CUBA

PROPOSALS BY GENERAL CROWDER FOR ADMINISTRATIVE AND FISCAL REFORM AND THEIR ACCEPTANCE BY PRESIDENT ZAYAS—MEASURES PROVIDING FOR AN EXTERNAL LOAN OF $50,000,000 [1]

837.51/674 : Telegram

The Representative on Special Mission in Cuba (Crowder) to the Secretary of State

HABANA, *January 3, 1922—9 p.m.*

[Received January 4—3 : 15 a.m.]

1. References to my urgent number 135 November 16th, 6 p.m.[2] particularly paragraph 3 : also urgent number 139 [3] and urgent number 143.[4] Have just finished prolonged conference President Zayas on budgetary decree which he will issue tomorrow making further reductions of $6,155,000 in his readjusted annual budget promulgated on October 29th last. This will bring the total expenditures for the current fiscal year down to about [$]63,000,000.

A further decree will be issued at an early date making further reductions in the Department of Public Instruction and in the Department of Agriculture, Commerce and Labor which, however, will not exceed $50,000.

President Zayas yesterday obtained the promise of leaders in Congress which he thinks dependable that reductions in the fixed budget aggregating about $1,670,000 in the legislative and judicial branches will be authorized rather promptly when Congress reassembles January 16th.

In view of the substantial reductions made, further reductions which seem assured, I now withdraw my objection to the temporary loan of $5,000,000. Zayas informs me that he will immediately renew his application for that advance loan.

Unless advised to the contrary I will leave for the United States Thursday morning via Key West arriving in Washington about noon Saturday.

CROWDER

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[1] For previous correspondence concerning the loan, see *Foreign Relations*, 1921, vol. I, pp. 697 ff.

[2] *Ibid.*, p. 757.

[3] Not printed.

[4] *Foreign Relations*, 1921, vol. I, p. 764.

837.51/680

The Secretary of State to the Cuban Minister (Céspedes)

WASHINGTON, *January 14, 1922.*

SIR: I have the honor to acknowledge the receipt of your note of November 10, 1921,[5] in which you advise me that in accordance with the program which the Government of Cuba has formulated for the solution of the economic difficulties with which it is at present confronted, and of which this Government is informed, the President of Cuba has obtained from the National Congress the necessary authority to negotiate a $5,000,000 loan. You state that this loan will be secured by bonds of the issue of 1917 and the stock pledged as security of the National Bank, aggregating $7,000,000 par value, securities which are now held in the General Treasury of the Republic. I am likewise advised that the proceeds of this proposed loan would be applied to pending liabilities of the Cuban Government such as postal money orders, interest and amortization of the public debt of the Republic of Cuba, and the payment, so far as may be possible, of the outstanding cheques of the Cuban Government; likewise, that the security for such loan, as above listed, would not be disposed of, but would merely be pledged as collateral until a foreign loan of $50,000,000 might be obtained by the Cuban Government for the payment of its floating debt and other liabilities, the present loan of $5,000,000 to be repaid from this larger loan of $50,000,000.

You state that the Cuban Government proposes to negotiate this larger loan of $50,000,000, with the authorization of the Cuban Congress, as soon as the national taxes and customs duties now in force are revised in accordance with the financial program which the Cuban Government is carrying out at this time. In conclusion, you inform me that in order to complete the present negotiations and secure the desired $5,000,000 loan, the Government of Cuba wishes to know whether, under the provisions of Article II of the Treaty of May 22, 1903,[6] between the United States and Cuba, the Government of the United States has any objection to raise to the contraction [*sic*] by the Cuban Government of this loan of $5,000,000.

In reply, I take pleasure in advising you that the Government of the United States has no objection to make to the obtaining by the Cuban Government of this loan of $5,000,000 for the purposes set forth and with the security stipulated in your note under acknowledgment, and with the understanding that the contracting of this loan forms the first feature of the program of financial reorganization described by you in your note of November 10th. I am gratified to note that one of the essential steps in this financial program was

[5] *Ibid.*, p. 757.

[6] For text of treaty, see *ibid.*, 1904, p. 243.

taken by President Zayas in his decree published on January 10th, by which substantial reductions were made in the budget for the current fiscal year. I feel confident that the Cuban Government will appreciate the fact that the sanctioning by the Government of the United States of this temporary loan of $5,000,000 need not necessarily entail approval of the permanent foreign loan of $50,000,000 suggested by the Cuban Government. Any decision as to the advisability of the flotation of this larger loan by the Cuban Government must necessarily be postponed by the Government of the United States, in view of its obligations under Article II of the Treaty of May 22, 1903, until such time as this Government is advised by the Government of Cuba that the revision of its internal revenues and tariff schedules, now being undertaken, has been completed and that the total revenue of the Republic obtained as the result of such revision will be adequate to meet the service of this proposed addition to the public debt of the Republic of Cuba.

Accept [etc.] CHARLES E. HUGHES

837.51/696a

The Secretary of State to the Representative on Special Mission in Cuba (Crowder), temporarily in the United States

WASHINGTON, *January 21, 1922.*

SIR: Immediately upon your return to Havana, the Department desires you to hand the following note to the President of Cuba, and to advise him of the importance which the Government of the United States attaches to the declarations contained therein:

"The return of General Crowder to Cuba as Special Representative of the President of the United States near the Cuban Government, to continue his mission of the past twelve months, appears to offer to this Government an appropriate occasion to refer somewhat more clearly and concretely than heretofore to this Government's understanding of its rights and duties respecting the Republic of Cuba by virtue of the permanent Treaty of 1903.

"This Government has readily appreciated the nature of the difficulties with which the present Government of Cuba was confronted when its President took office on May 20, 1921. The Island was then passing through an economic and industrial crisis, the full extent of which may perhaps not even now be fully comprehended. The industry and commerce of Cuba were gravely affected and the depression which existed in all branches of business was extreme. Moreover, the National Government, itself, was faced with a very large deficit in the Public Treasury, due to the fact that the shrinkage in its ordinary revenues made it impossible to meet, from normal sources, the increased expenditures contemplated in the National Budget. The Government of Cuba, therefore, was threatened with bankruptcy unless measures were taken with the utmost expedition

to increase such ordinary revenues by legitimate measures and to bring, by a policy of the most rigid economy, such expenditures within the national income, leaving at the same time a surplus sufficient to provide for any loan which the Cuban Government might be compelled to obtain to meet its immediate necessities.

" This Government realized that the course above indicated was the only one which would enable the Cuban Government to avert threatened dangers, and because of its peculiarly close and special relationship to the Cuban Government, endeavored at all times to advise and assist it in every possible way through the Special Representative of the President of the United States. It is, therefore, a cause of profound gratification to the Government of the United States that so many of the problems which have lately confronted the Cuban Government have either been solved, or are even now in process of solution, and that so many signs point to a steady improvement not only in its finances, but in general economic conditions throughout the Island. While this Government has, as above indicated, been at all times eager and desirous to afford to the Government of Cuba whatever assistance might profitably be extended, it has seemed at times, during the past few months, as if the Cuban Government could have more effectively availed itself of such assistance had that Government clearly comprehended that such aid and counsel was offered not only through friendly interest, but also by virtue of the rights vested in this Government by Article II of the permanent Treaty of 1903, to whose provisions it now seems appropriate to call the attention of the Cuban Government, namely:

'That said Government (of Cuba) shall not assume or contract any public debt, to pay the interest upon which, and to make reasonable sinking fund provision for the ultimate discharge of which, the ordinary revenues of the Island, after defraying the current expenses of the Government, shall be inadequate.'

The obligations here assumed are, it will be seen, no less imperative than those imposed by Article III, viz.:

'The Government of Cuba consents that the United States may exercise the right to intervene for the preservation of Cuban independence, the maintenance of a Government adequate for the protection of life, property, and individual liberty, and for discharging the obligations with respect to Cuba imposed by the Treaty of Paris on the United States, now to be assumed and undertaken by the Government of Cuba.'

especially as the rights and interests of third parties may be even more vitally concerned.

" Since ' any public debt ' might call for interest and sinking fund for which the ' ordinary revenues ' would be ' inadequate ', it is clearly necessary that the United States should inform itself in advance of the contraction of any public debt whether the conditions required both by the aforesaid permanent Treaty and the Constitution of Cuba, are complied with. The Government of the United States is entitled to know, in the case of any public debt contemplated by the Government of Cuba, what ' the ordinary revenues ' are, from what sources they are derived, and what said sources have produced and may be expected to produce.

" Even more important is it for this Government to know what assurances the Government of Cuba offers for the maintenance of its

'ordinary revenues' and of their relation to its expenditures. For creditors must rely upon the complete performance of such assurances, quite as naturally and necessarily as upon the advance information above mentioned. In case it should appear that, subsequent to the contraction of 'any public debt' the expenditures of the Cuban Government have so increased that the 'ordinary revenues' have become 'inadequate' to provide the required interest and sinking fund, it would be necessary that the Cuban Government should at once secure either an increase in its revenues or a decrease in its expenditures in order that the required conditions should be fully met.

"At the present the service of the public debt appears to be in arrears for the period of about six months and to the extent of approximately two millions of dollars; current obligations, including the pay of army, navy, police and civil employees of all branches of the Government are unpaid, as are also accounts for transporting the mails, for supplies to public institutions like hospitals, and for the construction of needed public works. Even the Government's Treasury checks issued in partial discharge of such obligations are held by the banks awaiting payment. Obviously, such a condition of affairs infringes Article II of the Treaty and causes this Government, therefore, to consider very seriously what its duties may be in this contingency.

"The Government of Cuba will doubtless understand that it is in the light of the clear provisions of the Treaty and the duties it imposes that the Government of the United States is maintaining the Special Mission near the Cuban Government, and it feels it desirable upon this occasion to emphasize in this manner its belief that in order that the said Mission may be enabled to act effectively in its effort to render profitable aid to the Cuban Government, it should have free and full access to any and all sources of information which it may require, before the Government of the United States itself can either take intelligent action regarding whatever loan may be proposed, or determine what measures may be necessary for the appropriate protection of those who have extended credit to the Government of Cuba. To this end, it is essential that said Mission should at times offer suggestions and recommendations regarding needed fiscal measures and appropriate legislation and make such inspection of actual governmental operations as may in its judgment be required. And it may be assumed that such functions are understood by and acceptable to the Government of Cuba in view of its President's announced intention of May 12, 1921,[7] to the Special Representative of the President of the United States given out as a public statement and widely published in the press of Cuba, 'to utilize the valuable and disinterested services he is capable of rendering in resolving many difficult problems which confront us', by reason of 'his great knowledge of our affairs, his clear intelligence and his good intentions.'

"The Government of the United States believes that the Cuban Government will readily appreciate the friendly spirit in which this communication is made. This Government makes no demands upon Cuba, and only asks that its people may ever continue along the paths of liberty and progress and maintain steadfastly their national inde-

[7] Not printed; see telegram from the Secretary of State, no. 121, June 17, 1921, *Foreign Relations*, 1921, vol. I, p. 695.

pendence. It has been the firm purpose of this Government throughout its relations with the Republic of Cuba to foster and promote in every way possible the welfare and prosperity of the Cuban people and to take at all times whatever action might seem to it necessary to insure their independence. In order that both Governments may accomplish these ends in a spirit of the closest and friendliest cooperation, the Government of the United States feels certain that the Government of Cuba will coincide in its opinion that the first three articles of the permanent Treaty of 1903 are equally binding, and that this Government is entitled to assure itself that the provisions of both Article II and Article III are strictly complied with."

I have [etc.] CHARLES E. HUGHES

837.51/711

The Representative on Special Mission in Cuba (Crowder) to the Secretary of State

HABANA, *February 24, 1922.*
[Received February 28.]

MY DEAR MR. SECRETARY: In due course I presented to President Zayas your note dated February 9, 1922,[8] redefining the relations of the two Governments under the Permanent Treaty, and emphasizing the duties of my Special Mission to Cuba under Article 2 of the said Treaty.

