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Memorandum on the American Loan to Honduras, February 26, 1911

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From the WASHINGTON STAR, February 26, 1911.

HONDURAS FINANCES

REASONS FOR AMERICAN LOAN AGREEMENT LATELY REACHED ASSISTANCE WAS NEEDED
FOREIGN CREDITORS WERE PRESSING FOR SETTLEMENTS.

AMERICAN PRESTIGE AT STAKE.

By an American Diplomat.

Through a series of foreign loans, the proceeds of which were intended for permanent public works, railways, etc., but appear to have been dissipated in extravagance, graft and disproportionate expenses of promotion, Honduras has found itself for some years under great pressure from foreign creditors, chiefly in Great Britain, but also in such countries as Belgium, Holland, France and Germany. During the last administration the British bondholders proposed a plan to refund the debt. It provided for raising the tariff and took no due account of the undoubted equities and even legal rights of Americans interested in various properties which it was sought to hypothecate along with the customs for the service of the loan. The arrangement was also deemed unduly onerous to Honduras, and it was thought that through this fact it would tend to cripple the country and to blockade its normal development and its foreign commerce.

The situation in Honduras was familiar and its relief was so desirable that it had long been hoped that some American banking house would be willing to try once more the task which
hitherto had always failed, of making an economical and benefi-
cial arrangement to put Honduras financially on its feet.
At this time, during the last Administration, the Government
of Honduras made overtures to the Government of the United
States as to whether it would help bring about the desired
arrangement through the agency of American bankers, and the
Government of the United States indicated that it would re-
ceive most sympathetically any definite suggestion to that
end. Later on the British Government, whose nationals were
chiefly concerned in the debt of Honduras, expressed its
satisfaction at the American attempt, and negotiations look-
ing to the English plan were abandoned to await the outcome
Thereupon Honduras promptly sent to New York two commissi-
ters to enter on the practical negotiations.

Financial Contract Negotiated.

Their work has now taken definite form in a contract be-
tween the Government of Honduras on the one hand and a group
of American bankers, composed of J. P. Morgan and Co., Kuhn,
Loeb and Co., the National City Bank and the First National
Bank on the other, which has recently been signed. This con-
tract is finally approved by the Department of State, and defi-
nitely accepted by the Government of Honduras, including its
congress, will receive the shelter of the convention now be-
fore the Senate. The purpose of the convention is that Hon-
duras and the United States shall take due note of the arrange-
ment and shall give it such protection as may be requisite to
secure the advantages which have moved the government of the
United States in interesting itself in the transaction. The
consent of the Senate is necessary to make operative the steps that have already been taken on the part of the administration with the American bankers and the government of Honduras.

It is understood that the customs of Honduras will be collected and administered in a somewhat similar fashion to those of the Dominican Republic, although not by an appointee of the United States. This will mean that the customs when collected will be devoted, first, to the payment of the necessary expenses of collection; second, to the deposit in New York, where a fiscal agency will be established, of an amount sufficient to cover the interest and sinking fund on the bonds issued; and, third, that the balance shall be paid to the government of Honduras.

The American Interest.

Some superficial observer may ask, "Why should the United States enter into a convention with Honduras to secure a loan to the government of Honduras by J. P. Morgan and Co.?" It might be replied with equal superficiality, "Because the financial history, reputation and condition of Honduran finance are such that neither J. P. Morgan and Co. nor any other safe and sound American banking house would make the loan without this element of security, nor without this element of security would a banker sell the bonds except at a speculative price as would involve taking the bonds from Honduras at a rate so low as to be ruinous to that struggling republic." Proceeding to questions less superficial, why should the United States wish American bankers to help Honduras?
Secretary Knox gave one pretty good general answer to this question when he said, in his address to the University of Pennsylvania, June 15, 1910:

"If this government can help to upbuild and promote the thought that the capital of the more advanced nations of the world would be better employed in assisting the peaceful development of those more backward than in financing wars, it is such a deviation from traditions as the American people will approve."

