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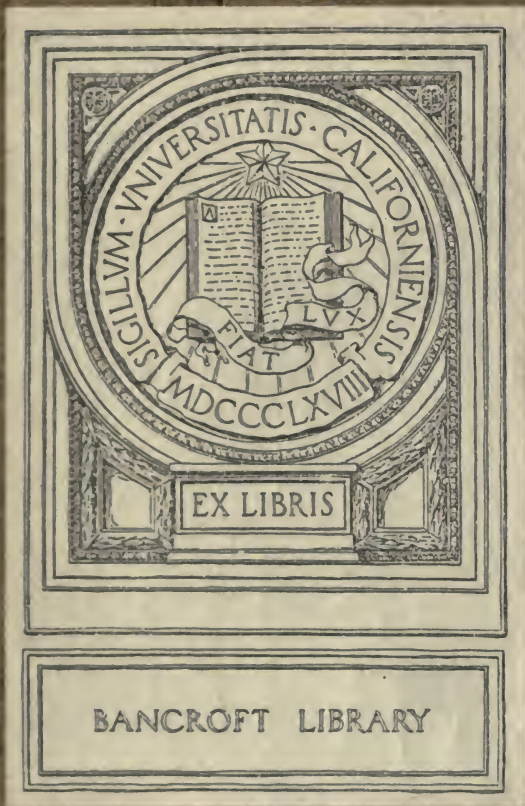
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EDITED BY ALBERT SHAW

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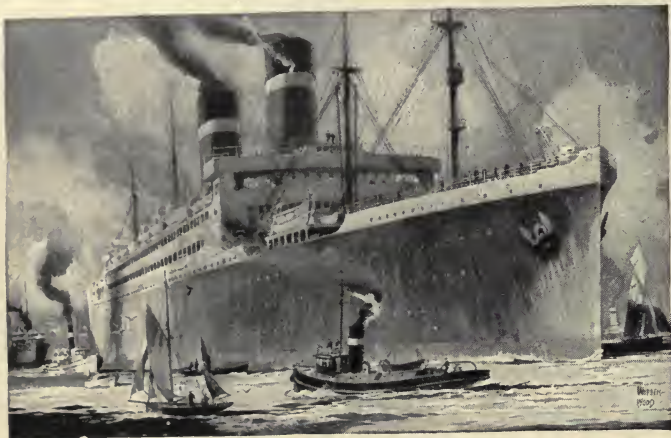
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EDITED BY ALBERT SHAW

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Bachrach

MRS. HARDING, WHOSE ILLNESS AROUSED THE NATION'S SYMPATHY

(It was announced on September 8 that the wife of the President had been taken seriously ill, and for several days the bulletins were far from encouraging. After a week, however, came the cheering news that the invalid was out of danger. Our Presidents have generally been fortunate in the support and co-operation of wives who have gained the affectionate esteem of the country by reason of their display of the best qualities of American womanhood. No President, it may be said, has been more fortunate than Mr. Harding in having the constant support and aid of a wife who has not only exceptional fitness for the social duties of her place as mistress of the White House, but who has a talent for affairs and is an adviser of calm judgment and rare wisdom. She was Miss Florence Kling, of Marion, Ohio, and was married to Mr. Harding July 8, 1891. The future President had gone to Marion and engaged in newspaper work at the age of nineteen or twenty, and he was not yet twenty-six when he married Miss Kling)

AN AMERICAN EXPERIMENT IN NICARAGUA

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Bancroft Library BY CHARLES E. CHAPMAN 1880-
dward

(Associate Professor of Hispanic American History in the University of California)

IN his pre-election campaign in 1912 Woodrow Wilson denounced President Taft's intervention in Nicaragua as an unjustifiable act of imperialism. That, no doubt, represented the honest opinion not only of Mr. Wilson but also of thousands of thinking people in the United States. It was a natural supposition that the company of Marines sent to Managua, the capital of Nicaragua, by President Taft would at once be withdrawn following the inauguration of President Wilson. But the Marines *stayed*. And they are there yet. Furthermore, President Wilson began a series of interventions in other American countries that surpassed the combined efforts of his predecessors of more than half a century. In Mexico, Vera Cruz was occupied, and later Pershing was sent on a wild-goose chase after Pancho Villa. Cuba and Panama were forbidden to indulge in the local sport of revolution as a means of choosing a President. And Haiti and Santo Domingo were effectually occupied by armed forces of the United States which still control the destinies of those island republics. An account of the American intervention in both countries appeared in the July number of this REVIEW. A report by Dr. Carl Kelsey, of the University of Pennsylvania, gives full details of our occupation of the island.