On the occasion of my last visit to the President, February 22nd, he read to me the tentative draft of his reply. I ventured to express regret that he had thought it necessary to dissent in some measure from the construction of Article 2 set forth in the American note. I stated to him that I had had some discussion with the Department respecting the note, knew in greater detail than was expressed therein the views entertained by the Department, and asked to submit an amplified memorandum on the question which he had raised.

He then handed me his tentative draft of reply and requested me to submit my views. I succeeded in getting a translation of the same last night, copy attached marked "A", and sent him this morning the amplifying memorandum, copy attached marked "B", all of which is submitted for the better understanding of the Department.

The personal letter of President Harding has been presented.[9] I will report later Zayas' attitude on both the note and letter.[10]

Very respectfully,

E. H. CROWDER

[8] See instruction to General Crowder, Jan. 21, *supra*.
[9] Not found in Department files.
[10] On March 13 General Crowder informed the Department that President Zayas had promised to submit to him the final draft before sending it, in which event he hoped to have the opportunity of advising the Department further. No later reference appears in the files.

[Enclosure 1—Translation]

Draft of President Zayas' Reply to the Secretary of State

HABANA, *February 21, 1922.*

On the 18th instant I had the honor to receive through General E. H. Crowder, Special Representative of the President of the United States of America, your Excellency's interesting communication dated the 9th of the same month.

I am pleased by your Excellency's appreciation of the improvement in the economic condition of the Republic of Cuba, which had come to be quite difficult, on account of abnormal and extraordinary circumstances productive of existing analogous conditions in other countries. Your Government, knowing perfectly the circumstances under which I occupied the Presidency, can judge the intensity of the efforts made to modify them, as has already been accomplished in great part. It is fitting to recall at this point that phrase of profound aptness: "To judge of the present, one should study the past."

Not for one moment have I doubted the friendly feelings of your Government, and very especially those of your Excellency, toward the people of Cuba and its independence and sovereignty; and I should fall short of the truth if I did not recognize in the acts of the Honorable President Harding, since he presides over that Republic, a sincere desire to aid Cuba effectively in its difficulties, which fortunately have now almost disappeared. Those feelings and this desire have been constantly demonstrated by the conduct of the distinguished Special Representative of President Harding, my esteemed friend General Crowder.

I am, and have been, in complete accord in recognizing the necessity for reducing the national expenditures, and increasing the receipts, under the Budget; and, with the expedition permitted by the observance of constitutional and legal procedure, the advisability of maintaining efficiency in the public services, and respect for created interests and at times for public opinion, I have succeeded in reducing to less than 60 millions of dollars the expenditures arising from the Budget, Special Laws and Presidential Decrees, which amounted to more than 130 millions annually; and I shall not delay in securing an increase in receipts through new taxes and the revision of existing ones, in addition to the increase which is already being produced in the ordinary revenues of the National Treasury through the improvement of economic conditions.

Your Excellency suggests that during the past months it has at times seemed that the Government of Cuba would have been able to obtain a more effective help from the Government of the United

States, if it had understood clearly that such aid was offered, not only through friendly interest, but also by virtue of the rights with which Art. II of the Permanent Treaty has invested the Government of the United States. It is of concern to me to place on record that I have never doubted the friendly interest, of extreme cordiality, of your Government; nor do I fail to recognize the rights granted to it by the Permanent Treaty of 1903; and I have not failed to see in the attitude of your Government a spirit of friendship in exercising said rights in some form.

In regard to these rights, I agree that Cuba, on obligating itself under Art. II of the Permanent Treaty with the United States not to assume or contract any public debt unless relying upon adequate ordinary revenues for the payment of interest and amortization, after covering its current expenses, recognizes that the Government of the United States is authorized to judge whether such condition is filled; and this authority implies that of requesting and examining data on which to base judgment.

I agree also that in accordance with Art. III, the Government of the United States is empowered to intervene in Cuban affairs in the following cases:—(A) When independence is endangered, to preserve it; (B) When an Administration which protects life, property and personal liberty is attacked, to maintain it; (C) When Cuba does not fulfill the obligations imposed upon the United States by the Treaty of Paris, and assumed by the Government of Cuba, to enforce their fulfillment.

Although from these articles of the Permanent Treaty there is not derived the right of the United States to inform itself regarding the maintaining of the ordinary revenues, and their relation to the expenditures, it is possible to admit that for the purpose of assuming or contracting a new public debt, it is essential to know and to study this point.

I differ somewhat from your Excellency's opinion, when your Excellency states that a situation infringing Art. II of the Permanent Treaty is created by the fact that the Treasury of Cuba owes sums under various heads to employees, private individuals and organizations. What this article prohibits is the assuming or contracting of a public debt without fulfilling certain requisites, and as long as the Government does not try to convert into public debt the indebtedness to certain private entities, or does not try to contract a loan for payment thereof, the occasion does not exist for invoking Art. II of the aforesaid Treaty.

Furthermore, the item of indebtedness through lack of prompt payment of the amortization and interest charges of foreign public debts has now disappeared, for the Government of Cuba (and it is

the only one which has so done) has paid to that of the United States the instalment due for amortization and interest charges on the debt contracted as a result of the war, and the arrears on the other exterior debts, and the amount of future payments for a three months' period is on deposit.

Of the interior public debts, it is indeed true that about two millions of dollars are owing; but payment thereof will begin within fifteen days.

On May 12, 1921, I stated that I was pleased to utilize the valuable and disinterested services which General E. H. Crowder was capable of rendering in the resolution of many difficult problems which were presented, on account of his great knowledge of our affairs, his intelligence and his upright motives. I continue of the same manner of thinking, inasmuch as, in fact, I have corroborated what I then said, having received from General Crowder very useful suggestions, and having observed at every moment his solicitous desire to aid the Government of Cuba in resolving favorably its problems. Accordingly, I have endeavored to have him furnished with all the data he has desired, from all sources of information, and have listened with the attention they deserve, to his suggestions and recommendations, always prudent and concordant with his sincere purpose of cooperating for the success of my administration.

From the above it follows that I have held no doubt as to the authority which the Permanent Treaty grants to the Government of the United States, nor have I ever doubted the excellent purposes of that Government respecting Cuba, as regards her independence, sovereignty, and moral and material interest; and it is by these sentiments that I have always seen General Crowder, Special Representative of President Harding, inspired; and I have the highest opinion of said General, as I have previously stated; that I have furnished, and shall continue to furnish to said Representative of that Government information and data on everything he may consider expedient or necessary for the fulfillment of his mission, within the authority granted by the Permanent Treaty.

Your Excellency may be fully assured of the sentiment of affectionate cordiality of the Cuban people toward the American people, which sentiment I endeavor to make even more profound; and be assured as well that my Government exerts itself to carry out its important functions, and is grateful for the kind cooperation lent it by the Government of the United States, which it considers a very capital factor for the attainment of its purposes.

I repeat to your Excellency my sincere consideration,

[Enclosure 2—Memorandum]

The Representative on Special Mission in Cuba (Crowder) to President Zayas

HABANA, *February 24, 1922.*

I. Under date of February 9th, 1922, the Honorable Secretary of State of the United States addressed to Your Excellency a note in which he recounted what was not in dispute at that time, namely,

(*a*) That the service of the public debt appears to be in arrears for the period of about six months;
(*b*) that current obligations, including the pay of the Army, Navy, Police and several employees of all branches of the Government were unpaid;
(*c*) that there were likewise in arrears payments of accounts for transporting the mails, for supplies of public institutions like hospitals, and for the contraction [*sic*] of public works; and
(*d*) that even the Government's Treasury checks issued in partial discharge of such obligations as are referred to in item (*c*) were held by the banks awaiting payment;

and announced the view that " such a condition of affairs infringes Article II of the Treaty."

II. In Your Excellency's proposed rejoinder of which I have been furnished a copy, it is stated to be your opinion that Article II of the Permanent Treaty is not infringed by the fact that " the Treasury of Cuba owes sums under various heads to employees, private individuals and organizations." As the position of my Government was that all the items, (*a*) to (*d*) *supra*, collectively showed infringement of said Article II of the Permanent Treaty, it is very obvious that Your Excellency's statement that Article II of the Permanent Treaty is not infringed by the fact alone that the Treasury of Cuba owes sums under various heads to employees, private individuals and organizations, is not responsive to the contention of my Government, and for that reason ought to be omitted.

III. I might well stop at this point with the observation that what I have said disposes of and answers fully the question at issue in the form it was presented by my Government. But as Your Excellency's proposed rejoinder seems to deny the right of the Government of the United States to consider default in meeting current obligations of Government in determining whether said Article II of the Permanent Treaty has been infringed, I beg to invite attention as follows:

IV. Said Article II provides as follows:

" That said Government shall not assume or contract any public debt to pay the interest upon which, and to make reasonable sinking-fund provision for the ultimate discharge of which the ordinary revenues of the Island [of Cuba], after defraying the current expenses of the Government, shall be inadequate."

Having regard to the history of the Permanent Treaty, as well as to the strict letter of Article II, the purpose of said article is very plain. Briefly, it is to place the solvency of the new Republic of Cuba under special guarantees. To this end, the Republic of Cuba stipulated in said article with the Government of the United States that it would not assume or contract any public debt unless the " ordinary " revenues of the Island of Cuba were sufficient,

(*a*) to pay interest and make reasonable sinking-fund provision for the ultimate discharge of the public debt, and
(*b*) to defray the current expenses of the Government.

On the date of the American Note, namely, February 9, 1922, it is beyond dispute; First, that the service of the public debt was largely in arrears and would have continued in arrears, had not this service been met, not out of the ordinary revenues as provided in said Article II, but out of an extraordinary source of Revenue, namely, the proceeds of a new loan; Second, that current expenses represented by sums under various heads owing to employees, individuals and organizations were largely in arrears for varying periods; and, Third, that the Treasury Statement rendered by the Honorable Secretary of the Treasury for Cuba on June 20, 1921, showed that the accumulated default in payment of current obligations on May 20th of that year amounted to $36,000,000 definitely ascertained, and an additional $10,000,000 estimated but not accurately ascertained.

V. In other words, there was failure on the part of Cuba to comply with both stipulations (*a*) and (*b*) of the immediately preceding paragraph. The special guarantees provided by said Article II of the Permanent Treaty had failed. A plainer case of infringement of said Article II could scarcely be presented.

Very respectfully,

E. H. CROWDER

837.51/715

The Representative on Special Mission in Cuba (Crowder) to the Secretary of State

HABANA, *February 25, 1922.*
[Received February 28.]

DEAR MR. SECRETARY: When Mr. Speyer [11] was here he suggested to President Zayas that, in his judgment, an indispensable prerequisite to a new loan would be an examination and statement of the national finances and the inauguration of a proper system of public accounting which would keep the world advised as to the financial conditions of Cuba. He suggested that this could best be accom-

[11] James Speyer, senior member of Speyer & Co., New York City.

plished by a specially constituted Commission and that the two creditor banks of New York, namely, Speyer & Company and Morgan,[12] should be represented thereon. He further suggested that a representative from a bank from the west, preferably Chicago, should be a member of said Commission. Mr. Speyer expressed to President Zayas his willingness to serve upon such a Commission without compensation, and that he had no doubt that Morgan's representative would adopt precisely the same attitude as would also the representative of the Chicago bank. He further stated to President Zayas that the only expense incident to the work would be incurred in the employment of a force of accountants and remarked that if this expense obstructed the convening of such a Commission, his House would contribute one-half the funds and that he had no doubt that the other banks represented upon the Commission would make proper contributions.

Zayas promised to take the whole matter under consideration, but thus far has done nothing. Personally I do not believe it will ever be possible for me to get, through the aid of such accountants as I can command, a Treasury Statement which will satisfy the financial world that it represents the actual situation of the Treasury, nor do I believe that I shall be able with the forces I can command to establish a proper system of financial accounting. It goes without saying that a statement of the National Treasury signed by representatives of the two creditor banks of New York would command instant and complete confidence and their recommendations as to a proper system of financial accounting ought to be very valuable.

