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THE WORLD BANK
Washington, D.C.

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HARRY S. TRUMAN'S LETTER (ORIGINAL)

Aug 16, 1947
1769089

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President Truman's letters

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AUG 13 1947



THE SECRETARY OF THE TREASURY
WASHINGTON

August
Twelfth
1947

Honorable John J. McCloy, President
International Bank for Reconstruction
and Development
Washington, D. C.

Dear Jack:

Please give me a memorandum on the
enclosed, and return the originals to me
when you have completed your perusal.

Sincerely,

John W. Blayden

THE WHITE HOUSE
WASHINGTON

August 5, 1947



Memorandum for: Secretary of the Treasury

From: The President

I am enclosing you copy of a letter which I have just received from Claude Bowers, our Ambassador to Chile - also copy of one which he has sent to Norman Armour in the Office of the Secretary of State.

I hope you will make it perfectly plain to our friend, McCloy, that the Wall Street crowd are not to control the operations of the International Bank.

I am very sure that Bowers has a real complaint because I have had some conversations with Admiral Leahy, who is personally acquainted with Gonzalez Videla and had some conversations with him while he was there.

Under no circumstances must the copper interest control our International Bank relations with regard to these loans. I hope you will take a personal interest in this and see that Chile is treated on exactly the same basis as Peru and other nations that have made settlements on their loans to American bankers.

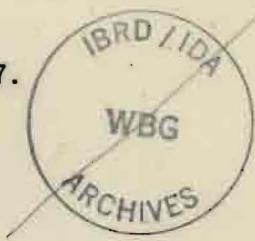
Enclosures

A handwritten signature in cursive ink that appears to read "Harry Truman".

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EMBASSY OF THE
UNITED STATES OF AMERICA

Santiago, Chile, July 21, 1947.



Dear Mr. President:

Since there appear to be some fantastic notions afloat at home regarding the political and financial status of Chile, you may be interested in a general review of the situation which I am sending to Armour. I am much puzzled by what seems to be an unfriendly attitude toward Chile which has developed within the last six months. I am puzzled because Chile is the soundest functioning democracy in South America with institutions and people strikingly like our own.

It is reported here - the President himself has discussed it with me - that the International Bank, at the instance of some New York bankers, has served notice, as though they had the authority, that unless Chile pays in full on her bonded debt she will not get a penny from the International Bank. This seems strange to me since numerous other nations that have completely repudiated their debts seem to be in good standing while Chile which is incapable of repudiation and has regularly paid seven millions a year is on the black list. I understand she is paying on her Lend-Lease loans on the dot. In short, I cannot see the reason for this stern, uncompromising attitude toward Chile. No reason beyond the fact that the Bond Holders' Association is taking advantage of the International Bank to threaten that Chile will get no advantage from the Bretton Woods organization unless she pays more on the bonded debt than she is able to pay under the serious economic conditions here. Our enemies are making the most of this, especially the communists, and charging that the International Bank is under the domination "of Wall Street" and that we are back to Dollar Diplomacy with the Good Neighbor Policy scrapped. It is very significant that the communists are the only people in Chile who want the International Bank to refuse credit.

That because communism thrives on economic collapses, human misery and hunger. By the same token I know that the only effective way to fight communism is through helping in the economic rehabilitation where badly needed. That, I take it, is the reason for the Marshall Plan in Europe.

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It is quite true that Chile's present plight is due in large measure to the lack of foresight, but now that the Chilean Government admits it and asks for a financial expert to come here from the United States to institute drastic reforms, I strongly feel that our attitude should be friendly and sympathetic. It should be possible to make a new agreement providing for increased payments on this debt of the 1920's in accordance with Chile's capacity. But we appear to be demanding a pound of flesh, the payment of \$11,000,000 on the bonded debt in addition to the payments regularly made on Lend-Lease loans and some of our bankers talk lightly of \$18,000,000. These say that the increased price of copper will bring in enough money. But some of these people would deprive Chile in her serious need of any advantage. I cannot think that this is good policy or foresight.

During the last few years we have made many friends in Chile, while a little while before we had few, and I am seriously distressed to learn that just now Chile seems to be our pet aversion; all the more distressed because this seems to come, not from the Government of the United States, but from banking interests presuming to speak for that Government.

I understand that Mr. Clayton has a very friendly and sympathetic attitude toward Chile and is not partial to the idea of bringing pressure to bear on her when she clearly cannot stand pressure. I think this wise.

Warm regards.

Sincerely,

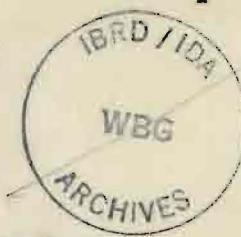
/s/ Claude G. Bowers

The Honorable
Harry S. Truman,
The White House.



