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January 9, 1956.

Mr. D. N. Heineman
Deer Park
Greenwich, Conn.



Repl. Mar. 12

Dear Dannie:

I know you will be surprised not to have heard from me when I told you over the telephone several weeks ago that I would be writing you. The fact is that during the last three I have not written any letters at all. I think that it is the first time in my life that this has happened, even when I happened to be sick. For an industrious man to turn into such a lazy one is really quite a phenomenon, and one that I can't really explain to myself. I think it is the reaction to so many years of hard work and constant obligations that I feel happy in the feeling that while there are things to do that I just don't have to do them until I get to it.

I was sorry to gather from your conversation that none of you have any immediate plans for coming down here. We were looking forward to seeing you all. I can understand that you may want to be with Dr. Adenauer on his birthday. I am sure it will give him a great deal of pleasure and I know what a pleasure it will be for you. If you decide not to make the trip to Germany I hope that you will be coming down here.

We have had a very pleasant Christmas. We spent almost two weeks in Cuernavaca and had the house full almost all the time. It was one of the nicest Christmases that I can remember as we had old friends with us. The weather has been unusually cool for Mexico this year but the last week of our stay in Cuernavaca was really delightful so far as the weather is concerned also. I was able to get my sunbath on the roof every day during the last week of our stay there. We have just come back and the first thing I want to do is to get off this note to you.

There is really not very much in the way of news. I don't write you about the international situation because I know that you follow it as closely as I do. So far as the situation at home is concerned I don't think we ever had a better year in our history and I think we are going to have a good year this year. There will be some let up in business but I think not too much. There will certainly be a let up in automobile production and that will affect certain lines, but I think on the whole business is going to keep on high levels in the United States this year.

Here in Mexico they have had the best year, both in industry and in agriculture, that they've ever had in the history of the country. I follow the situation here very closely and I am in constant touch with a good many of the people who make the wheels go around here. It is a great source of satisfaction to me that my Mexican and American friends seek me out as much now as they did in past years. A few weeks ago the President asked me to come in to see him and I had a long talk with him about all sorts of things in which he is interested. He is a much more

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clever man than he is generally credited to be and is doing on the whole a very good job. The situation for Mexico this coming year is not quite as promising as it is in the United States. Industrially the situation is likely to keep up but it may be affected by certain situations in agriculture. We are certainly going to dispose of some of our surplus cotton in the United States and as it is of the same grade and quality as the Mexican cotton this year, that is going to affect the price very much and Mexico will suffer much more from the price drop than we will at home. When I came to Mexico in 1942 she was just producing several hundred thousand bales of cotton a year, which was about enough to meet the demands of her own economy. Now she is producing well over two million bales per year, of which at least $\frac{4}{5}$ is for export. Minerals and metals were for many years the principal source of foreign exchange for Mexico, but in the last two years cotton has become the principal producer of foreign exchange as well as producing a great deal in the way of internal taxes. The drop in the price of cotton which seems to be inevitable, beginning in the relatively near future, will very seriously affect the Mexican economy but I think that they will be able to weather the storm. They will have to learn here in Mexico how to take good years and bad years, just as we have learned to in the United States.

The sulphur production is really getting to be important and I think that a part of the loss of exchange through the export of cotton will be made up by an increase in the exports of sulphur. On the whole I think that Mexico will not have too bad a year.

I think around the middle of this month Carrillo Flores and his wife and Rodrigo Gómez, who is the head of the Bank of Mexico, and several of my other friends in the Government with their families, will be spending the weekend with us. I think one reason they like to come to our house is that I never mention any matter of business to them when they are staying with us unless they mention it themselves. The house in Cuernavaca has really been a great joy to Marion and to me. We love to have our friends there and we have made the house really very comfortable in every way. As a matter of fact I don't see what we would do without it now because while we enjoy our stays in Mexico City for a few days every week, it is the long weekends in Cuernavaca that we really look forward to.