I should like to be informed as promptly as possible whether the Department thinks well of the scheme proposed by Mr. Speyer and whether I shall support that scheme and urge its adoption with the President.

Very respectfully,

E. H. CROWDER

837.51/733 : Telegram

The Representative on Special Mission in Cuba (Crowder) to the Secretary of State

HABANA, *March 15, 1922—11 a.m.*

[Received 2:54 p.m.]

18. Reference to my despatch of February 25th. Request Department's instruction as to whether I am to take up with Mr. Dwight W. Morrow[13] who arrives tomorrow from Panama the scheme for an examination and statement of the national finances and system of public

[12] J. P. Morgan & Co., New York City.
[13] Partner in the firm of J. P. Morgan & Co.

accounting outlined in said despatch. In this connection see my despatch March 9th enclosure number 2.[15] Charges in Congress and in public press persist that the national expenditures are not within the readjusted budget and the Government seems unable produce convincing proof that they are. It is likewise true that no national audit and statement prepared by the Cuban Government will command confidence either here or in the United States.

CROWDER

837.51/733 : Telegram

The Secretary of State to the Representative on Special Mission in Cuba (Crowder)

WASHINGTON, *March 16, 1922—4 p.m.*

16. Your March 15, 11 a. m. Department approves discussion with Mr. Morrow, and, if you deem it advisable, with President Zayas, of scheme for examination and statement of national finances, and for new system of public accounting. It is believed that adequate accounting system should be specifically emphasized, pointing out that such system is necessary to enable both bankers and American Government to give proper consideration to question of permanent loan.

HUGHES

837.51/746

The Representative on Special Mission in Cuba (Crowder) to the Secretary of State

HABANA, *March 25, 1922.*

[Received March 28.]

DEAR MR. SECRETARY: Reference to my cable No. 18, March 15th, 11a.m. After conference with Stettinius[16] and Morrow, I am convinced that the audit and liquidation of the current budget down to February 28th which I had induced Secretary Gelabert to undertake, and which was in progress at the time of Mr. Morrow's arrival, will give us approximate figures as to any deficit in the current fiscal year and that we may, therefore, defer for the present, presentation of a demand for the very exhaustive audit I had in mind, until the time comes for the liquidation of the budget at the end of the current fiscal year.

I transmitted with my despatch of yesterday, March 24, 1922,[15] a copy of President Zayas' most recent Message to Congress. The

[15] Not printed.

[16] Edward R. Stettinius, member of the firm of J. P. Morgan & Co.

Department will notice his arraignment of the Congress for its inaction upon his most important recommendations, and in terms which demonstrate the incapacity of the Legislative Branch to deal with the present industrial and political crisis. The demonstration of such incapacity becomes complete with the consideration of the President's demands upon the Congress for constructive legislation hereto appended marked "A",[17] and the legislation actually enacted by the Congress since the Zayas Administration was inaugurated hereto appended marked "B".[17] Meantime, the public press of Cuba has published many charges of a similar character directed, not alone against Congress, but against all other branches of the Government. The time is rapidly approaching when the Department can proceed with the necessary justification to employ the ultimatum in demanding of the Zayas Administration the accomplishment of certain essential reforms, and I shall at an early date ask the authority of the Department to employ this method. In this connection, see the concluding portion of my despatches of August 22nd[17] and September 7, 1921.[18]

It has been my view, consistently adhered to, that the Zayas Administration should be given its fair chance to deal with the present crisis, assisted at every point by the advice of the United States Government. I think it is fair to try the case against the Administration upon the record that it makes during the current fiscal year. However, I shall not wait for the end of the fiscal year to ask the approval of the Department to make certain demands for specific reforms, to be accomplished within specified time limits, the necessity for which depends in no measure upon fiscal administration. I shall probably begin with the reorganization of the National Lottery in which the Department will recall Zayas promised to effect sweeping reforms within a period of five months. See my cable No. 66 of April 28, 1921.[19] Another important demand, and of considerable urgency should be for action upon the contractual indebtedness of the Government in the Department of Public Works. I am now engaged in formulating these demands which I shall submit at an early date for consideration of the Department with a view to receiving its instruction; and I suggest that in the event the Department approves my recommendation for an ultimatum, the Zayas Administration be given warning through Minister Céspedes of the importance the Department attached to the specific reform recommended and of the firm attitude I have been instructed to take.

Very respectfully,

E. H. CROWDER

[17] Not printed.
[18] *Foreign Relations*, 1921, vol. I, p. 726.
[19] *Ibid.*, p. 692.

837.51/750

The Representative on Special Mission in Cuba (Crowder) to the Secretary of State

HABANA, *April 5, 1922.*
[Received April 10.]

DEAR MR. SECRETARY: In my despatch of March 25th, 1922, paragraph 3, I gave notice of my intention to ask for the Department's approval of certain demands which I thought should be made upon the Zayas Administration. I said that I would probably begin with a demand for reorganization and reform of the National Lottery which I conceived to be of greater moment than any other reform to be made. At the opening of Congress on April 3rd, President Zayas communicated at great length his views and gave great prominence to the enactment of a proper Budget for the ensuing fiscal year. Because of this fact, I find it necessary to depart from the order in which I proposed to submit the Memoranda as announced in my prior despatch of March 25th and commence with the Memorandum upon the Budget hereto appended marked "A".[20]

The Department will take note of the fact that in this attached Memorandum I have spoken severe criticism of the Cuban Congress with special emphasis on the most vulnerable point, namely, their repeated failures to enact the annual budgets. I am convinced that nothing less severe or less insistent will be effective, and I am quite certain that in the form I have submitted it, it will be effective to secure the enactment of an economical Budget and the necessary closely related legislation. If the attached memorandum is approved by the Department and I am notified thereof, I shall send in almost immediately a second memorandum, outlining the duties of the President in framing the Budget and listing the specific reforms and reductions obviously necessary to be made if we are to have a properly balanced Budget—reforms and reductions which have been defeated thus far by considerations of political expediency. In succeeding Memoranda yet to be formulated and submitted to the Department, my effort will be to stimulate both the Executive and Legislative branches into that constructive action necessary to clean up the situation as far as possible between now and June 30th.

This letter goes forward with tomorrow's mail (Thursday), and should reach Washington Saturday afternoon. In due course it will be before the Department on Monday, April 10th. If approved by the Department, I request notice of such approval by telegram, if practicable, in order that I may select the opportune moment for presenting the Memorandum, which I think will be early next week

[20] Not printed.

in order that the President may utilize the remaining days of the Holy Week recess which the Cuban Congress has voted in giving to leaders information of the contents of the Memorandum.

Very respectfully,

E. H. CROWDER

837.51/749 : Telegram

The Representative on Special Mission in Cuba (Crowder) to the Secretary of State

HABANA, *April 8, 1922—4 p.m.*

[Received 10:34 p.m.]

21. Memorandum accompanying my despatch of April 5th due to reach Washington noon today and upon which I hope to have the action of the Department Monday or Tuesday, stresses the necessity of the most energetic measures on the part of the President to bring about the enactment by Congress within very short time limits of adequate budgetary and related legislation. I have just finished and am ready to submit a second memorandum to President Zayas in which I have urged that the action considered by my Government as absolutely vital includes:

First, the bringing of Congress to a full realization of the peril confronting the Nation if prompt and effective action is not taken in the enactment of an economical budget.

Second, the urgent duty of the Executive to take the initiative in preparing and submitting to Congress definite projects of laws for reducing the fixed budget legislative and judicial branches; for reorganization of diplomatic service, Department of Communications, Army and Navy, so as to permit of further economies in these services of $500,000, $1,200,000 and $2,000,000, respectively, or a total of nearly $4,000,000 in these services alone; and for suspension of the civil service law so as to permit proper reductions and selection of personnel.

I have not hesitated in this memorandum to represent that my Government considers that the legislative budget is indispensable for the ensuing fiscal year; that no budget would be satisfactory to my Government which did not embody the foregoing reforms, eliminate all sinecures or *botellas*, and keep within a maximum of expenditures of $55,000,000, five million of which to be devoted to improvements of public highways, public instruction, sanitation and charity; nor would any budget be satisfactory which did not set at rest the charge almost universally made and never adequately refuted that from 60 to 70 percent of the personnel on the pay rolls of Cuba would in reality be sufficient for the efficient administration of the nation.

I have concluded my memorandum with the following:

"My Government is impressed with the patriotic duty devolving upon Your Excellency, as the head of the Nation and as the one power within that Nation best informed as to the real situation of the Republic, to speak clearly, to act fearlessly in the attainment of a purpose, namely, the averting of a public danger which the Congress has probably not fully understood, and is perhaps not fully prepared to understand.

The compliance with this patriotic duty, the incorporation into the budget for 1922–23 of the necessary reforms, the congressional approval of that budget before June 30th next, would be heralded by my Government as a real demonstration in this field of successful republican government in Cuba; would definitely silence in this regard at least the constantly growing criticism which threatens to overwhelm and extinguish the existing self government in Cuba. The failure to give that demonstration under so clear a necessity would be fatal to the possibility of averting imminent financial disaster to the Cuban treasury; would place my Government in a position in which it could no longer avert the natural consequences and in which it could no longer ignore the accumulated evidence which has awakened world-wide attention and threatens to crystallize, definitely and adversely, world-wide public opinion."

Request telegraphic advice as to whether this telegram and my despatch of April 5th respects limits as to ultimatum which the Department desires me to observe. See pages 9 and 10, concluding portion my despatch of September 7th, 1921[21] and the Department's reply thereto in letter of Sumner Welles of October 7th, 1921 page 4.[22]

CROWDER

837.51/756

The Representative on Special Mission in Cuba (Crowder) to the Secretary of State

HABANA, *April 9, 1922.*
[Received April 14.]

DEAR MR. SECRETARY: I have the honor to transmit herewith the Memorandum referred to in my Urgent No. 21 of April 8th on the subject,—"The Executive and the Budget for 1922–23."[23] The Memorandum accompanying my despatch of April 5, 1922 was on the subject of,—"Necessity for Legislative Approval of a Budget for 1922–23."

[21] *Foreign Relations*, 1921, vol. I, pp. 728–729.
[22] Not printed.
[23] Memorandum not printed; concluding paragraphs quoted in telegram no. 21, Apr. 8, from General Crowder, *supra*.

The working summary of both Memoranda is as follows:—

A. The Government of the United States insists upon:

1. Approval of the Budget for 1922–23 before June 30th next.

2. Limitation of expenditures under that Budget to a maximum of $55,000,000.

3. Inclusion within that maximum, of $5,000,000 for public improvements.

4. Attainment of the reductions necessary through:

(*a*) Reduction of Fixed Budget,
(*b*) Repeal of Law of August 9, 1919.
(*c*) Reorganization of Diplomatic Service, Service of Communications, Army and Navy.
(*d*) Suspension of Civil Service Law to permit of dismissal of excessive, incompetent or dishonest personnel.
(*e*) Elimination of all *Botellas*.

B. The Government of the United States bases its insistence on:

1. Necessity of Congressional coöperation with the President as a necessary demonstration of capacity for self-government.

2. Existence of a floating indebtedness of about $50,000,000, and of an additional deficit for the year 1921–22 of about $15,000,000.

3. Inadequacy of revenues for meeting the situation with a Budget of expenditures greater than $55,000,000, as shown by figures for 1921–22 in which revenues total between fifty-six and fifty-eight millions.

4. Present deteriorated condition of public highways and public institutions, due to insufficient consignments in the present distribution of credits.

5. An expense of maintenance of Legislative and Judicial branches of the Government, and of certain important institutions, out of all proportion to the total expense permitted by the revenues.

6. Existence of unnecessary personnel and sinecures at the expense of the adequate maintenance of public services.

C. The Government of the United States considers it the duty of the Executive to look for the proper solution of the problem:

1. On account of the President's commitments in the letter of October 16, 1921.[24]

2. Because of the obvious failure of Congress to properly understand the situation.

3. Because the President is best prepared to understand the situation, and to see that a failure to find a solution will bring responsibility upon both the Congress and himself for financial disaster to the Treasury and for the consequences following a further demonstration of incapacity of the independent republican government to meet the national crisis.