It is for the purpose, then, of promoting the peace, prosperity and welfare of a neighboring republic that the Department of State wishes to take such moderate steps as are necessary to lead American capital to the rescue of Honduras.

Front Yard of the Canal.

The islands of the Caribbean Sea and the republics between Mexico and the isthmus have been called "the front yard of the canal", which is being built at huge cost upon a strip of American territory connecting two great oceans and standing as a segment in our coast line interrupted at each end by the coasts of Mexico and Central America. The United States naturally would prefer not to have a Kilkenny cat continuous performance in the front yard of the Panama Canal.

In Cuba and elsewhere the United States has promoted measures of sanitation with the result of giving our southern ports practical exemption from epidemics. Proximity, close commercial intercourse and travel between our ports and Cuba; just as between them and the five Central American republics, made sanitary conditions very essential to our own people. Americans are in
Central America in very considerable numbers, owning plantations and timber lands, operating mines and engaged in commerce. They are not only on the coast, but in the interior. We are the best customers for Central American products, and we have relatively large exportation to them. Our Government owes something to the present and the future of all the intermingled commercial, maritime, political and social currents between the United States and the sphere of Central America and the Caribbean Sea. Admiral Mahan prophesies that the Caribbean Sea will be the scene of a great conflict. The government which owns the canal and which stands first among the sponsors of this hemisphere must have a strong position in the Caribbean.

Porto Rico and Cuba.

Porto Rico has become American and is prospering. Cuba has become a nation and is enjoying, with the friendly support of the United States, a degree of tranquility and prosperity greater than ever before. As the result of what has been done for Cuba, her commerce with the United States has increased from $56,600,000 in 1900 to $176,000,000 in 1910, when the American exports to Cuba amounted to $52,900,000. This is a commerce nearly four times as great as that between the United States and China. Since the United States brought order out of chaos in the finances of the Dominican Republic, that republic has met its foreign obligations and is enjoying a degree of peace and prosperity hitherto unknown, under an arrangement by which the United States has given just the necessary assurance of stability to bring and maintain the situation. French and American bankers
are undertaking, with the approval of their governments, the establishment of a strong bank in Haiti, under an arrangement by which foreign obligations are to be met and local enterprises to be fostered. The United States has assumed to the Republic of Panama, the immediate neighbor of the canal, a relationship of practical protection against outside interference, and with results thus far excellent.

**Monroe Doctrine.**

If there is any part of this hemisphere where the Monroe Doctrine of opposition to any European lodging likely to lead to a territorial foothold should be especially insisted upon it is Central America and the neighborhood of the canal. When such a country as Honduras, for example, owes a heavy debt to a European Power, since it is no part of the policy of the United States to protect debtors from the just claims of their creditors, the United States must either acquiesce in the necessary arrangement with the European Power concerned, or must promote the relief of the situation through our own citizens. This latter course is the better for two reasons: First, because the assumption of a relation to a right in the customs revenues of an American Republic by the government of the United States is far less fraught with any possibility of ulterior purpose than might be the case if such relation were assumed by any country not so well known to be without the slightest desire of territorial expansion. Second, there is the possibly sentimental but no less real reason that it is proper that the different members of the Pan-American family should help one another.
As to the proposed arrangement with Honduras, the convention now pending in the Senate and the contracts which, when they have been approved by the government, are to receive the measure of its protection are understood to go much less far than does the Dominican arrangement, and merely to give the moral weight of a potential right to secure all benefits of the plan by insuring honest administration of the customs revenues and the carrying out of internal improvements urgently needed for the development of the country.