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Santiago, Chile, July 14, 1947



Dear Norman:

I do not wish to burden you with a "forty page" epistle of the prophets, but now that you have taken office, there are some phases of the Chilean picture on which you may like to have my impressions. I shall set them forth as concisely as possible.

I. First, I have the feeling that Chile is very much out of favor in Washington, and I suspect that this is due in a large measure to the Communist infiltration into the government on the inauguration of Gonzalez Videla. After many conversations with him and a close observation of his action, I am convinced that there is not a drop of Communism in him, that he would like nothing better than to rid himself of their company, that he is earnestly seeking the collaboration of the Liberals to make this practical and that at no remote date this may be brought about.

Morbidly ambitious for the Presidency, lacking foresight, and realizing that his one chance for the election, if not, in fact, the nomination, depended on Communist support, he probably made reckless commitments during the campaign. I was all but told this much in a long conversation with him, between his election and inauguration, when he said he would be forced to put three Communists in the Ministry, "but they will not last three months."

After giving me that assurance, he amazed me with occasional public declarations complimentary to his Communist allies, indicating to me that he was afraid of them and that they had some hold on him. While making these complimentary statements, he has complained bitterly to his real friends, the Radical leaders, against the Communists.

The result is that, through an understanding with the Radicals and Liberals, their Ministers resigned to give him freedom of action, on the assumption that in common decency the Communist Ministers would also resign. With characteristic shamelessness they held on and had to be dismissed, their resignations demanded. This caused bitter reactions among them.

Then came the peasants' syndicalist measure, framed originally to serve the political objectives of the Communists, bitterly opposed by the Rightists, who insisted that it be vetoed by the President. The Communists made it an issue, and the President vetoed it. I know that, apropos of this, there were violent scenes between Gonzalez and the Communist leaders.

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Followed, then, the strike of the bus drivers, engineered by a small but violent segment of Communists in the syndicate. The President acted with energy, put armed forces in charge, and put down a demonstration with vigor. For this he was fiercely assailed by the Communists, their paper denouncing him as a renegade, and he replied in a slashing statement denouncing the Communists, and especially their leaders, as "cowardly" and hiding behind ignorant men put forth to do the dirty work. He openly charged that he had positive proof of a conspiracy among them against the Government. (This, I am most confidentially informed, was based on telephone conversations between Communist leaders, all of whose phones are tapped on orders of the President).

Now comes the most puzzling feature:- Why did he not then avail himself of the opportunity to throw out the Governors and Intendentes, and others of the Communists now in office? I suspect he failed here because:

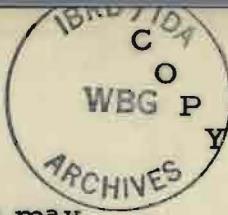
(A) He does not want to declare open war on the Party until he has the assurance from the Rights, especially the Liberals, that his loss from the Communists will be made up by collaboration from the Liberals, particularly in Congress.

(B) He played very intimately with the Communists in the campaign, and it is possible that he then made secret pledges in the presence of witnesses and that they may be blackmailing him. The other day when they attacked him on something or other in his office, he again was aroused, bitterly denounced them and ordered them from the room, threatening to throw a paper weight at them.

(C) The third reason may be the most important. Because of the miserable wages and conditions in the coal mines, the Communists control the syndicate of these miners, and while the Communists are in the minority, this minority is violent and, in its work of intimidation, does not hesitate to kill. A complete break with the Communists would almost certainly lead to a coal strike, and armed forces in the mines could not produce coal.

The strategy of the Communists there is to hold down production so that at no time would Chile have coal in storage to last more than a week or ten days. This could easily, within ten days, stop all the railroads, shut down most of the factories, and play havoc with light and gas. Gonzalez Videla has talked to me on three occasions about this danger, which he ascribed to the Communists. He wanted to make some arrangements whereby he could secure coal from us until the strike is broken. Negotiations are now going on to that end.





II. The idea at home, among many, that the Communists may take over Chile is utterly fantastic, as you personally must know. Chile is the staunchest, most inherent democracy in South America. This is rooted deep, from the most reactionary Conservative to the man in the street. If the Communists were to undertake a push, they would encounter the united opposition of Conservatives, Liberals, Radicals, Democrats, Falangists, ninety-five percent of the people, an anti-Communist organization of 30,000 men prepared to fight, along with the Army, the Navy and Carabineros. It would be impossible.