Very respectfully,

E. H. CROWDER

[24] *Foreign Relations*, 1921, vol. I, p. 750.

837.51/756

The Chief of the Division of Latin American Affairs, Department of State (Munro) to the Secretary of State

[WASHINGTON,] *April 10, 1922.*

DEAR MR. SECRETARY: In the attached despatch [25] and telegram,[26] General Crowder requests authorization to present two memoranda, which he regards as equivalent to an ultimatum, to the Cuban Government. The first memorandum discusses very frankly the bad results of the failure of the Cuban Congress to enact a budget during the last four years and suggests to the President that he bring pressure to bear upon Congress to compel that Body to perform its duties under the Constitution. The second memorandum outlines the reforms which General Crowder considers indispensable in any budget which the Congress may enact. These reforms would reorganize the Diplomatic Service, the Department of Communications, and the Army and Navy, and would reduce the fixed budget in the Legislative and Judicial Departments so as to make possible an economy of nearly $4,000,000 annually in each of the services affected. General Crowder would also advise the suspension of the Civil Service Law, to permit reductions and improvements in the personnel of the Government Departments. He proposes to insist upon the elimination of all sinecures and the reduction of expenditures to a maximum of $55,000,000. He would conclude his memorandum with an unmistakable threat that the failure of the Cuban Congress to enact this legislation would force the United States Government to consider intervention.

I believe that General Crowder should be authorized to submit the first memorandum as it stands and to amplify it by a second memorandum embodying the reforms which he deems indispensable. I do not believe, however, that this Government would be justified in giving the communications referred to the character of an ultimatum or in threatening intervention if the Cuban Congress fails to pass the revised budget. It is not evident that the results of such a failure would be sufficiently disastrous to justify intervention. President Zayas has demonstrated that he himself has the power, if he wishes to use it, to reduce the expenditures of the Government to a point where they would be covered by the revenues. The budget of 1918–19, which has remained in force from year to year through the failure of the Congress to enact a new budget, provided, with subsequent increases, for an annual expenditure of $77,888,000. By executive action, President Zayas reduced the budget for the

[25] Despatch of Apr. 9, *supra*.
[26] Telegram of Apr. 8, 4 p.m., p. 1019.

current year beginning July, 1921, to $65,000,000 and subsequently to $59,000,000. At the present rate, the revenues for the current fiscal year will amount to $56,851,000. It is not clear that President Zayas could not by his own action make still further reductions in the budget applying to the next fiscal year if Congress failed to act, although action by Congress is necessary to effect certain economies, amounting to four or five million dollars a year, in the services where fixed expenditures are established by law. A continuation of the present financial situation, where the President has made economies without effecting a general reorganization of the Government Departments, would be deplorable, but it would not, in itself, justify intervention by this Government. There is no immediate prospect of default upon the foreign debt, or of a marked aggravation of the disorganization of public finances.

It must be remembered that these memoranda cover but one aspect of the comprehensive program of reform which General Crowder believes to be indispensable to enable Cuba to recover from her present desperate situation. He is planning to submit subsequent memoranda also in the form of ultimata dealing with the national lottery, the need for Constitutional reform and other matters. He has been pressing for reforms along these lines for several months, without any results, and he now feels that they can be secured only if this Government adopts a very decided attitude. The desirability for such reforms is obvious, and if, after full discussion and after continued insistence by the United States Government, the Cuban Government definitely failed to take steps adequate to relieve the political and financial demoralization of the Island, a situation would be created which would force this Government to consider very seriously whether or not some form of intervention was advisable. I do not believe that matters have as yet reached this point, and I consequently do not believe that the threat of intervention should be used in connection with a recommendation that the Cuban Congress make reductions in the budget.

MUNRO

837.51/749 : Telegram

The Secretary of State to the Representative on Special Mission in Cuba (Crowder)

WASHINGTON, *April 11, 1922—6 p.m.*

24. Your April 8, 4 p. m. Department approves presentation of memorandum transmitted with your despatch of April 5, and presentation of memorandum as outlined in your telegram, except

for last paragraph of concluding portion. It desires that this paragraph should read as follows:

"The compliance with this patriotic duty, the incorporation into the budget for 1921–23 [*1922–23?*] of the necessary reforms, the congressional approval of that budget before June 30th next, would be heralded by my government as a real demonstration in this field of successful republican government in Cuba. The failure to give that demonstration under so clear a necessity would be fatal to the possibility of averting imminent financial disaster to the Cuban Treasury, and could not but be regarded by my Government with the gravest concern."

HUGHES

837.51/764

The Representative on Special Mission in Cuba (Crowder) to the Secretary of State

HABANA, *April 21, 1922.*

[Received April 25.]

DEAR MR. SECRETARY: In its cable No. 24, April 11th, 6 p.m., the Department acted, in a very helpful way, on my Memoranda Nos. 6 and 7, the first dealing with "Congress and the Budget for 1922–23," and the second dealing with "The Executive and the Budget for 1922–23." Both Memoranda were presented to President Zayas, the latter in the revised form indicated by the Department, on the morning of April 13th, and with the effect attempted to be described in my No. 23 of April 17th.[27] I continue hopeful that the result will be an economical budget sanctioned by the Congress, though the action of the Senate in passing yesterday the objectionable Amnesty Law [28] is a bit disturbing. . . .

Today I am forwarding a Memorandum, No. 8, on the subject, "Graft, Corruption and Immorality in the Public Administration," [29] to which I invite the Department's very special attention, with request that I be informed by cable whether its presentation is approved. I shall follow this Memorandum with another on the Reform of the National Lottery which I hope to forward by mail not later than Wednesday, April 26th. Collectively these two Memoranda embrace about all that I think it is politic to say at the present time on reforms in the Public Administration, necessary to exclude the corruption that prevails here.

With the strong approval of the Department and warning to the Zayas Administration, through Minister Céspedes, as suggested in

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[27] Not printed; General Crowder stated that "effect promises to be most salutary".

[28] See General Crowder's telegram no. 149 of Dec. 10, *Foreign Relations*, 1921, vol. I, p. 768.

[29] Not printed.

the concluding portion of my despatch of April 5th [*March 25?*], I shall be hopeful of accomplishing much along the lines indicated during the remaining months of the current fiscal year. Without such approval and warning, I think it quite probable that little will be accomplished.

The Department will notice the deficiencies of my Memorandum No. 8 dealing with Graft, Corruption and Immorality in the Public Administration. I have not been able to present much in the way of specific instances of corruption. There is here almost a conspiracy to conceal facts, and I am utterly unable to obtain evidence which would satisfy beyond a reasonable doubt or to establish even a *prima facie* case. One merchant submitted for my confidential use a record of his sales of materiel to the Government under this administration, showing that every voucher had been padded at the request of the officials with whom he dealt to an amount always largely in excess of purchase price, and in one instance almost equal to three times the purchase price. I have no doubt that this is the general practice, but I cannot assemble the proof without the aid of compulsory process; hence my reliance on general accusation.

I have [etc.] E. H. CROWDER

837.513/50

The Representative on Special Mission in Cuba (Crowder) to the Secretary of State

[Extract]

HABANA, *May 4, 1922.*

[Received May 9.]

DEAR MR. SECRETARY: I have already addressed the Department Memoranda Nos. 6 and 7, dealing respectively with "Congress and the Budget for 1922–23," and "The Executive and the Budget for 1922–23," [30] both of which have been approved by the Department and submitted to President Zayas. I have forwarded a further Memorandum, No. 8, dealing with "Graft, Corruption and Immorality in the Public Administration" [31] which awaits the Department's action. The present Memorandum on the "Reform of the National Lottery" completes the series of important Memoranda referred to in my despatch of March 25th, which collectively embody the irreducible minimum of reforms and betterments which must be consummated if the solvency and stability of the Government are to be reëstablished.

[30] Memoranda not printed; for summary, see despatch of Apr. 9, from General Crowder, p. 1020.

[31] Not printed.

. . . . . .

One year has elapsed since Doctor Zayas, then President-elect, committed himself on the reform of the National Lottery in a letter written April 30, 1921 [82] . . .

Two days prior to the above mentioned letter, on April 28, 1921, I had included the following commitment of Doctor Zayas in my Urgent No. 66 of April 28th [83] which was shown to the then President-elect and endorsed by him before sending:

"He will immediately suppress all '*botellas*' and within a period of five months make sweeping reforms in National Lottery particularly in the *colecturía* system."

The promised action has not yet been taken and there are no indications that it is even being thought of. The evils of the system continue to undermine every phase of national life in Cuba, and the insidious corruption of the *colecturía* system has so extended itself as to render futile any hope that the evils will be remedied by the Cuban people through the ordinary agencies at their disposition.

It is my well considered opinion that the time has come for the Government of the United States to take official cognizance of the abuses, and to furnish that external support of the necessary remedial measures which, in the minds of all thinking Cubans, is absolutely essential to their successful execution.

. . . . . .

I am [etc.] [E. H. CROWDER]

837.513/50 : Telegram

The Secretary of State to the Representative on Special Mission in Cuba (Crowder)

WASHINGTON, *May 13, 1922—1 p.m.*

30. Your despatch of May 4, regarding lottery.

You are authorized to present a memorandum on this subject to the Cuban Government setting forth the situation as presented in despatch. This memorandum should be similar in tone to others recently presented, avoiding any appearance of threat or any demand so insistent that Department would be embarrassed by failure of Cuban Government to comply immediately. You may, however, state emphatically that a continuation of present conditions in the lottery would be regarded by this Government as a violation of Zayas's commitments referred to in your despatch and as a most serious obstacle to any rehabilitation of Cuba's finances. Emphasis

[82] Not printed.
[83] *Foreign Relations*, 1921, vol. I, p. 692.

should be placed not so much upon Platt Amendment as upon Zayas's commitments to you and upon urgent need of the Cuban Government to avail itself of all available sources of revenue and to divert to the use of the Government the large sums which are now taken from the public by illegal methods. It is obvious that the sums so taken from the public materially diminish the capacity of the public to pay taxes to the Government.

HUGHES

837.513/52 : Telegram

The Representative on Special Mission in Cuba (Crowder) to the Secretary of State

HABANA, *May 19, 1922—1 p.m.*
[Received 9:11 p.m.]

28. Please communicate to Captain Demetrio Castillo [34] at the Army and Navy Club and prior to his interview with the Secretary on Monday the following:

"Please stress to Secretary Hughes difficulties here in the way of securing compliance with memorandum number 8, memorandum number 10, reform of the national lottery with the contents of which you are familiar and which was submitted to President Zayas May 15th; also the amount of contractual indebtedness Department of Public Works and difficulty in readjusting these contracts. Particularly do I desire you to stress to the Secretary the two unsuccessful efforts to get from the Government here a dependable national audit and that we are still without an itemization of either the outstanding floating debt or the annual deficit for the current fiscal year. Explain to the Secretary the general character of the reform in the army budget and the little we may expect in the reform of the fixed budget." [35]

CROWDER

837.51/780 : Telegram

The Representative on Special Mission in Cuba (Crowder) to the Secretary of State

HABANA, *May 20, 1922—4 p.m.*
[Received 9:22 p.m.]

29. Captain Castillo, with whom the Secretary will confer Monday, has been for several months liaison officer between the President of Cuba and my Special Mission and is confidentially informed as to the more important correspondence that has passed between us. I

[34] Liaison officer between President Zayas and General Crowder's mission.
[35] Notation on the telegram states that this message was communicated to Captain Castillo by telephone.

suggest that the discussion with him center upon the following points:

First, that Zayas has not even yet adopted that aggressive attitude toward the carrying out of the more important reforms recommended in my memoranda numbers 6, 7, 8, and 10 necessary to assure a satisfactory measure of success.

