time to the company recently, as there are some special problems which have arisen on which I may be of some use.

First of all, with regard to the copies of the letters which you sent me concerning the tax problem. The question of a tax treaty with Mexico first came up when I was Ambassador here and I was in favor of such a treaty then. Sporadic efforts have been made to renew the negotiations in the intervening years, but now it appears that the initiative is coming more from the Mexican side than from the American side. This renewed idea of a tax treaty between the United States and Mexico is one thing. The letter which Solly wrote to the American Embassy on behalf of the American Chamber of Commerce in Mexico has reference to an entirely different thing. Some of the people in the Internal Revenue Office of the Treasury Department have got the idea that it would be a good thing to have permanent officers of the Internal Revenue Service stationed in certain capitals and important cities throughout the world, just like we have Military Attachés, etc. There were three of these men here and they gave the impression that they were here to help the Americans in straightening out their income tax problems. As a

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matter of fact, what they were here for was to see whether they could find a basis for having someone stationed here definitely and permanently in the Embassy as a representative of the Internal Revenue office of the Treasury. These men behaved very badly. Solly's letter to the American Embassy setting forth certain questions only told a part of the story. These three men who were here several months ago called in about a hundred Americans and asked them questions which it was quite improper to ask, and worst of all they asked them not only questions concerning their own business but concerning the business of other Americans. That is procedure which is not permitted in the United States and much less can it be done abroad.

The whole purpose behind this movement to send the representatives of the Internal Revenue Bureau on a permanent basis to our embassies abroad is to establish another representation of our government abroad. Many of us struggled with this for years and it was not until the second reorganization act during Roosevelt's last administration that we were able to get the Foreign Services of our government united into one service under the Department of State. These sporadic efforts to establish people in our missions and consulates abroad are beginning to crop up again and they must be stopped. The activities which these three men from the Treasury to which Solly's letter refers were such that they cannot be tolerated in the first place by our government, and in the second place no foreign government would tolerate activities of foreign agents of a government on their soil when they proceeded in the way that these three men did. I think the matter has been pretty well settled because the higher officials of the Treasury I am sure did not know of this effort of certain people in the Internal Revenue Bureau and I do not think there will be any definite effort to establish such permanent representatives abroad. What I do not understand is how Solly's letter got such wide distribution. I do not think he intended it to have such wide distribution as it has apparently received. In any event, you can tell your father that he need pay no attention to the letter because I think the matter has already been settled that the Internal Revenue Bureau will not establish such permanent agencies or agents abroad. The matter of a tax treaty is an entirely different matter. These treaties which have been entered into between the United States and several European countries have turned out to be quite useful. The last treaty was with Italy. Now that they have covered the European field the people in the Treasury are beginning to renew their efforts to make tax treaties with the countries of Latin America. Some of the people from the Treasury Department were down here some weeks ago and held extended conversations with the Mexican authorities. There is no tax treaty ~~and~~ any country of Latin America. As a matter of fact, although I think there is going to be a good deal of talk about such tax treaties between the United States and some of the countries of Latin America, particularly Mexico, that nothing will come out of it. These tax treaties are on the whole good things but it must mean that both parties are equally responsible and that the provisions of the treaties are really reciprocal in character. Until administrative principles and practices become more settled in tax matters in the Latin American countries than they are now, it is very difficult for such a tax treaty to operate in an equitable manner between the United States and let us say Mexico. We have very well established practices in the United States and on the whole we carry through pretty well at home. In Mexico you know that the tax situation is much more confused and so far as I can see the results of a tax treaty entered into now would merely mean that the Americans here would be in a less safe position with a treaty than they are now. Until the administrative practices

in the two countries entering into a treaty of that kind are very much of the same kind and carried on the same level, and by the same kind of personnel, the treaty cannot work. I personally doubt as to whether there will be any tax treaty between the United States and Mexico for some years to come, and that is not because of any objections which may be made by the Americans residing here. My own impression is that the Americans residing in Mexico are more careful about their tax obligations to their own government and to the Mexican government than Mexicans nationals are.

I am on the tax committee of the American Chamber of Commerce, so I am in pretty close touch with this matter here, and if anything develops which is of any interest I will let you know. I think there will be long drawn out negotiations for a tax treaty between the United States and Mexico but I doubt if they will come to anything, and I repeat that it will not be due to the failure of the Americans here to cooperate.