Chile is not even Leftist at this time. Had the two Right parties united on one candidate for the Presidency, as in the past, they would have won with an overwhelming majority. The combined vote of the Liberals and Conservatives was of landslide proportions. Since beginning this letter Horacio Walker has announced that for patriotic reasons the Conservative Party will enter the Government. This, as in the case of the Liberals, conditioned on the elimination of all communist minor officials.

III. Because of its thoroughly democratic institutions, with a free press, free speech, and the right of assembly, the one best bet for the Communists in South America is in Chile. This is the battle ground. Lick the Communists here and they are licked in South America, but do not count on Chile following Brazil in outlawing the Communist Party; that would not be in conformity with Chile's idea of Democracy, or with her Constitution, and I find that even the Conservatives would oppose any such drastic action. I remember some years ago when some Socialists were elected to the New York Legislature it was proposed to deny them their seats and Charles Evans Hughes and Elihu Root offered their legal services to combat this anti-Democratic proposal.

But the fight is on to rid the Government of all Communist influence, and if the Rightist parties will support the President in such a fight, it would succeed. Horacio Walker, leader of the Conservatives, told me last week that Gonzalez Videla had called on him to ask for his support and that of his party. Walker, a Senator, had been his teacher in the Law School. Walker has a good opinion of the President and is convinced that his intentions are good though in his anxiety to be President he involved himself in a mess. He thinks all the enemies of communistic infiltration in South America should rally around the President and help him out.

In this connection, I am sure that instead of assuming a semi-hostile attitude because of his affair with the Communists, we should be sympathetic and helpful now that he has seen the light. The best way to fight communism in Chile, as in European nations, is to aid in creating an economic structure that confounds Soviet demagogic.

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I am rather disturbed by the impression I have received that unless Chile makes full payment to the bondholders in the United States on her debt now, she will not be considered for a credit by the International Bank. The Chileans cannot understand why nations that have completely repudiated their debt to us are to receive credits from the Bank, while Chile, which has never thought of repudiation and has regularly made annual payments on her debt, is blacklisted. Pedregal went to Washington and New York, authorized to increase the annual payments by a million dollars which, according to Gonzalez Videla, is the best that can be done under the present serious conditions. I understand that \$11,000,000 were asked, and some of our bankers and industrialists who have been here talk of \$18,000,000. It is said that the increase in the price of copper will make this possible but I cannot believe that it is our intention or Good Neighbor Policy to cut the advantage that Chile may get from the increase to a minimum in view of her present serious plight.

There is no doubt that Chile's serious financial mess is due to her own bad practices, lack of foresight, and general mismanagement, but there is some encouragement in the fact that she now cries mea culpa and asks us for a financial expert with full authority to make whatever drastic changes may be necessary to put her house in order. I understand that Mr. McGill has been agreed upon for that job.

You may have noticed that when in Brazil, Gonzalez Videla was bitterly attacked by the Communists there, and that he made a spirited reply. Since his return, he was asked if he stood by the Declaration then made that Chile is a Democracy and that he will resort to the most drastic measures against any attempt to change Chile's democratic institutions by "the Communists or any anti-democratic element of the extreme Right." He replied with a reiteration of that declaration.

IV. We are being seriously crippled here in our public relations and Cultural Institute by the drastic cuts in the appropriation. Our Cultural Institute has made great progress, but we shall have to drop important features of the program. At the time we are cutting to the bone, the British have doubled their appropriation, the French have tripled theirs, and the Russians, with abundant means, are making great inroads with their Cultural Institute. Now Franco Spain is intensifying her propaganda activities and is putting out a very splendid magazine in glorification of Franco Fascism with pictures and complimentary sections of Chileans.

I understand there is to be a drastic cut in representation allowances - this at a time when the British Embassy is given notable increases. I understand the British Ambassador is to have about \$10,000 - more than I ever had, and probably three times what we will get. This is unfortunate and can be met only by cutting our



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representation work to the bone. It is especially unfortunate now since Chile is being flooded with American bankers, business men of large calibre, etc. I have made a practice of having them to lunch to meet Ministers, bankers and business men here. This will have to be abandoned.

One other complaint and I am through: We have within a very short time transferred Millard, Haselton, Bailey, Palmer, Nugent and both the Military and Naval Attachés, replacing them in most cases, not all, with new men entirely unfamiliar with Chilean affairs, unacquainted with Chileans. It will take six months, or much more, for these new men to make contacts, and more time, I am afraid, for them to win the confidence of the Chileans with whom they deal. I have protested against this drastic change within so short a time. These transfers certainly should be better spaced. After all, we have a battle here and this is not the time to remove all the veterans with close contacts and replace them with green recruits.

Sincerely,

American Ambassador



The Honorable
Norman Armour,
Department of State,
Washington, D. C.