Second, that even assuming that the Congress enacts a $55,000,000 budget and the necessary tax laws before the end of the custom fiscal year and stops there, it will be many months before a surplus can be accumulated by this method alone which will afford any substantial relief to creditors.

Third, it necessarily follows, unless a large foreign loan is negotiated, that default in the payment of (*a*) the large floating debt including deficit for the current fiscal year, (*b*) the service of the interior bonded debt and (*c*) the most urgent services of the state will continue well into the next fiscal year; with the result,

Fourth, that large number of creditors who will not be able for prolonged periods to obtain even partial payment of amounts due, will be forced into bankruptcy and that public discontent, particularly among the business element, which already has reached the embarrassing point, will develop very rapidly.

Fifth, that last November a movement was inaugurated, to which I attached at that time little importance for the reason that it was led largely by politicians, to demand the resignation of President Zayas and Vice President Carillo with a view to the assumption of the duties of the President temporarily by the Secretary of State Montoro, under Article 8 of the law of the Executive power, and the selection of a new President by the Congress of Cuba in the form and manner provided in Article 9 of the said law; and that in the last few days there has been a revival of this agitation.

That of course no such movement can succeed nor do I believe it will be seriously attempted as long as the Department maintains a special mission here and Zayas is cooperating with that mission in bringing about vitally necessary reforms.

That nevertheless I think the fact of such agitation sufficiently important to suggest to the Department the advisability of admonition to be sent to President Zayas through Céspedes as recommended in the concluding portion of my despatch of May 15;[36] also that the general situation here presented be discussed with Captain Castillo at the forthcoming conference.

CROWDER

[36] Despatch not printed; its concluding portion refers to the concluding portion of the despatch of Mar. 25, from General Crowder, p. 1016.

837.51/781 : Telegram

The Representative on Special Mission in Cuba (Crowder) to the Secretary of State

HABANA, *May 28, 1922—1 p.m.*
[Received 7:06 p.m.]

30. Captain Castillo in a conference with President Zayas yesterday explained with desirable emphasis every detail of interesting interview with Secretary Hughes. In the course of that conference President Zayas remarked that he felt assured that the Cuban Senate would pass a budget in a very short time but that complications had arisen in the Cuban Lower House which made it problematical whether that house would pass the budget. He further stated to Captain Castillo that in view of the serious situation that would then be created, he contemplated the possible necessity of himself establishing a budget and of [stipulating?] the unofficial approval of such action by the United States but not involving in any way the authority of the Platt amendment. The President feels that such a course would supply the vital need of the public administration that would be created by the failure of the legislative branch to comply with its constitutional obligations and duties regarding the budget and that with the unofficial approval above mentioned, the question of constitutional irregularity of such action would not be seriously raised.

I share President Zayas' apprehension of inaction of the Lower House. Failing the enactment of a proper budget for the next fiscal year the political and financial situation of the Republic would be most serious and the continuance of the Zayas administration dangerously threatened. While the situation might be saved by such action as President Zayas appears to contemplate, if taken in unofficial accord with the United States Government, the consent to such a measure cannot, in my judgment, even be considered unless during the month of June President Zayas gives ample evidence of a complete change of policy by entering definitely upon the execution of the program of minimum reforms as outlined in my four memoranda numbers 6, 7, 8, and 10 and establishes that full cooperation with the Department which alone can guarantee the effective continuance of the new policy.

I intend to arrange an early interview, not later than Thursday June 1st, with President Zayas and say to him that my Government has directed me to ascertain at that interview what his decision has been respecting the program comprised in said memoranda which have now been in his possession for prolonged periods, and to agree upon with him the definite measures that must be given im-

mediate execution if the program is to be effective by the beginning of the fiscal year. It would be most helpful if previous to that interview President Zayas should receive notice through the Cuban Minister at Washington that the State Department considers the interview of especial importance and expects definite steps to be taken immediately thereafter.

CROWDER

837.00/2229½

Memorandum by the Secretary of State of a Conversation with the Cuban Minister (Céspedes), May 29, 1922 [37]

The Minister called at the Secretary's request. (See General Crowder's telegram No. 30, May 28, 1 p.m.) The Secretary expressed the hope that the Minister would inform President Zayas that this Government fully supported General Crowder's recommendations. The Secretary said that he wished to emphasize two points: (1) that the adoption of the course suggested by General Crowder was necessary for Cuban stability and could make a firm basis of Republican Government in Cuba; and (2) that it was a rare opportunity through which President Zayas, in effecting the necessary reforms would be able to achieve a reputation second to none in Cuban history. The Secretary called attention to the recommendations of General Crowder in his memoranda, Nos. 6, 7, 8 and 10, recapitulating these, and said that it was most important that these should be adopted. He asked the Minister to convey to President Zayas the opinion of this Government as to the seriousness of the situation and the necessity of radical reforms as General Crowder had suggested. The Minister said that he had communicated with President Zayas his own opinion along the lines suggested by the Secretary and he was glad to have this official statement of the Secretary which he would at once present forcibly to President Zayas.

837.51/786 : Telegram

The Representative on Special Mission in Cuba (Crowder) to the Secretary of State

HABANA, *June 9, 1922—11 a.m.*

[Received 3:23 p.m.]

31. Conference[s] referred to on pages 6 and 7 of enclosure to my despatch of June 2nd [38] commenced Wednesday, June 7th, and were

[37] General Crowder was informed on June 1 of this interview.

[38] Not printed.

concluded yesterday, June 8th, occupying a little more than five hours. The results of the conference, not obtained without great difficulty, may be summarized as follows:

First, acceptance of the resignation of all Cabinet officers and reformation of the Cabinet on the basis of appointments of new men as secretaries of the Departments of the Treasury, Public Works, and Government, selected for the purpose of waging a relentless war on the graft, corruption and immorality especially prevailing in these three Departments; agreement that these new men would be selected only after conference with me as to their availability to carry out these important reforms; . . . The reformation of the Cabinet along these lines to be made effective possibly within six days and certainly within the remaining days of the present fiscal year.

Second, he agreed to put into effect by Executive decree the reforms in the national lottery which the President can make without the aid of Congress as outlined in subdivision B, page 23 of the memorandum number 10;[39] that the preparation of this decree should begin at once and that I should participate in the work; that as the loss [of] *colecturias* by Congressmen would be certain to precipitate a congressional crisis, we agreed that the promulgation of this decree should be deferred until Congress had voted upon budget reduction and tax revision, but that the issuing of decree should not be postponed later than the first of July.

. . . . . .

I shall cover the incidents of my two conferences with President Zayas in a despatch when I have time to prepare it. It is sufficient to say here that the first attitude of President Zayas was one of extreme reluctance toward discussing the subject matter of memoranda numbers 8 and 10 and particularly the application to his Cabinet of the principles governing removal from office outlined in subparagraph 1, page 16 of memorandum number 8. Our first interview closed without definite commitments. At the second interview yesterday I found the President with a better appreciation of the gravity of the situation confronting the country and of the necessity for the drastic action to which he finally agreed; . . .

CROWDER

[39] These reforms were to (1) audit and make public the expenses of the Lottery Bureau; (2) eliminate the *acaparadores;* (3) make the *colecturías* no longer sinecures; (4) have the *vendedores* buy tickets from the *colectores* at face value and limit the price of their resale under heavy penalties for violation of price set.

837.51/792

The Representative on Special Mission in Cuba (Crowder) to the Secretary of State

[Extract]

HABANA, *June 12, 1922.*
[Received June 15.]

SIR:

. . . . . .

. . . The Department has been advised in my No. 32, June 10th, 5 p.m.,[40] that the resignations of all the Secretaries were very shortly thereafter placed at the disposal of the President.

President Zayas' first step in carrying out his agreement was taken yesterday afternoon when he submitted to me a list of names which he was considering for appointment to the reorganized Cabinet. I was not impressed by his list. Accordingly I addressed him a communication acknowledging receipt (copy hereto attached marked "A"[40]) and reiterating my understanding of the results of our conferences and furnishing him a list of names that had been mentioned to me and which I thought it would be appropriate to include in the discussion of eligibles for appointments to cabinet positions. I am holding conferences today seeking advice as to individuals on both lists and others. It seems probable that a conclusion, as to the reorganized Cabinet, will be reached at an early date. I have suggested to President Zayas the propriety of bringing Céspedes here as Secretary of State and substituting [*replacing*] him at Washington by a man who could carry on just as well as he that part of the negotiations which must be carried on in Washington.

His next step in carrying out the agreement was to send to me an attorney in his confidence to assist in the preparation of a Decree to be issued on July 1st, reforming the lottery. I had an extensive conference with him and I think we shall have little difficulty in writing a final draft. I regret that we cannot proceed in this task with the coöperation of Congress and bring about complete reform by securing much needed amendments to the lottery law. It is certain that Congress will not coöperate and it is also certain that if asked to do so, the effect would be to defeat the pending projects of budget reduction and tax revision.

Meantime, I am having conferences with representatives of the "Camara." I had a most important one yesterday with the Speaker of the House, Mr. Verdeja, and the leader of the "Liguistas," Mr. Santiago Rey. They left the conference pledged to a reduction in the Fixed Budget, (Legislative Power) reducing the expenses of the Congress of Cuba by one-half million dollars. They also pledged

[40] Not printed.

themselves to incorporate in the pending budget bill a provision appropriating the surplus of the Budget for the next fiscal year to the payment of the floating debt, thus preventing any wasting of this surplus by Executive Decree.

The tax bill is meeting with unusual opposition and the charge is freely made that Mr. Hord's work will not stand analysis.[41] There is some foundation for this charge in certain complaints that have been brought to my attention and which I have analyzed and presented to the President, recommending changes in the Hord project. If upon further study we find that a satisfactory law can be framed, I believe that its enactment at this Session of Congress can be secured notwithstanding the formidable opposition that is organizing to prevent its enactment.

I think it important to invite the attention of the Department to the fact that the public press has aligned itself almost unanimously with my Special Mission in the demands for reforms and that there has been a wholesome change in this regard. Not a word has appeared in the papers during the crisis thus far anti-American in tone, or objecting to the intervention which I have had in affairs which they regard as of exclusively domestic concern. I attach hereto marked " B " copy of an open letter to President Zayas appearing in *El Mundo* of June 10th.[42] I also attach two other translations, marked " C "[42] and " D "[42] which tend to illustrate the tone of the comment by the public press.

I am [etc.] E. H. CROWDER

837.51/793 : Telegram

The Representative on Special Mission in Cuba (Crowder) to the Secretary of State

HABANA, *June 14, 1922—noon.*

[Received 4:48 p.m.]

33. Reference to my despatch of June 12th which should reach Washington to-day. We are making progress slowly in the reorganization of the Cabinet. Zayas inclined to limit reorganization to three and possibly four departments and to make appointments of members not known to be qualified. Yesterday I returned his amended list of eligibles for appointment to the reorganized Cabinet with comment which included the following:

" The supreme issue of the hour is the moralization of the public administration in all departments and branches of the Government

[41] John S. Hord was chairman of the Cuban Advisory Commission on Tariffs and Taxes, appointed by President Zayas on November 25, 1921; the Commission expired in May 1922.

[42] Not printed.

and along the general line indicated in my memoranda numbers 8 and 10. We all deprecate the talk of intervention, but no one more than myself. Your Excellency and the Congress of Cuba have it in your power to silence that talk in both countries by destroying all justification thereof. This can be easily brought about by the appointment of a Cabinet pledged to the accomplishment of this great task and by the enactment by Congress of certain legislative measures which have already been recommended. Under a patriotic call to duty issued by Your Excellency I feel that, in the present crisis, the best men in Cuba would place their services at your disposal and with adequate assurance of proper support by the Executive, would enter enthusiastically upon the prosecution of their great tasks.

The limited reorganization proposed and the list of eligibles submitted by Your Excellency leads me inevitably to the conclusion that the views herein expressed are not fully shared by Your Excellency ".

While refraining from recommending particular men for appointment I am insisting with great firmness that no man be retained in or appointed to the reorganized Cabinet who is not known to be conspicuously qualified to prosecute aggressively and courageously the important work of moralizing the public administration.

