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Nº 1 Bz - 21 nov.

Forma 291-5. M.L.F.

THE MEXICAN LIGHT AND POWER COMPANY, LIMITED

(COMPANIA MEXICANA DE LUZ Y FUERZA MOTRIZ, S. A.)

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AIR MAIL

November 16, 1951.

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D.N.Heineman, Esq.,
Sofina,
38, Rue de Naples,
Brussels

Dear Dannie :

I was glad to talk with you over the telephone yesterday and I hope that we will have the opportunity to talk over the telephone before you leave for Brussels on Monday. I do want to send you just a word in case we should not be able to speak.

I admit that I was surprised to hear you say that the Consejo Económico has now asked Brosens what the Cade needs to keep going instead of selling. But I have been giving this a lot of thought since we spoke yesterday and I do not think that there is too much encouragement in this change. I cannot be optimistic about developments in the Argentine over the next years in any field and no matter what government is in. One has to know the Argentine intimately and over the years and the particular nature of her economy to be able to appreciate the tremendous damage which Perón and his wife have done with their associates in the last five years. There is hardly a phase of the economic, social or financial life of the Argentine which they have not upset, and once an egg like that is scrambled, it cannot be put together again entirely by the best people even and under the best circumstances. The Argentine is going to be a different place from what we used to know. In my opinion, no matter what government is in power in the Argentine and how good the people running it may be and how wise its actions, it is going to take, as I have said, a minimum of three or four years to get her economy running in anything like a normal way.

Perón, I think to the surprise of a good many people in the Argentine and outside, has gone back to the job almost immediately after the election, but according to the papers I read this morning, his first official act was to say that within a short time the workers would be running the Argentine and, more specifically, that the unions would be running it. That is going to destroy any vestige of confidence abroad which there had remained in him.

According to the papers, too, while he was on his "holiday"

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he took the opportunity to put a lot of army officers of all ranks in jail. Apparently, from what one is able to read, Sosa Molina is still Minister of Defense and Lucero is Secretary of the Army, but apparently a lot of officers have been put in jail. Just what this means, I am not yet in a position to judge, but it looks to me as if Perón is letting the Army know how he feels about their not letting Mrs. Perón run for Vice-president and is trying to throw the fear of God into them. He has been trying for the past few years to shift his principal support from the Army to the workers and the unions, and I think the real significance of putting these officers into jail while Perón was on his holiday, was to strengthen that shift. It would certainly appear so by the statement he has made yesterday about the Argentine becoming a syndicalized state. It reminds me very much, and I am sure it must remind you of what happened in Nazi Germany. I can remember men like Fritsch and others telling me that they could still depend on the colonel sitting outside of their doors, and the colonel could still depend on the major sitting outside of his door, but that the major could no longer depend on the captain outside of his door carrying through his orders. You know the story of how the power of the Army, which had been for the good really on the whole, was gradually destroyed in the most insidious way by Hitler and others, and how within a few years men like Keitel were running the Army and were subservient to Hitler. Apparently this is what Perón is trying to do in the Argentine and while I do not think he has as much chance of getting away with it as Hitler had, it seems that in the times in which we live, some people at least are benefiting by the lessons of history and experience, and Perón may be trying out the same thing.

I told you that in my opinion, if a military government takes over, its problems will be so great that I fear it will be very nationalistic because it will have these strong nationalistic elements within the military, and you know what nationalists the Radicals are and some of Perón's most intimate advisers. Now he seems to be trying to subordinate the Army and to remove any danger of the Army taking action against him. I do not know how Sosa Molina and Lucero and others on the top of that heap feel, but I do not think they like it. But then Fritsch and even Blomberg did not like it in the beginning and yet Blomberg became in a relatively short time an obsequious instrument and Fritsch was shot in the back in Poland.

The primary thing we have to bear in mind is that the Argentine is going to have this hard time internally and economically and that her exchange will be more limited than ever during the last years. Perón is becoming more demagogic and turning to the left or at least is beginning to show fascist tendencies which I did not think were in him. I think it is all part of a desperate struggle to retain his power. I do not see how Cade or any foreign company like Cade is going to get decent treatment which will enable it to live.

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The only reason I can see for this change in what the Consejo Económico says to Brosens is that they find the Cade a big mouthful to swallow and they know they would have to do something at least respectable for the American & Foreign. I do not think it means any greater understanding of the electricity situation and what has to be done and can be done, but just that they are more scared again like they were when I was in the Argentine in February. That does not mean that they are going to do anything adequate for the Cade and as I have reluctantly had to say to you, I think that under the best circumstances the acts of the government are going to decrease constantly the value of the Cade properties. I would sell if a sale can be effected on a proper basis and if Argentine Dollar bonds can be got, even if the price is much less than reasonable. The price would be much less important to me than selling and getting bonds of the right kind.

Here in Mexico the government has gradually absorbed the railways. It started by the nationalization of the principal foreign owned lines years ago. Several years ago they bought the railway from Mexico to Veracruz from the British and did pay for it. The only foreign owned railway left is the Sudpacífico in the northwest, which is owned by Southern Pacific, and which during the last seven or eight years has been gradually strangled by not being able to get the tariffs it needed, while in the meantime the tariffs of the nationally owned lines were being increased from time to time overnight. The Eximbank was ready to lend some money to the Sudpacífico with the guarantee of the Mexican government to help the Sudpacífico put its lines into some kind of shape for they were deteriorating rapidly, as was inevitable. I have been of the opinion for the last three years that the Sudpacífico would not get any increase in rates and that it was useless for them to take this Exim money, and that the Government was maneuvering a position to get the Sudpacífico for a song. I read in the papers and I hear from private sources that the Southern Pacific is now ready to sell the Sudpacífico and the price that they are going to get is in my opinion about one third of what they would have got if they had sold six or seven years ago.

I am not going into further detail, but I did want to give you these thoughts which I cannot properly give you over the telephone even if we have a chance to talk before you leave for Brussels. I know how hard it is to sell a property like the Cade for which you have done so much and which has done so much for the Argentine, but there are realities in my opinion which have to be faced, and it is better to face certain ones in time. If I did not feel that things in the Argentine are going to be so difficult for any government, I would say that it might be worthwhile trying to see what will happen, but as I see it, no government in the Argentine is going to give the electricity industry a real chance to live, no matter what it may do with regard to other private enterprise. As I see it, any kind of government in the Argentine,

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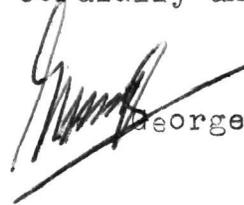
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no matter how much better or worse than the present one, is going to be nationalistic, and the electricity industry will be a primary and first objective. That the government may realize that it should try to keep the Cade alive for a while instead of buying I can understand, but it is not going to help the Cade in the long run. You said you wanted my views for what they are worth, and I have to give them to you.

I am still optimistic that private industry will be able to hold its place in other major American republics, although any Argentine example following those of other countries more important is bound to make things more difficult. As I have frequently told you, I think private enterprise has a chance in Brazil, but not as good a chance as in Mexico. I still think that in Mexico, because of hard lessons learned and because of many things which have happened, there is a chance for our industry and for other private enterprise. The fact that the Southern Pacific is going does not fundamentally disturb me because it was obvious that once the government had started on the nationalization of the railways, it would complete the job. That is just as obvious as that it is useless for some people to hope and to continue to hope that after the nationalization of the oil industry the foreign companies could get back here on anything like a reasonable basis - no matter how much to the advantage of the economy of Mexico that would be.

With all good wishes,

Cordially and faithfully yours,



George S. Messersmith.

GSM/go