→ I have been so much interested to hear what you say concerning the basis for your interest in Pan American. It is a very sound basis of interest, and of course the civil air transport is one of the things important today and of greater importance in the future. Wilbur Morrison I understand was in Mexico City towards the end of August but it was a day that I was in Cuernavaca and he did not get in touch with me as I thought he would. He must, however, in the meantime have my letter. As I told you in my previous letter, he and I have never been close friends, although we have I believe mutual respect for each other. I hope that by this time he has seen you for I think it would be a useful thing for you and him to have a talk. You will find him a hard headed and difficult but not an unpleasant person.

I appreciate your writing me so fully with regard to certain aspects of the Warburg matter. You are a man of very sound and correct and understanding and generous and equitable views. I just wonder, however, still if you are not approaching this matter with certain reserves which should not exist. I have lived long enough to have lost a good many illusions which were very dear to me. I have never had any illusions about banks or bankers or investment bankers, etc. By the same token I haven't had any illusions with regard to some of the big companies abroad and at home. On the other hand, I know what the banks and investment houses and big business firms have been able to accomplish. It is they who make work. It is they who provide the opportunities for research and new fields of work. The bankers and investment houses and big manufacturing firms, etc., are all essential parts of a sound economic and progressive industrial economy. There are the good and the bad. Practically everyone in business and banking has learned a great deal. Some of the reserves which you have may apply more to the past than they do to the present. The manufacturer cannot get along without the banker and the banker would have no business of any real character without industry. I am not going on in this strain because it might give the impression that I am trying to be persuasive.

That you may not live up to the expectations of the Warburgs and of those whom you think have taken this interest in this connection is a matter which should not give you any concern. What one can do or will do in a job develops after one is in it. I took that risk many times when I took jobs when I was in the government service. The very fact that you feel that way about it is probably the best indication that you would be able to give good

performance. I wouldn't let that phase of the matter concern me a particle. As I have already told you, what this Warburg job might open up neither they nor you can see until you are in it, and after a year or so has passed.

I certainly have the same feeling for the underdog and the less privileged that you have, but I know that the underdog and the less privileged will never be able to get along unless new horizons are opened for them and they can't be opened by a Soviet of the under privileged. I am one of those who believe that the capitalistic system with the changes it has undergone in the years is still the best system for the human race. It has made possible not only what has happened in our country and in certain others, but it has made it possible for our country to do so much for the under privileged in other parts of the world. The industrialists, big and little, and the banker, big and little, are the ones who make possible the employment we have today and the new vistas for greater employment as well as for greater leisure. Here in Mexico we have a good President now who is very much interested in the under privileged and the under dog, but he is giving so much thought to them that he is not giving enough thought to those who have made possible what has happened to improve the situation in the country. The highest ideals have to be translated into realistic practice and accommodated to the facts of life as we find them, if they are to bear any fruit. There is nothing more empty and more useless than not facing the facts of life, and human nature and the facts of life are not changed in a day or in a generation. While I like to think of myself in so many ways as an idealist, I have had to live so close to the facts of life ever since I was a very young man that I have learned that the only way to do is by doing. The great trouble that some of us used to have with Mr. Hull was that he worked too much in a vacuum. He was a man of extraordinary high ideals which he interpreted in terms of policy, but then too often failed to realize what some of the realities were that we had to deal with in implementing policy.

Marion is feeling very well and I am feeling very much better. I am still being extraordinarily lazy and have not done any writing since I came back. I will get at it in another few weeks. I think I need the sun to stimulate me. I have written a letter to your mother and am enclosing it herewith, as I do not know just where they may have moved to. She spoke of their going to some place further south and that they would be returning around the end of September and that she would love to come to Mexico, probably after Christmas. Whenever they can all come you know that we shall be very happy to see them. I think in another month or two your father will get over this feeling of being tired. It is a natural consequence of the operation, and then too as one gets older one does get more tired. I am much younger than your father but I get tired more easily than I used to.

This is a very disjointed letter. I want you to know how much I appreciate your writing me at such length. I enjoyed so much reading your letter. Buchanan is back and I have asked them down for the weekend but am not sure that they can come. We have a good many things of importance in the company these days. I have had only a few words conversation with him so far. Marion joins in love to you and June and all good wishes.

Cordially and faithfully yours,


George S. Messersmith