Clearly some explanation of these acts should be forthcoming. At first sight, one might otherwise be pardoned for believing that the apostle of "self-determination of peoples" was in fact as great a "hypocrite" as he has been charged with being by certain Spanish-American

writers. The truth seems to be that Mr. Wilson did not fully understand the situation before he came into office. Afterward, he became at least partially informed, realizing the unavoidable necessity of some action in the nearer republics of Hispanic America. He may be criticized for the ways in which he carried out his numerous interventions, but not for the facts of the interventions themselves. It is the purpose of this article to give a rapid survey of one such intervention—begun, indeed, by President Taft—an intervention which, on the whole, reflects credit on the American people.

The Interests of Europe

The five republics of Central America, of which Nicaragua is one, have been the scene of probably more revolutions in the past hundred years than any other region of equal area in the world. If the Central American countries alone were to be considered, one might indeed keep "hands off," and let them "stew in their own juice."



THE REPUBLIC OF NICARAGUA IN ITS RELATION TO OTHER CENTRAL AMERICAN COUNTRIES

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So, too, might the United States forego the undoubted rights in international law of her own citizens to protection of life and property in their legitimate dealings with those republics. But there is a third element which cannot thus easily be put off—the interests of Europeans.

European nations have been unwilling to “turn the other cheek” or “bare the solar-plexus” for the blows which Central American revolution and bankruptcy would rain upon them. England, in particular, has insisted that the rights of her nationals be protected, including payment of debts owing to them. Carried to a logical conclusion—as they have been in every continent of the world except the two Americas!—the demands of European Powers would long ago have resulted in annexations or protectorates in the greater part of Hispanic America, if it had not been for the Monroe Doctrine. Under the circumstances, European “diplomatic pressure” in Central America has not always been effectual. Therefore, Europe has gone to Washington, and said: “If you are unwilling to have us go into these countries, see to it yourself that our rights are protected.” Obviously, the United States has been obliged to do one of two things: intervene, or abandon the Monroe Doctrine. No American President has as yet consented to drop the famous principles enunciated in 1823. Therefore, there has been intervention—of a sort, usually half-hearted, ill-informed, badly managed. Among all such interventions in recent years that in Nicaragua stands out like a luminary in the heavens as one that has been a success—in spite of misunderstanding at our national Capital that at times threatened to kill it.

Revolution and an Empty Treasury

In 1893 General José Santos Zelaya came into power in Nicaragua as the result of a successful revolution. From that time forward, for sixteen years, he ruled Nicaragua as his own interests and caprice dictated. He robbed and murdered. He desecrated homes. He rode roughshod over foreign interests, so that it was impossible to have any dealings with him.

In 1909 a revolution against Zelaya broke out in Bluefields. Early in the campaign two Americans, Groce and Cannon, who were fighting on the revolutionary side, were captured by Zelaya and brutally put to death. This incident, of no great impor-

tance in itself, seems to have determined President Taft to get rid of Zelaya. So when the latter's troops approached Bluefields, which is in fact a center of foreign interests along the Atlantic coast, the United States Government forbade them to bombard the town. Consequently, Zelaya was unable to take Bluefields. This proved to be the decisive factor of the war, which shortly afterward resulted in victory for the revolutionary party. Zelaya himself got safely away to Europe, there to enjoy the loot which sixteen years of unbridled rule in Nicaragua had given him.

The American Collector of Customs

The situation which the new government faced was chaotic in the extreme. The Nicaraguan *peso* had declined from a normal value of fifty cents to ten, and two years later fell to five. The treasury was empty, and it became necessary to default on the country's bonds. In this situation the Nicaraguan Government in 1910 appealed to the United States for help. The State Department responded with much friendly assistance, and was the means of arranging for a loan from two New York banking houses, Brown Brothers & Company and J. and W. Seligman & Company. A treaty negotiated between the United States and Nicaragua provided for the appointment of a Collector General of Customs approved by the President of the United States. This was intended to restore a sound financial condition in Nicaragua. The treaty failed in the United States Senate, but through the aid of the New York bankers, under the auspices of the State Department, the main idea was nevertheless carried out.

Ten years have passed since the American intervention got fairly under way in 1912. If an attempt had been made to pick the very worst time in the history of Nicaragua for the experiment, this decade might well have been chosen. Right at the outset, in 1912, there was a serious revolution, headed by General Mena, the powerful Minister of War. The State Department had gone too far to draw back now, and, at the request of the Nicaraguan Government, sent in a body of Marines to protect foreign interests. In effect this caused the failure of the revolution. It was clear that another would break out as soon as the Marines were withdrawn; so the government of Nicaragua asked that they should remain at Managua. This they did, and at the express and re-

iterated wish of the Nicaraguan authorities they have remained ever since.