I have nothing new on the Argentine situation. Perón is in Panama and I think will stay there unless he goes to Europe. He asked for a visa to come to Mexico and the Mexicans have been very slow in taking action on it. They are not going to refuse him a visa but they have been deliberately slow in granting it. The reason for that is that the people in Mexico who are promoting his visit here are not really first class people and he has as usual fallen in with the wrong kind of people. Perón has always been a very poor judge of individuals. If he had not gotten mixed up with some of these people in Mexico before coming here and would have come here quietly, he would have had a pleasant reception and could have lived here quietly. As it is he knows, I am sure, from the way the visa has been delayed, that the Mexican Government is not very anxious to have him come here and it is his own fault that they do not feel so desirous about having him. I am inclined to think that he is not coming here. The chances are that he will end up either in

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Switzerland or in Italy. To Spain, where he would perhaps prefer to go, he can't very well go because he and Franco fell out some years ago. There are some who think that Perón nurses the idea of going back to the Argentine, but in my opinion that is utterly and completely impossible. He himself cannot go back but his followers are going to have a good deal of strength in the country and it will, I think, be at least two years before they can have elections in the Argentine. I am not too happy about this new government just as I was not too happy about the Lonardi government. They have real problems and they are not willing to face them squarely. There is no purpose to be served by all these forty-two investigations that I understand they are making; a lot was done that was wrong but they can't undo that by these investigations. The men who are doing this investigating are the ones who ought to be working on constructive measures to improve the situation. I am not at all happy about the President having asked Perbisch to come back into the picture. I have read the Perbisch report very carefully. He was a good man years ago but he is now so full of rancors and so full of prejudices that I think he is not going to be able to do anything constructive in the Argentine. The report which he made to the present President of the Argentine indicates that he is not willing to face up to the real problems, whether it be oil or electricity or any of these basic matters. What Perbisch hopes is to be asked to come back as Minister of Finance or something even more important and I feel sure he won't be asked to do that, and I am one of those who is not going to be sorry if he is not asked to come back because I do not believe that he has anything really constructive to offer.

I do not know whether you saw the Perbisch report in full, but while he has some fair words to say about the electricity situation, he doesn't really face up to the problem as he should in the report.

I think our people in Washington are pretty much on the skeptical side as to how things are going to go. They of course are hopeful that things will go all right and Henry Holland went there on this trip recently because he really wanted to show the interest of our Government in the Argentine situation, but all that came out of the visit, as you may recall, was the reaffirmation of the 60 million dollar loan from the Export-Import Bank for the steel mill. I think the Argentine government feels itself very uncertain. Just because it feels itself so uncertain and so insecure, it is not willing to attack any of these controversial problems, such as oil and electricity and so many other matters. I understand that Wilmers and Draper are planning to go down at the end of this month to the Argentine, and I see no harm in that at all because they can at least find out what the situation is and perhaps a visit can do some good. I do not see that it can do any harm. Until the government, however, is prepared to put first things first, I don't see very much hope in the situation. They have put the steel mill first and it ought to be third or fourth in the list of things to do. What ought to come first is electricity and improvement in the agricultural situation. When a government is as weak and uncertain of itself as the present Argentine government is, it is not likely to attack constructively any of the basic problems. If this government can hold on for the next four or five months, it may be able to gather enough strength in order to begin to do some of the really worthwhile things. If I had anything to do with lending I would not lend a single dollar to Argentina or

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Brazil until they let the foreign companies in to really develop the oil. It is ridiculous for Argentina to be spending over two hundred million dollars a year now in foreign exchange for oil and for Brazil to be spending over three hundred million a year for oil when they have plenty of oil in their sub-soil.

If for political reasons of ideology a country wants to carry on its petroleum development the way Mexico is doing, and the way Argentina and Brazil seem to want to do, it is a definite evidence that real sound economic judgment is lacking and there is no reason why we should help countries when they are not willing to help themselves. I do not know whether you have read the article by Beltrán, the Peruvian ambassador in Washington, in the last issue of the Foreign Relations Quarterly. I think you will be interested in reading it. It is quite obvious from the way it is written that he is not an economist but he writes at least soundly and honestly, and it is a refreshing thing to have an important person from one of these Latin countries to write as frankly as he has written in that article. You may be interested in reading it.