TO RESTORE HONDURAN PEACE

It is, of course, axiomatic that financial habilitation will be a long step toward the stability, strength, prosperity, commerce and peace of Honduras. How essential that stability and peace are to the peace of all Central America was, of course, recognized when the five republics, by the Washington Conventions of 1907, undertook to respect the neutrality of Honduras. Honduras may, in fact, be regarded as the keystone of Central American peace, and unless its condition be thoroughly changed by putting its financial house in order it will relapse into its old position as the theater on which the rival ambitions of various would-be dictators of a greater Central America are fought out. The United States bears a moral responsibility to the Washington Conventions and this responsibility has been crystallized through the fact that every Central American republic has, from time to time, invoked our good offices to induce another to observe the provisions of the conventions.

The ratification of the Honduras convention is an issue of
para. -- of paramount importance, because it practically involves the question whether or not this government is to have an intelligible and effective policy in the region affected; whether or not American money can be used to bring about prosperous conditions and whether or not futile fighting and waste of rich resources shall cease. It is doubly important just now because the reformed administration of Nicaragua has called upon the United States for similar assistance and, even now, in response to the invitation of Nicaragua, an American financial expert has been sent with the new legation to Nicaragua to begin the work of taking an account of stock to see precisely how the United States could be of assistance.

A Job for Marines?

Why should the Senate hesitate? Is it because they shudder at the thought that some time in the future a few Marines might have to preserve the peace of a customs house and prevent the debtor of American citizens from wasting his estate? If this were so, how could the Marines, who must be maintained, and, perhaps lack exercise, be more usefully and peacefully employed? Without any convention, and even now in the ordinary discharge of the duties of international law, the United States and Great Britain have landed Marines at Ceiba and at Puerto Cortez to prevent fighting in unfortified towns, where there are important foreign interests. They have also protected the terminus of the Interoceanic Railway, as to which, by the way, the treaty of 1864 between Honduras and the United States, says, among other things:

"The United States recognizes the rights of sovereignty and
property of Honduras in and over the line of said road, and for the same reason guarantees, positively and efficaciously, the entire neutrality of the same," which is of distinct historical interest. By their action, taken in the ordinary course of business, the British and American Marines arrested the useless shedding of blood to the general benefit and satisfaction of all concerned, and brought about an agreement of armistice now to be followed by a peaceful discussion with the good offices, as usual, of our Department of State, which, with or without conventions, is invariably brought by the logic of the situation into the position of best friend and kind nurse whenever Central America enjoys severe pains of any kind.

HONDURAS MUST HAVE HELP.

In any case, however, Honduras has struggled along under the hopeless load of a foreign debt, accumulating since 1867, and fallen through default of interest to be quoted at about twelve cents on the dollar of the principal, and her situation in this respect has become so irksome to all responsible Hondurans, that not only the actual government but the leader of the Bonilla opposition are joined in realizing that the proposed help is absolutely necessary, and, therefore, considering the rich resources of Honduras, the increase of her commerce to be expected from improved conditions and the expanded possibilities of her customs revenue, there seems no particular reason to apprehend that even so mild a form of temporary intervention will be necessary.
Finally, why the Honduras Convention? Because for the projected loan of $10,000,000 there will be secured to Honduras cancellation of a debt now aggregating approximately $120,000,000, the expenditure on the Interoceanic Railway of some $700,000, the liquidation of American claims amounting to more than $1,000,000, and the putting aside of some some two millions and a half dollars more of bonds to be used in the development of the internal resources of that country, and because by devoting a little more than is at present spent for the suppression of revolutions Honduras will obtain these benefits.

THE PRESIDENT'S ADVOCACY.

The President has advocated the arrangement now become definite in the proposed convention in two annual messages and it has been explained in several important public utterances. Its adoption would be assured unless it is to fall a victim to the curious fact that when the United States was not a powerful nation and had not adequate machinery in its international relations, the American people were ever ready to go great lengths to protect their vested interests abroad, while now the government is powerful and has the necessary machinery, some people think that if an American dollar is caught in the act of subserving a diplomatic policy in an investment beneficial to humanity and consonant with the interest and duty of the United States it should be disowned for the crime of leaving the path of greater and surer profits at home to do its share in building for the future.