CROWDER

837.513/53 : Telegram

The Representative on Special Mission in Cuba (Crowder) to the Secretary of State

HABANA, *June 26, 1922—2 p.m.*

[Received 4:35 p.m.]

40. Zayas submitted to me on Friday last tentative draft of decree for putting into effect the reforms in the lottery administration recommended in my 32 [*31*], June 9th. His draft was one easily evaded . . . In conference with the new Secretaries of Treasury and Public Works which lasted the whole of Saturday and Sunday, I prepared a substitute draft which I have sent him this morning reiterating the request of the Department that this decree issue on July 1st as originally agreed upon and that the new appointments be made prior to that date. If decree is issued and the lottery administration confided to honest capable hands the following will be the results:

1. The *colecturías* as sinecures and corrupting influences in the public administration will be eliminated and they will be reestablished as the sale agencies that the law requires them to be. 2. The ticket speculators (*acaparadores*) will be completely eliminated. 3. As a consequence of the foregoing the collection of illegal profits amounting annually to $9,500,000 as pointed out in my memorandum number 10 page 19, will cease. 4. Expenses of the central office will

be reduced by more than a million dollars annually and this amount turned into the national treasury.

. . . . . .

CROWDER

837.513/54 : Telegram

The Representative on Special Mission in Cuba (Crowder) to the Secretary of State

HABANA, *June 30, 1922—5 p.m.*

[Received 10:05 p.m.]

41. I have great pleasure in announcing to the Department that I am officially informed that President Zayas signed this afternoon the decree reforming the lottery in the precise form in which I rewrote it. See my despatch of June 26th [43] and its enclosures which should have reached the Department this morning. The present director general of the lottery, a relative of President Zayas and the present sub-director, his son, will be replaced, the former by a man who has been agreed upon but who has not yet accepted and the latter by a very responsible official selected from the Department of the Treasury. Both men are satisfactory to the new Secretary of the Treasury and to me.

. . . . . .

I anticipate a storm of opposition from the following sources: first, from newspapers which may be compelled to discontinue publication when deprived of the very substantial aid they now receive from the lottery; second, from Congress nearly all of the members of which will be deprived of very substantial incomes which they now receive from the same source; third, from the small army of *colectores* who hold their existing *colecturías* as sinecures; and fourth, from ticket monopolists (*acaparadores*) who are entirely eliminated by the new decree.

President Zayas expressed to me the view that the issuance of this decree might result in his formal accusation by Congress. His friends have expressed to me similar apprehensions and I was asked by Secretary Cortina if President Zayas could rely in such a contingency on a supporting statement from United States Government. I replied that I would not recommend such supporting statement unless from this time on Zayas stood unmistakably and aggressively for this and other reforms and gave his new Cabinet every proper support in making effective their campaign against graft, corruption and immorality in the public administration.

CROWDER

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[43] Not printed; see telegram no. 40, June 26, from General Crowder, *supra*.

837.513/54 : Telegram

The Secretary of State to the Representative on Special Mission in Cuba (Crowder)

WASHINGTON, *July 5, 1922.*

39. Your 41, June 30, 5 p.m.

Department desires to commend you for the admirable way in which you have handled the negotiations and for the results obtained.

HUGHES

837.00/2245 : Telegram

The Representative on Special Mission in Cuba (Crowder) to the Secretary of State

HABANA, *August 21, 1922—1 p.m.*

[Received 8:08 p.m.]

51. My best judgment is that it would be helpful in overcoming anticipated obstruction by the Cuban Senate to legislative measures deemed by me vitally necessary in this country if the Secretary could see his way clear to give out a statement before leaving for Rio de Janeiro substantially as follows:[44]

"Advices received from Cuba indicate substantial progress toward a definite and satisfactory solution. The confusion, resulting from the many grave and complex problems that have arisen during the past year, is apparently being dissipated through the consolidation of the many diversified opinions regarding proper solutions into a definite program of legislative measures evolved, after long study and discussion, by the leaders of Cuban political and financial life; a program whose proper execution will constitute an important step in carrying out a proper and necessary policy of reconstruction and reform in the national administration.

The program includes the passage and execution of five fundamental measures: First, a bill providing for the modification of certain provisions of the civil service law and the suspension of others, which will enable the Executive to organize rapidly and effectively all the Executive departments and particularly the service of collecting revenues and controlling expenditures; second, a bill providing for a better and stricter system of accounting; third, a bill creating a special commission for the investigation and precise definition of the Government's floating indebtedness; fourth, a bill rendering more effective certain portions of the judicial procedure and facilitating the removal of members of the judiciary; fifth, a bill evolved from and based upon the financial program recently proposed by the Secretary of the Treasury, Despaigne, providing for the contraction [*sic*] of a foreign loan for the settlement of the floating indebtedness and the initiation of the public works, together with the creation of new taxes for the service of a loan.

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[44] For correspondence concerning the visit of the Secretary of State to Brazil, see pp. 656 ff. The statement as issued to the press by the Secretary on Aug. 23 was substantially the same as the text here printed.

The first of these measures has already had the approval of both Houses and is before a conference committee to iron out differences between the two Houses. The second and third have had the approval of the Lower House and await the approval of the Cuban Senate. The fourth has also been favorably received by the Lower House, [approved] in principle and will be read at an early date, article by article, for amendment. The fifth providing for a national loan will be considered and probably finally disposed of by the Lower House this week and sent to the Senate. This fifth bill will, when finally enacted, have to be considered by the Department in determining its action under article 2 of the permanent treaty.

It is to be confidently expected that within a very short period the measures to which I have referred and which appear to be vitally necessary to carrying out the policy of large reconstruction and reform will have been enacted into law in satisfactory form. The proper execution of this legislative program, evolved and consequently [*sic*] as I have said by the leaders of Cuban national life, will undoubtedly go far, not only toward the restoration of tranquillity and confidence throughout the Island, but also toward the normalization and betterment of business conditions generally."

If, in this proposed statement, I have gone farther in giving a qualified advance approval of the loan bill than the Department desires to go at this moment, the phraseology should be modified accordingly.

CROWDER

837.51/826 : Telegram

The Representative on Special Mission in Cuba (Crowder) to the Acting Secretary of State

HABANA, *September 1, 1922—10 a.m.*

[Received 2 : 53 p.m.]

54. Press despatches this morning indicate wide publication in the United States of a so-called ultimatum delivered by me to the Cuban Government. Of course no ultimatum was sent. In discussing with President Zayas the lack of progress in Congress in reaching a decision on the five legislative measures mentioned in the Department's public statement of August 22nd,[45] I said to him that I would wait ten days longer for Congress to reach a decision and then would report to my Government, going to Washington if necessary for that purpose. I made this same statement to a leader of the Lower House which immediately went into continuous session for the completion of the program. It has all but completed four of these measures and it is expected that the final measure of the loan statute lists will be reached. President Zayas assured me yesterday that he felt he could count on a two-thirds majority on the latter statute in both Houses.

[45] See telegram no. 51, Aug. 21, from General Crowder, *supra*.

Obstruction in Congress mainly due to effort to amend in conference the debt commission bill by inserting language which would require all administration's indebtedness to be settled at the unit prices named in contract without regard to the fairness of the prices or legality of the contract . . . The effect of my statement thus far has been helpful to the situation.

CROWDER

837.51/826 : Telegram

The Acting Secretary of State to the Representative on Special Mission in Cuba (Crowder)

WASHINGTON, *September 2, 1922—4 p.m.*

60. Your 54, September 1. Department has issued denial to the press that a formal ultimatum has been given to the Cuban government. It is hoped that you will be able to avoid statements which can be construed by the opposition as an ultimatum from your Government with regard to a time limit. Department of course thoroughly appreciates the difficulties of the situation, and has entire confidence in you.

PHILLIPS

837.51/830 : Telegram

The Representative on Special Mission in Cuba (Crowder) to the Acting Secretary of State

HABANA, *September 5, 1922—3 p.m.*

[Received 10:27 p.m.]

58. When the Lower House met yesterday afternoon the loan statute project was read, whereupon Ferrara [46] offered a substitute project of 51 articles and house adjourned for 48 hours for consideration of substitute. Purpose of Ferrara project is to avoid a public loan and pay off obligations with certificates of indebtedness running for two years at 6 percent to be paid out of the proceeds of the following new taxes and economies: first, 1 percent gross sales tax; second, special tax of 25 percent upon lottery tickets; third, reduction of army by 2500 officers and men; fourth, reduction of representation expenses of each Congressman and Senator by $200 per month.

Cursory examination of Spanish text of Ferrara project shows failure to make explicit provision for payment of either temporary Morgan loan of $5,000,000 or $3,000,000 arrears of the interior debt and failure adequately to protect holders of certificates against

[46] Representative Orestes Ferrara.

speculators, also failure to make any adequate provision for the greatly neglected services of public roads, education and sanitation.

Unless instructed to the contrary I shall assume that it is the view of the Department that the issue of these interest-bearing certificates is the creation of a public debt requiring the sanction of the United States Government under article 2 of the peace [*permanent*] treaty.

Am translating Ferrara project and will report later. In the meantime if the Department has any comment to make upon the plan of settling by certificate of indebtedness rather than by a public loan, I would be pleased to be advised.

CROWDER

837.51/830 : Telegram

The Acting Secretary of State to the Representative on Special Mission in Cuba (Crowder)

WASHINGTON, *September 6, 1922—7 p.m.*

61. Your 58, September 5, 3 p.m.

(1) It is not clear from the information at hand whether the issue of proposed interest-bearing certificates would constitute an increase in public debt within the meaning of the Treaty, or whether the revenues of Cuba after defraying current expenses of the Government are adequate for the service thereof. The Department would be glad to have your views and additional information before expressing an opinion. If time presses suggest you telephone upon receipt of this telegram.[47]

(2) The Department is inclined to leave to your judgment the decision as to whether funds should be raised by the issue of certificates of indebtedness or by a public loan. However, in any event, the Department expects that proper provision will be made for the payment of the Morgan loan, and the arrears of the interior debt, and for the proper distribution of the proceeds resulting from the sale of the certificates of indebtedness.

(3) The Cuban Chargé informally advised Department on 5th that the revenues for the months of July and August were sufficient to meet all obligations incurred or falling due during those months, and that, moreover, there was a balance of $2,000,000 in the Treasury for the same period. Please inform the Department as to accuracy of this report.

PHILLIPS

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[47] On Sept. 7, General Crowder telephoned opinion that loan, or indebtedness created by Ferrara bill, would require sanction of United States (file no. 837.51/830).

837.51/833 : Telegram

The Representative on Special Mission in Cuba (Crowder) to the Acting Secretary of State

HABANA, *September 7, 1922—7 p.m.*
[Received 10:13 p.m.]

59. Referring to your 61, September 6, paragraph three. Mr. Meyer,[48] after personal conference with Secretary Despaigne, reports this evening that the revenues for the months of July and August exceeded the budget obligations for those months by $527,000.

CROWDER

837.51/836 : Telegram

The Representative on Special Mission in Cuba (Crowder) to the Acting Secretary of State

HABANA, *September 11, 1922—7 p.m.*
[Received September 12—10:05 a.m.]

61. Reference to my despatch of September 5th[49] and its enclosures. Have just returned from important conference with President, Secretary of the Treasury and Public Works and the mixed committee of Congress appointed to consider the Ferrara bill. Both President Zayas and Representative Ferrara expressed the view that the issue of the proposed interest-bearing certificates under Ferrara bill would cause an increase in the public debt within the meaning of article 2 of the permanent treaty and that therefore the sanction of the United States was necessary. I was then invited to discuss said bill and presented the following objections thereto.

First: that the four revenues pledged for the payment of interest and redemption of said certificates were special and temporary and did not for that reason meet the requirements of article 2 of said treaty, that interest and redemption charges should be met out of the ordinary revenues of the Island, citing in that connection article 59, paragraph third of the Constitution of Cuba and criticisms expressed in paragraph third of the memorandum of Bureau of Insular Affairs, dated Washington, September 4, 1917,[50] upon application of Cuban authorities for approval of the $30,000,000 loan of that year. This argument was not combatted.