The treaty of 1911 had provided for a loan from the New York bankers of \$15,000,000, most of which was intended to be applied in refunding the national debt, and in settlement of claims. The establishment of a National Bank, stabilization of the currency, and building of a railroad to the Atlantic coast were other features. Security for payments of interest and for the eventual repayment of the loan was based primarily on the Customs Revenues, and the control of the National Bank by the New York bankers. At the suggestion of the State Department, Colonel Clifford D. Ham was appointed Collector General of Customs. Colonel Ham came to this post after a long experience in the Philippines, through which he learned not only how to handle customs revenues but also—and this was more important—how to deal with a Spanish civilization. He took charge in December, 1911, and is still in office.

When Nicaragua Faced Bankruptcy

But, as already stated, the United States Senate failed to ratify the treaty, and the loan was not made. The result to Nicaragua is summed up by Colonel Ham as follows:

The failure of the treaty delayed the reforms for seven years, all except the new currency system, and the railroad has not been built yet. If the Senate had ratified the treaty, the Revolution of 1912 might not have happened (it cost Nicaragua a couple of millions more), the creditors and claimants could have gotten better terms, and a settlement in 1912 and 1913 instead of 1917-1918, and the railroad would probably have been built before now. The financial difficulties of the years 1913 to 1917 would probably not have happened. The Senate cost Nicaragua dearly.

This was a grave setback, but the Nicaraguan Government went ahead as best it could. The State Department persuaded the New York bankers to lend \$1,500,000 for the establishment of a National Bank and stabilization of Nicaraguan currency on a par with the dollar. A Mixed Claims Commission was established, two of whose

three members were appointed by the American Secretary of State. This body worked from 1911 to 1914, passing on nearly 8,000 claims, reducing them in amount from \$13,800,000 to \$1,800,000. Only the smallest claims could be paid at the time, however, owing to lack of funds.

In 1912 occurred the already-mentioned Mena revolution, adding to the financial embarrassments of the country. In 1913 England, France, Italy, and especially Germany, made strong representations both at Managua and Washington in favor of debts owing their nationals. By this time the Wilson Administration had



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HON. CLIFFORD D. HAM, OF IOWA

(Who has been Collector-General of Customs for the Republic of Nicaragua since 1911. Previously Colonel Ham had performed similar work in the Philippines, after service in the Spanish-American War)

come into power, and it began to see matters in a different light from that of prelection days. European diplomats were informed that the United States would take a friendly interest in their claims. The Great War, breaking out in 1914, postponed political pressure, but nearly ruined Nicaragua financially. That country had depended primarily for its revenues on its shipments of coffee to Europe. This source of income now failed. Only the consent of the American and English creditors to a suspension of interest and sinking-fund payments on their bonds carried the government over the next three years. Even so, teachers and many other employees of the government—always excepting the army and the police!—had to go for months at a time without pay.

Various expedients were tried to relieve the situation. One of these was the sale of 51 per cent. of the stock of the Pacific Railroad to the bankers for \$1,000,000. Of far greater importance was the Chamorro-Bryan Treaty of August 5, 1914, negotiated before the outbreak of the Great War, but not ratified until considerably later. The principal feature of this treaty was the purchase by the United States from Nicaragua, for \$3,000,000, of an option for the United States to build a canal through Nicaragua. An attempt by the German Government to acquire rights along the canal route was one of the hastening factors in the negotiation of this treaty. But the Senate held up the treaty until June, 1916, Congress failed to appropriate funds until some months later, and the money was not available until July, 1917.

How the Problem Was Solved

In 1916 and early in 1917 matters were at their worst. Everybody was dissatisfied. The American intervention up to this point seemed decidedly to have been a failure. It was just at this time that a brilliant scheme was devised which saved the situation and put Nicaragua on her feet. Many persons contributed to the result, but there were several who seem entitled to special credit. It was the Collector General, Colonel Ham, who suggested the basic idea of the now famous Plan of 1917—that of a financial reorganization and readjustment of the national debt. But General Emiliano Chamorro (President from 1917 to 1921 and now Minister to Washington), Martin Benard (Minister of Finance), and the officers of the bank had much to do with working out the details. The project was so unusual that on one occasion General Chamorro pointed to a chandelier and said he would hang himself from it before he would accept the Plan. Further study convinced him of its merit, and events have amply proved his latter judgment right.