Here things in the Company are going very well in almost every respect but the Government is delaying putting into effect the rate increase which should have gone into effect on October 1 of last year. The Company has continued the sound policies that it has been following for some years and has really made this magnificent contribution to the economic development of the country and has shown patience and understanding in an extraordinary measure. Draper has really done an excellent job and the opinion of responsible people in industry and in finance and even in commercial circles is that this rate increase should be put into effect. Delaying the increase the way they are is only complicating the issue and making the final decision more difficult. The way it looks now they are not planning to give the increase before the end of February and I fear very much that as we are now already in the midst of a revision of our labor contract, which will become acute towards the end of February or early March, that they will again put off a decision. Up until a few weeks ago we had every reason to believe that the increase would be made effective in the first days of January, but now it looks as though the Government were trying to push it off into the end of February and I think what they have in the back of their minds is to push it off even much longer. I am hoping that better counsels will prevail; the Company has really done everything that it can. The financial situation of the Company and our going ahead with our programs is going to be very seriously hampered and even endangered if this rate increase is pushed off much longer. The decision is really in the hands of the President and I can understand why he does not wish to approve such an important increase as the one we need. He ought to realize that the economic effects of his not doing it will be really very serious. I am still hoping that he will see the light in the next few weeks and that the increase will be granted before the end of January. We have important payments on the machines ordered in Germany coming up in January, I believe it is, and of course we were reckoning that the loan from the World Bank would be available by this time and that the increase would be effective. We had every reason to expect this. I do not blame the World Bank one particle for not granting the loan for the Lechería project until the rate increase is made effective. It would be unsound for them to do so.

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I go down to the Company every day that I am in Mexico City and I keep in close touch with what is going on, and I think that Draper and Maryssael and our people are really doing a first class job. I shall be glad when Maryssael is back because we are lacking in top personnel in the Company. I am glad that he is getting this holiday but I shall be very happy when he is back. I can appreciate what the load is on Draper. It is really extraordinary what a load he can carry and I wish to repeat that he is carrying it very well.

Of course all of our new financing operations, including the loan from the World Bank, are held up until we get this rate increase. The prospects for doing financing in Mexico and outside are good provided we get the proper rate increase that we have asked for. It is very interesting that almost every day I learn of one of my Mexican friends of importance who has become interested in buying some of our bonds or preferred and common stock. Of course that interest will taper off if they see that the Government does not give us this rate increase. Unless we get the rate increase we cannot maintain the present rate of dividends on the common stock because we need too much cash for current purposes. On top of all the ordinary needs, we are building this new building which was really essential. I went and looked at the foundations of the new building this morning and the work is progressing very satisfactorily. On top of everything the Government announced just before the end of the year an increase in the corporation tax from about 33% to 40%. This will hit us very heavily but, of course, under proper practice it should be made up through a further increase in the rates, because every increase in taxation is supposed to be compensated by an increase in the rates.

All this is not intended to be pessimistic. What I cannot understand is why the Mexican government has not followed through on this rate increase and is putting it off, because it does not take a politician to know that the longer they put it off the more difficult it will be. If the increase were to be put into effect today it would not cause a ripple.

Marion and I were very much distressed to learn of the passing of June's father. I was not really surprised because I understood that he was failing very much in the last months, and I really wondered that he was able to last this long. Although it was something that was inevitable, I am sure that it came to June as a shock.

I have not heard from Jimmy directly for some time. I hope that he is happy in his new work. I don't know exactly what he will be doing but I am glad that he has made a decision.

Marion and I think of you all very often and wish that we were able to look forward to seeing you in the near future. My plans remain unchanged and neither Marion nor I wish to go North until the late spring or summer. We do hope that you will be coming down to see us.

This is a long but a rambling letter and I'm afraid not a very interesting one. I gather that the family are all well and that is a great blessing. Marion joins in love and good wishes to you all,

Faithfully yours,

George S. Messersmith