Second: that the four revenues pledged could not be certainly relied on to produce within two years more than $50,000,000 of additional revenues necessary to meet interest and redemption charges

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[48] Secretary of American Legation at Habana.
[49] Not printed; see telegram no. 58, Sept. 5, 3 p.m., p. 1038.
[50] *Foreign Relations*, 1918, p. 304.

and that at the end of the prescribed period the Cuban Government would in every probability be confronted by another serious default in the payment of its obligations.

Third: that for the reason stated in preceding paragraph the Ferrara project would not have the effect of restoring public confidence.

Fourth: Ferrara plan made no provision for extinguishing the temporary Morgan's loan five millions nor for discharging the accumulated arrears on the interior debt.

I added that my friends would be gratified if the solution finally adopted by the Cuban Congress would permit more liberal provision to be made for the much neglected services of public works and sanitation.

The conference lasted four hours and adjourned to give Dr. Ferrara an opportunity to amend his draft to meet my objections. I anticipate that he will bring in a compromise measure providing for the settlement of the most urgent part of the floating debt, including the Morgan loan and the arrears on the interior debt, by a public loan and for liquidating the remainder through certificates of indebtedness to run for two years, both the public loan and the certificates to be guaranteed by permanent rather than temporary revenues.

CROWDER

837.51/842 : Telegram

The Representative on Special Mission in Cuba (Crowder) to the Acting Secretary of State

HABANA, *September 13, 1922—5 p.m.*

[Received 9:55 p.m.]

63. Have just concluded conference with the President. Of the five-point legislative program mentioned in my urgent number 51, August 21, the President will veto the second, namely, the law of accountability, because of the vicious amendments to the bill while in conference. He will probably veto the first, namely, the law for the modification of the civil service law for similar reasons, but will first hear Council of Secretaries as to whether they can carry on the reform program under the bill as it passed. The plain purpose of the amendments to both bills is to obstruct the program of reform as outlined in my memorandum number 8.[51] The third bill providing for a debt commission will probably be approved. The fourth bill has not yet passed the Senate.

In addition Congress in the last few days has passed a bill amending the electoral code, the effect of which is to vacate numerous

[51] Not printed; see despatch of Apr. 21, from General Crowder, p. 1024.

orders of annullment issued by Superior Electoral Board because of frauds in registration. The President has promised me to veto this bill.

Opposition in Congress has become very firm since publication of Acting Secretary's press report which is very generally misinterpreted here as meaning that Congress may obstruct the five-point program without serious consequences.

CROWDER

837.51/842 : Telegram

The Acting Secretary of State to the Representative on Special Mission in Cuba (Crowder)

WASHINGTON, *September 14, 1922—6 p.m.*

62. Your 63, September 13, 5 p.m.

Department has today given out following statement:

"Reports from Cuba are to the effect that considerable opposition has developed in the Cuban Congress to the reform program of the Cuban Government. Amendments have been made which, if finally enacted, would render nugatory the reform measures which it is hoped will be adopted, and which are essential to Cuban prosperity.

The Department was very gratified that President Zayas had undertaken to carry out the reform measures proposed, but is now very much concerned at the obstructionist action of the Cuban Congress. All well wishers of Cuba, including most of the leading Cuban citizens and the Cuban press have realized for some time that the plan as presented to the Cuban Congress is vitally necessary for stamping out corruption. No progress can be made towards the financial rehabilitation of the Island until this program is carried out.

While the situation presented by this opposition in Congress is most serious and is causing the Department a great deal of concern, the Department is, nevertheless, still confident that the matter will be satisfactorily adjusted. General Crowder has the complete confidence and support of the American Government in his difficult mission and the Department hopes and believes that it will still be possible for Cuba to carry out the reforms in the manner suggested by him, and in this way avoid the serious situation which would otherwise inevitably arise."

PHILLIPS

837.51/867

The Acting Chief of the Division of Latin American Affairs, Department of State (White) to the Secretary of State

[WASHINGTON,] *September 28, 1922.*

DEAR MR. SECRETARY: General Crowder just telephoned from Habana to say that Congress last night held practically all-night session and passed the loan law, including the provision of the one

per cent sales tax by a vote of 86 to 12. The bill comes before the Senate today, and General Crowder expects quick action. He also expects the other reform bills to be passed this week, and that Congress will then adjourn until November.

He considers it important that he should come to Washington to confer with you before the fifty million dollars of the loan is turned over to the Cuban Government, and asked if this met with the Department's approval. I told him I knew of no objection, and that he might consider there is none unless he hears from the Department to the contrary. If everything goes through as he expects, he will accordingly leave Habana some time next week, returning to Washington by sea in order to get a few days rest.

. . . . . .

WHITE

837.00/2274

The Acting Chief of the Division of Latin American Affairs, Department of State (White) to the Secretary of State

[WASHINGTON,] *October 10, 1922.*

DEAR MR. SECRETARY: I spoke with General Crowder over the 'phone this afternoon and he stated that he feels that it would be better for him to come to Washington, and he will leave tomorrow morning, arriving here on Friday. He stated that the Senate has passed the amnesty law, which will now go to the House, and which will, if enacted, completely upset the whole program reforming the Cuban administration. All of the men indicted in the lottery scandals will immediately be liberated, and it would be impossible to punish corruption. General Crowder stated that President Zayas yesterday told him that the bill will not become law. General Crowder is seeing him again at four o'clock this afternoon, and will tell him that he feels very strongly that this bill, if passed by the House, must be vetoed by him. General Crowder feels that the Department should not consent to a loan unless this amnesty bill is definitely killed.

He further stated that Mr. Morrow of Morgan and Company telephoned to him a few days ago, waiving any special rights which J. P. Morgan and Company may feel they have to a preferential position with regard to floating the loan on account of the five million dollar advance made by them last December. This, therefore, would seem to open a way to public bids for the loan. President Zayas has not yet drawn up any regulations or plans for calling for bids. General Crowder, at my request, stated that he would endeavor to obtain an indication from him before leaving Cuba as to his intentions in the matter. He stated that the Banco de Commer-

cial has made two advances, one for $400,000 and one for $500,000, to the Government in anticipation of the loan.

As regards the American audit expert, he stated that President Zayas had yesterday told him that he is in accord with the idea and would give him written confirmation of it today. Upon receipt thereof, General Crowder will telegraph the Department and the matter of Mr. Gilbert [52] going to Cuba can then be immediately taken up with the Treasury Department.

WHITE

837.51/875

The Cuban Chargé (Padró) to the Secretary of State

[Translation [53]]

WASHINGTON, *October 18, 1922.*

MR. SECRETARY: I have the honor to inform Your Excellency, in compliance with instructions from my Government, that the Cuban Congress has voted and the Honorable President has sanctioned a law which was signed on October 9, 1922, countersigned by the Secretary of Finance and published in the extra issue No. 16 of the *Official Gazette* of the Republic of Cuba,—a copy of same stamped with the seal of this Legation being sent herewith [54]—, by article 1 of which law the President of the Republic is authorized to issue bonds for an exterior loan for an amount not to exceed fifty million dollars ($50,000,000), payable in gold coins of the United States of America of the present standard and fineness.

This loan is to be contracted pursuant to my Government's program for the solution of its economic difficulties, of which Your Excellency's Government is aware. In the law whereby it is authorized, all the stipulations of article 59, paragraph 3, of the Constitution of Cuba regarding loans, have been complied with, and the purposes to which the proceeds of the bonds shall be exclusively applied are therein pointed out.

While the Honorable President of the Republic is empowered by article 8 of this legislative measure to pledge as special guarantee for the payment of the interest, expenses and amortization of the principal of this debt, and to bind and engage to said end the proceeds of whatever revenue and taxes at present in force he may deem necessary or convenient and should these proceeds—although destined to the service of other debts—reach such proportions as to allow their being applied to the purposes above expressed, he has in mind to pledge as special guarantee of this debt the surpluses of the special taxes connected with the loan that is known as Speyer's

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[52] Mr. S. P. Gilbert, Under Secretary of the Treasury; the appointment under consideration at this time was not made.

[53] File translation revised.

[54] Not found in Department files.

thirty-five million dollar loan ($35,000,000) estimated in the present Budget, (of which I send you herewith a copy stamped with the seal of this Legation) at $1,655,000, excess taxes that are now being collected and also the proceeds of the 6 percent tax on banks and corporations, estimated in the present Budget at $3,500,000, the collection of which is expected to increase. Both revenues are estimated at $5,155,000, and the Speyer's contract authorizes the disposition of said surplus; therefore, supposing an amortization of thirty years in equal yearly payments, and reckoning on an interest as high as 6 percent, the annual sum that will be needed will not reach $4,700,000, there being left an ample margin of a security that guarantees still more the transaction that my Government desires to carry out.

To the end of providing adequately for the current expenses of the Budget and for making up the deficiency which in the ordinary revenues will result when from them are deducted the taxes subject to the payment of the public debt—the creation of which is authorized by the law to which I here refer—a 1 percent tax on sales and on the exchange or transfer of merchandise is created by article 10 of said law, its proceeds being estimated at $15,000,000, which will not only cover said deficiency but will go even much further, and, in anticipation of this, the President is authorized by a transitory ruling of the law in question to reduce it even to one-half percent, if, after the lapse of the time necessary to ascertain the amount of its production, this amount should considerably exceed the sums required for the object to which it is to be applied.

As, on the other hand, the national expenses have been reduced by recent successive readjustments to the annual sum of $54,852,102.11 authorized by the present Budget, it is evident that the ordinary revenues of the Government are more than sufficient for the payment of interest and the final amortization of this public debt, after meeting the current expenses of the Government.

That said revenues may be greater, if possible, than heretofore, the same law establishes that the Cuban Government, starting from the present fiscal year, may apply all the surplus of its revenues—after paying all annual expenses and leaving in the Treasury a suitable balance for the same purpose—to the amortization of its present debts in the order and under the terms stated in paragraph 2, article 3, of the said law.

In view of these circumstances and prior to carrying out this operation of credit that is projected with quite extraordinary guarantees in order to insure its immediate success under the best possible conditions in the money market, my Government desires to know if, in accordance with the stipulations of article 2 of the Permanent Treaty of Relations between Cuba and the United States

of America dated May 22, 1903, Your Excellency's Government has any objection to make with regard to this public debt.

I take [etc.] ARTURO PADRÓ

837.51/873

The Representative on Special Mission in Cuba (Crowder), temporarily in the United States, to the Secretary of State

WASHINGTON, *October 21, 1922.*

DEAR MR. SECRETARY: I have read the note of the Cuban Government of the 18th inst., making formal application for approval by the Department of the Fifty Million Dollar Loan authorized by the Law of the Cuban Congress of October 9th, 1922, and beg leave to submit the following comment thereon:

The single question for determination arises under Article II of the Permanent Treaty between the two countries, in which Cuba stipulates with the United States that it will not assume or contract any public debt to pay the interest upon which, and to make reasonable sinking fund provisions for the ultimate discharge of which the ordinary revenues of the Island of Cuba, after defraying the current expenses of the Government, shall be inadequate.

The note of the Cuban Government states that the national expenses have been reduced by reason of successful readjustment to the annual sum of $54,852,102.11 authorized by the Budget in force. It is pertinent to invite attention to the fact that since the enactment of that Budget the national expenses have been increased by special laws until at the present time they approximate $56,000,000.00, and there will be undoubtedly some further increases to supply omissions in the present Budget to take care of vitally necessary services of the State. We may, however, I think, contemplate that the liquidation of the Budget at the end of the fiscal year will show a substantial surplus, but not in itself sufficient to take care of the service of the proposed new loan. However, in view of the enactment of the Sales Tax and the minimum estimate of the revenue which can be raised under it, namely, Fifteen Million Dollars, I have no hesitancy in saying that the ordinary revenues, which, of course, include the Sales Tax, are sufficient for the two purposes specified in Article II of the Permanent Treaty, to-wit, defrayment of current expenses of the Government and payment of the interest and sinking fund charges on the public debt; and for the further purpose of providing a surplus of receipts over expenses which will enable a substantial amount to be set aside at the end of each fiscal year for the more rapid amortization of the outstanding public debt, as provided in the Loan Statute.