The Plan of 1917 left the bonded foreign debt intact, but provided for the payment of all floating foreign and internal debts and claims in a reduced amount of cash and domestic bonds. The future finances of the country were taken into account through the adoption of a budget system and the establishment of a certain measure of control by the United States Government. The last-named object was attained through the founding of a High Commission,

one of whose members was to be a Nicaraguan and the other an American, appointed by the American Secretary of State. In case of disagreement, a decision was to be rendered by a third member, also an American. The budget stipulated a certain sum that the government could spend each month. Beyond that amount its expenditures must, in the main, receive the approval of the High Commission. Other features of the Plan provided funds for payments of interest and the amortization of the domestic debt, which was to be administered by the High Commission. The whole arrangement was approved not only by Nicaragua but also by the bankers and the State Department of the United States.

Excellent results were obtained almost at once. The creditors accepted the Plan, and have since received interest regularly on their bonds. These securities, known as Guaranteed Customs Bonds (since they are secured in part by a percentage of the customs revenues) are now in such favor that they are being sought abroad for investment; in 1918 considerably over half were owned in Nicaragua, while now two-thirds are held by foreigners. The arrears in interest on the foreign bonded debt have been paid, and the principal reduced in amount. And the credit of the country was so greatly improved that it was able to negotiate a fresh loan in 1920, with the idea of repurchasing the 51 per cent. of stock outstanding of the Pacific Railroad and of constructing another road to the Atlantic coast. The first of these objects has since been accomplished, though the management of the line is still retained by the bankers as part of their security.

Some Complaints that Persist

Nicaragua is not yet wholly "out of the woods" economically, but this is chargeable rather to bad luck than to any fault in the system. She could not escape the world depression, though its effects were not felt until 1921. In that year, also, heavy rains at the wrong time ruined the coffee crop, resulting in an assured continuance of the depression through 1922. So there is still some dissatisfaction. People are prone to interpret the financial system in terms of their personal good or bad fortune. In particular one hears a perfect din of complaints against "the Bank." The writer made an attempt to inquire into the precise charges, but, without hearing that institution's side

of the case, has concluded from the arguments of its enemies that it is deserving of praise rather than censure. The complaints—made with fervent sincerity!—are in no respect different from those of cheap-money advocates in all eras of depression everywhere. Many of the charges do not merit serious consideration—such, for example, as that of an iniquitous plot to lower the price of coffee.

Indeed, the only concrete thing alleged is that the bank would not lend money to those who needed it, and, through its monopoly of the right of issue, would not put more money into circulation; hence the denunciations on the part of those who could have saved themselves through the medium of a loan—which, incidentally, they could not get, either, from the English banks.

The country most assuredly is better off as a result of the bank's sound policy, even if individuals lost. The man in the street will, of course, never recognize this. Thus "the Bank" in Nicaragua is the same sort of opprobrious epithet as is "Wall Street" in the United States. Many excellent men there, as here, join in the clamor, and few rise to defend what is, after all, one of the most beneficent institutions in the country.

What Nicaragua Has Gained Through American Intervention

At this point it may be well to sum up some of the economic advantages thus far derived from the American intervention. Nicaragua has been made solvent, and its money circulates at par with the dollar. How many other countries of the world can say as much? In 1920 and 1921 the merchants of Nicaragua, almost alone in Hispanic America, did not reject American goods for which they had previously contracted. There were, indeed, some readjustments on goods delivered after prices had fallen from those of the original contract, but the amounts involved were small, and there were no disputes over these matters. In the light of the thousands of tons left to rot and ruin on the docks of Cuba, Colombia, Argentina, and almost everywhere else, this is a remarkable record. Circulation, in terms of gold, has increased from an average of about \$1,300,000 prior to 1909 to over \$2,000,000 now. The national debt has been reduced from \$32,000,000 in 1911 to less than \$10,000,000 at the present time. And Nicaragua, though desperately poor for the moment, is in

a position to profit by the first revival of prosperity. Indeed, few countries of the world are in a fundamentally more sound financial condition than is Nicaragua.

Coffee, bananas and sugar comprise more than half of the exports of Nicaragua, while cotton goods, flour, iron and steel manufactures, petroleum, and chemicals constitute nearly half of the imports. In 1921 the country bought goods abroad to the value of \$5,310,000 and sold abroad to the extent of \$8,071,000. Trade with the United States, both imports and exports, accounted for \$10,000,000 out of a total foreign commerce valued at \$13,381,000 in 1921. Nicaragua's foreign trade, it should be noted, was from two to three times as large in 1920 as in any year prior to the coming of the American financial advisers.