Sincerely yours,

E. H. CROWDER

837.51/864½ : Telegram

The Representative on Special Mission in Cuba (Crowder) to the Secretary of State

HABANA, *October 24, 1922—6 p.m.*
[Received October 25—12:35 a.m.]

72. President Zayas has just informed me that, assuming the loan is approved, he desires service of Governor Harding [55] in connection with the forthcoming audit and upon terms and conditions mentioned by me. He hopes that he may report on November 1st, or as soon thereafter as practicable.

CROWDER

837.51/876 : Telegram

The Secretary of State to the Representative on Special Mission in Cuba (Crowder)

WASHINGTON, *October 28, 1922—3 p.m.*

73. Your telegram No. 72, October 24, 6 p. m.

Governor Harding has arranged to leave Washington November 1, arriving Habana November 3, 5 p.m.

HUGHES

837.51/875

The Acting Secretary of State to the Cuban Chargé (Padró)

WASHINGTON, *November 1, 1922.*

SIR: I have the honor to acknowledge the receipt of your note of the 18th instant [*ultimo*] in which you inform me, in compliance with instructions from your Government, that the Cuban Congress has voted and President Zayas has sanctioned the law of October 9, 1922, published in the extraordinary edition No. 16 of the *Official Gazette*, a certified copy of which you enclosed, Article 1 of which authorized the President of Cuba to issue bonds for an exterior loan in an amount not exceeding $50,000,000, payable in gold coin of the United States of America of the present standard and fineness.

[Here follows a recapitulation of the Chargé's note, printed on page 1044.]

In reply I desire first of all to express to you my gratification at the information which you convey to me that this loan is to be contracted pursuant to the program of the Cuban Government for the solution of its economic difficulties.

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[55] W. P. G. Harding, Governor of the Federal Reserve Board.

In view of your statement that the Cuban Government, pursuant to the report of the Commission charged with the revision of the internal revenues and tariff schedules, has provided for additional revenues estimated at $15,000,000 annually, and in view of the statements made in your note and the supplementary information submitted to the Department of State to the effect that the service of the proposed loan can be made from the ordinary revenues of the Republic, the ability of the Government of Cuba to meet the service of this proposed issue from its "ordinary revenues" as provided for in the treaty between Cuba and the United States of 1903, would appear to be indicated, provided that the annual expenditures for the present and succeeding fiscal years, during the life of the loan, are not increased in such manner as to imperil the service of the contemplated loan and the existing debts of Cuba.

As regards the adequacy of the specific revenues allocated to the service of the proposed loan, however, the Department is unable to express an opinion other than to say that it presumes that should these not prove to be sufficient at any time the President of Cuba will, in accordance with the authority granted him under the loan statute, pledge such additional funds from the ordinary revenues of the Cuban Government as may be necessary to meet the service charges, and I should be glad to have your confirmation of this. Subject to the foregoing, I am happy to inform you that the Department has no objection to the negotiation by the Cuban Government of the loan described in your note under acknowledgment.

Accept [etc.] WILLIAM PHILLIPS

837.51/881b

The Acting Chief of the Division of Latin American Affairs, Department of State (White) to the Representative on Special Mission in Cuba (Crowder)

WASHINGTON, *November 2, 1922.*

DEAR GENERAL CROWDER: I am just in receipt of a letter from Mr. Blair of Lee, Higginson and Company stating that they are very much interested in the Cuban loan, and that they hope nothing will come up which will prevent them from bidding. Mr. Blair inquires whether the bankers will all bid on the same form of bond to be decided upon by the Cuban Government prior to receiving the bids, or whether each banker will be free to suggest the form of bond he desires to bid on. I told Mr. Blair that so far as I knew this point had not been determined by the Cuban Government. Can you give me any information on this subject?

With kindest regards [etc.] FRANCIS WHITE

837.51/879

The Cuban Chargé (Padró) to the Secretary of State

[Translation]

WASHINGTON, *November 3, 1922.*

MR. SECRETARY: I have the honor to acknowledge the receipt of Your Excellency's note, dated November first, 1922, in which you are pleased to inform me, in answer to the note of this Legation of October 19 [*18*], 1922, that the Department of State has no objection to offer, under the stipulations of Article II of the Permanent Treaty of Relations between Cuba and the United States of 1903, to the negotiation by the Cuban Government of the fifty million dollar loan ($50,000,000) authorized by the law of October 9, 1922.

In conveying to Your Excellency the gratification of my Government for your aforesaid communication, I am pleased to inform Your Excellency that, having expressly consulted it on this subject, my Government wishes me to ratify its opinion that the taxes specially allocated to cover the service of the new loan are sufficient and, at the same time to confirm the interpretation of Your Excellency that, if by whatever cause this were not so, the President of Cuba will pledge additional funds from the ordinary revenues of the Cuban Government to that service in accordance with the authority that the loan statute has granted him.

I take [etc.] ARTURO PADRÓ

837.51/879

The Acting Secretary of State to the Cuban Chargé (Padró)

WASHINGTON, *November 4, 1922.*

SIR: I have the honor to acknowledge the receipt of your note of the 3rd instant, in which you inform me that your Government authorizes you to state that in its opinion the taxes especially allocated to the service of the loan mentioned in your note of October 18, 1922, are sufficient and, at the same time, to state that should they for any reasons not be sufficient the President of Cuba will pledge additional funds from the ordinary revenues of the Cuban Government to the service of the loan, in accordance with the authority granted to him by the loan statute.

In view of this assurance I take pleasure in informing you that the Department has no objection to the negotiation by the Cuban Government of the loan described in your note under acknowledgment.[56]

Accept [etc.] WILLIAM PHILLIPS

[56] At the same time the Acting Secretary informed the Chargé orally that the Government of the United States viewed with great concern the pending amnesty bill as well as the possibility of any changes in the existing Cabinet. The amnesty bill became a law June 5, 1924.

837.51/880 : Telegram

The Representative on Special Mission in Cuba (Crowder) to the Secretary of State

HABANA, *November 8, 1922—5 p.m.*

[Received 10:52 p.m.]

75. Because of illness, not serious, which has confined President Zayas to his room since Friday last he has been unable to meet either Governor Harding or the representatives of Morgan and Company. Until conferences have been had am unable to report to the Department terms and conditions on which the loan will be offered to the public.

Official count recent elections progressing slowly but first indications that Liberals had carried all the provinces except Pinar del Rio are being confirmed as the canvass progresses.

CROWDER

837.51/880 : Telegram

The Secretary of State to the Representative on Special Mission in Cuba (Crowder)

WASHINGTON, *November 9, 1922—6 p.m.*

80. Your 75, November 8, 5 p.m.

Lee, Higginson and Company sending representative Cuba Friday or Saturday if assured Cuban Government wishes competitive bidding. Other bankers also interested. Please telegraph as early as possible manner in which loan will be negotiated.

HUGHES

837.51/884 : Telegram

The Representative on Special Mission in Cuba (Crowder) to the Secretary of State

HABANA, *November 10, 1922—noon.*

[Received 10:45 p.m.]

76. Reference to your urgent number 80, November 9, and letter of Mr. White November 2. Loan situation may be briefly summarized as follows: Mr. Morrow and associates representing Morgan and Company here on special invitation of President Zayas to advise the Government as to the general terms and conditions upon which the proposed Cuban loan should be offered under the discretionary powers given the President by the loan statute. President Zayas during the past week has been quite ill, in fact unable to see even the members of his Cabinet. Mr. Morrow however has discussed the whole problem in several interviews with me and Governor Harding and has had several conferences with Secretary of the Treasury. In his first interview with me last Monday he stated that despite the fact

that the contract of October 7th, 1921, for the $5,000,000 temporary loan provided that such loan was made as part of a larger loan to be negotiated with his firm after the budget was balanced he was willing to waive any of the obligations the Cuban Government expressed or implied in that contract. He further advised me that under the anomalous situation in Cuba at the present time due to the radical Cabinet changes made in June it is his opinion that the President of Cuba, subject to the approval of the United States Government, should determine all the conditions of the loan, including rate of interest, sinking fund, security etc., and that the loan should then be offered for open competitive bidding of the type followed by New York and other municipalities in the United States. The Secretary of the Treasury is considering this advice but has not yet had an opportunity to see the President. Mr. Morrow has emphasized strongly to me and to the Secretary of the Treasury of Cuba that inasmuch as $44,000,000 of the proposed $50,000,000 loan is in reality to take care of deficits and losses incurred during the Menocal administration and the period of confusion that followed and only $6,000,000 is for new public works, there should be as rapid an amortization of the loan during the early years as the Cuban budget will permit. While the exact method of disposing of the loan cannot be definitely determined until President Zayas either recovers or can be persuaded to delegate the matter to the Secretary of the Treasury, I am personally of the opinion that Mr. Morrow's advice is sound in principle. I think that there are great disadvantages in having competitive bidding by private negotiations. It will almost certainly result in some bankers suggesting terms with reference to lifting amortization of the debt that might interfere substantially with the plans for economy. Especially will this be true if the bankers are either unfamiliar with or indifferent to the public aspects of the United States position here.

If this view is ultimately adopted there will be full advertisements and a chance for everyone to compete openly. Lee, Higginson and Company and others should be encouraged to send representatives here but I should appreciate it if the Department would say a word of caution to them about avoiding any advice as to the character of the loan which would lead the Cuban Government to relax the very great efforts which are being made under the new Cabinet for strongest economies. There is no objection to communicating so much of the contents of this message as you desire to Lee, Higginson and Company.

Representatives of Speyer and Company and Blair and Company arrived this morning and I will present them to Secretary Despaigne this afternoon.

CROWDER

837.51/921 : Telegram

The Representative on Special Mission in Cuba (Crowder) to the Secretary of State

HABANA, *January 13, 1923—2 p.m.*
[Received 5:23 p.m.]

5. Loan awarded to Morgan and Company by Presidential resolution today.

CROWDER

WITHDRAWAL OF UNITED STATES MARINES FROM CAMAGUEY [57]

837.00/2178a : Telegram

The Secretary of State to the Representative on Special Mission in Cuba (Crowder)

[Paraphrase]

WASHINGTON, *December 9, 1921—6 p.m.*

185. The Government of Cuba has expressed desire that the Marines should be withdrawn from the Province of Camaguey. Please cable whether in your opinion their presence there is still necessary.

HUGHES

837.00/2184

The Under Secretary of State (Fletcher) to the Secretary of the Navy (Denby)

WASHINGTON, *January 24, 1922.*

SIR: With reference to my letter to you of December 19,[58] and to your reply thereto under date of December 23,[58] regarding the withdrawal of the marine garrison at Camaguey, Cuba, I beg to advise you that the Department of State is now informed by General Crowder that he is satisfied that local conditions no longer require the retention of this American garrison at Camaguey, and that adequate provision has been made for the protection of American property in that vicinity. I beg to request, therefore, that instructions may be issued in order that the withdrawal of the marine garrison from Camaguey may take effect without delay.

I have [etc.] HENRY P. FLETCHER

[57] See *Foreign Relations*, 1918, pp. 276 ff.
[58] Not printed.

837.00/2195

The Secretary of the Navy (Denby) to the Secretary of State

WASHINGTON, *January 26, 1922.*

SIR: In compliance with the request in your letter of January 24, 1922, LA 837.00/2184, orders will be immediately issued directing the withdrawal of the Marine Corps garrison now at Camaguey, Cuba.

This detachment will be withdrawn to the U.S. Naval Station, Guantanamo Bay, Cuba, where it will complete its target practice and whence it will be returned North on vessels of the Fleet early next spring.

I have [etc.] EDWIN DENBY