Politics and Parties

It is possible that the political advantages of the American intervention even outweigh the economic. To make this clear, a brief review of events is necessary. At the outset the Liberal party, which has been out of power since the overthrow of Zelaya, was opposed to every phase of the "Americanism." They made the fullest use of their opportunity to cry out patriotism against the foreigner.

With the vocal advantage of the party out of power, the Liberals have persuaded both themselves and several foreign writers that they have an overwhelming majority in Nicaragua, and are only prevented from acquiring control of the government because of the support given the Conservative party by the United States. As to the first of these assertions, the writer is convinced that one would be very rash to claim a majority for either party. The sanitary census of the admittedly unbiased International Health Board, to say nothing of the national census of 1920, is a strong argument in favor of the Conservative contention as to distribution of the population, and can be set off against the ardent Liberal insistence in their own superior numbers. The matter has never been put to a real test, however, for it is true that the United States has virtually backed the Conservative party; indeed, our Government has even been obliged to take an interest in the selection of a President, and its wish, if clearly expressed, would be determining. To be sure, there have been a number of elections in the past ten years in which the Conservatives have uniformly tri-

umphed. But there are very few countries in Hispanic America where the party in power ever loses an election!

Why has it been necessary for the United States to favor one party as against another? Given the Liberal attitude it was impossible to do anything else. Otherwise there would have been a revival of the familiar cycle: revolution—repudiation—European demands—and a fresh intervention, or else an abandonment of the Monroe Doctrine. In this connection the fact that the State Department influenced the New York bankers in the making of their financial arrangements with Nicaragua cannot be overlooked. The situation has not been a pleasant one for our Government to face, and there have been complaints in Nicaragua because the State Department has at times endeavored to dodge its responsibility. Thus, in the presidential election of 1920, the State Department announced that it would not favor any single candidate over another, and this has brought about something very like a split in the Conservative party. Nevertheless, a long-continued intervention in the face of a hostile majority, or near-majority, could hardly be viewed with favor in the United States. It is therefore important to see whether there has been any change in the situation which gives promise of freeing us from our obligations in Nicaragua.

The Liberal, or Opposition, Party

Happily, it is true that the attitude of the Liberals—certainly that of their leaders—has changed. There are still some bitterly "anti-Americanist" Liberals against the intervention on every score. There are still occasional attacks not only against "the Bank" but also against the Marines. Several months ago there was a shooting affray between some of the Marines and the police of Managua. Thereupon, the Liberal press clamored to high Heaven for the removal of this foreign host—incidentally, one hundred and thirty men. Then came rumors that Washington was considering whether the Marines should not be taken away permanently—and, as if touched by a magic wand, the Liberal papers relapsed into silence.

The truth is that the Liberals are now more interventionist than the Conservatives—at least, temporarily. In conversation they will tell you that they accept American management of the customs revenues; indeed, the efficiency and honesty of the cus-

toms service is pretty well recognized. In like manner they accept the High Commission. They approve of the presence of the Marines as an assurance of peace. They ask for further intervention in the form of American control of elections. In fact, the only thing they clamor against is the Bank. The writer is inclined to believe that a year of prosperity in 1923, which now seems probable, will somewhat soften the asperity of their opposition to the Bank. In the light of the financial achievements of the past ten years, the Bank would seem to be a poor political issue. The Conservatives might meet it by claiming that financial success was due to them—perhaps despite the Bank. The real complaint of the Liberals is that they do not have a fair chance, at present, to win an election. This they are not likely to get until they drop their cry of "anti-Americanism." Meanwhile, a first step has been taken looking toward the solution of the election problem. An expert in political science, Dr. H. W. Dodds of New York, has recently spent several months in Nicaragua working out a just election law and has submitted his findings to the government.

One may well wonder why there has been such a change in Liberal opinion. Two factors are primarily responsible: the economic benefit that has come to Nicaragua, despite disheartening handicaps, though there are many who still fly in the face of facts and deny any economic improvement; and the growing confidence in the friendliness of the United States, convincing all elements in Nicaragua that no American conquest is in contemplation. This much is surely a great achievement! The United States obtains the purely negative advantage of protection of her citizens, and safeguarding of the Monroe Doctrine. Beyond this it is plainly to her interests not to go. Not only is a realization of this dawning in Nicaragua, but there is also a glimmer of appreciation of that fact in the other Central American countries. Guatemala, Salvador and Costa Rica are just now negotiating loans that must involve a similar penetration of American interest, if the loans go through. Eventually, it is to be hoped, it will be possible to bring about an entire withdrawal of American control without risk of revolution and a total upsetting of political and financial stability. The day that the severing of the American connection shall come depends upon the Nicaraguans themselves.

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