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Weekly Contributions
Latin America Branch, OMB, CIA
15 February 1949

B/LA finds, among the week's developments, two items of particular interest. In Venezuela there is a significant increase in pressure for a reorganization of the military junta (p. 2). US policy and prestige are involved in the possible rejection by Panama's Assembly of the proposed air transport agreement (p. 4).

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SUMMARY

NORTHERN DIVISION: The current situation in Costa Rica is reviewed in the article section (p. 5). Panama's National Assembly could very well turn down the planned air agreement with the US (p. 4). In Panama's recent financial law it is frankly acknowledged in the text that the country has not yet recovered from recent elections (p. 2). Review of the current situation in Nicaragua will be found in the article section (p. 7).

CENTRAL DIVISION: In Venezuela the growing opposition to the military junta could have serious consequences (p. 2). A mob in Ecuador destroyed a radio station, but no political implications are evident in this event (p. 2).

SOUTHERN DIVISION: A review of the current situation in Paraguay will be found in the article section (p. 9). In Argentina the need to settle the present printers' strike may make it necessary for Perón to compromise (p. 3).

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1. PANAMA: It is hard for people in the US to realize than an election may be more disturbing than a revolution in Latin America.
A proposed law has been introduced into the National Assembly whereby a moratorium is to be established until 31 January 1951 with respect to all financial obligations of the National Treasury pending from 1 January 1947. The preamble for the law cites three reasons therefor; one is the fact "that peace of mind, disturbed by the electoral process which has just ended, has not yet been restored, and as a consequence the normalcy and harmony of the Isthmian family has not been reestablished".

2. VENEZUELA: Growing pressures for reorganization of the junta.
A CIA source recently reported that the opposition within the military (see B/LA Wkly for 8 Feb 49) now is apparently becoming organized into two groups. Most important of these is the newly formed "Grupo Uribate", leaders of which are Colonel Ochoa Briceño, General Celis Paredes, Rangel Lamus, and Luis Geronimo Petri. Its chief aim is the removal of Delgado Chalbaud because of his moderate policies. A second group may be forming about Colonel José León Rangel, who is "suspected of conspiring with Medina elements". It is now reasonably clear that the purpose of both groups is to rid the government of all officials tainted with Acción Democrática influence, among whom Delgado Chalbaud is foremost.
Student and labor disturbances may play into the hands of the groups who seek reorganization of the junta. US Embassy Caracas has reported that the student disturbances at the University of Caracas on 10 February may be followed by other such disturbances in order to provoke the labor syndicates to declare a nation-wide general strike within a few days. The report indicates that the strike would have Communist support. It is believed that the labor syndicates will not be stampeded into a general strike because they are not now ready for any such drastic action. A series of student disturbances and wild talk about a general strike will, however, strengthen the hand of the anti-Delgado opposition, which favors a stricter labor policy and a more rigid control of the country and population. In any reorganization of the junta the chances are good that Pérez Jiménez, who has often opposed US policies and objectives, will be made president of that body.

3. ECUADOR: The mob destruction of a Quito radio station on the night of 12 February was precipitated by the station's dramatization of an invasion from Mars. There were no political implications in the rioting and there is no evidence that it was Communist-inspired. The event does, however, offer another dramatic incident showing the emotional instability of Latin American crowds and their potential for violent reaction to chance events.

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4. ARGENTINA: The Perón administration faces a dilemma in attempting to end the printers' strike which has deprived Buenos Aires of newspapers since 8 February. If the government persists in denouncing and jailing the conservative printers as Communists, it will discredit this procedure, evidently intended for large-scale use -- in some other industries justification could be found in Communist affiliation of workers -- to resist inflationary wage demands. On the other hand, if the government compels the publishers to grant the printers demands, it will compromise its anti-inflationary stand against wage increases. Such a concession in favor of the non-Peronista printers would make the government less able to persuade the mass of Peronista labor to limit their wage demands. Because the skilled are difficult to replace, and since the government normally uses a large sector of the press for propaganda purposes, it is probable that the strike will soon be settled through compromise measures which may involve (1) partial concession on wage demands, perhaps disguised as special benefits, and (2) announcement that subversive elements have been eliminated.

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The Bilateral Air Transport Agreement and Panamanian Politics

Panamanian political developments have introduced complications into the current US negotiations for an air agreement. As a result, ratification by the National Assembly is not assured.

The successful negotiation of an agreement which will permit full utilization of Panama's new and costly national airport has become a matter of prestige for President Díaz' government. This airport, built by the preceding government, now operates at a substantial loss and is not fully utilized by commercial air carriers, who prefer Canal Zone facilities. Without the air agreement, commercial airlines will continue the existing arrangements, and political groups opposing the Díaz government can thus point to Panama's immensely costly and "deserted" airport as indicative of government ineptitude and incompetence. The opposition can be expected, both by innuendo and political maneuver, to endeavor to embarrass the government by putting obstacles in the path of ratification.

In particular, opposition may be expected from Harmodio Arias, former president, the country's most influential publisher, and a bitter personal enemy of President Díaz. Díaz did not receive a majority of the popular vote in the recent elections, and Arias believes that he was elected by fraud and deceit. Each seeks to ruin utterly the other. Thus Arias and his sons can be expected to throw every resource at their command against the agreement in order to prevent Díaz from achieving any success. The influence and connections of the Arias family among intellectual and student circles -- the Rector of the National University is a brother-in-law of Arias and possibly in debt to him -- will probably be utilized to arouse popular indignation over the "oppressive" terms of the agreement.

The Díaz government's position before the National Assembly is already weak. The most recent session has not approved the government's budget; the government failed also with its bill for salary increases, with its proposal for special fiscal powers, and with other measures in which it demonstrated a special interest. On 1 February, a 15-minute riot occurred in the Assembly gallery during which government supporters shouted "You'll be bathed in blood".

US Hemisphere policy and prestige, rather than long-term air transport interests, are at stake. Should the agreement fail at the hands of the National Assembly, Canal Zone facilities will remain available to US commercial airlines serving the area. Nevertheless, although long-term US air transport interests might not be impaired, failure of the agreement, like that of the ill-fated Defense Sites Agreement, might have unfortunate popular repercussions on the concept of Hemisphere solidarity as based on unity of the 21 American Republics.

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The Current Situation in Costa Rica

(Summary: The present Costa Rican Government's reform and recovery program is opposed by politically powerful commercial and financial interests. The government does not have sufficient revenue to meet pressing financial obligations. Provisional President Figueres' commitment to the Caribbean Legion conflicts with the country's isolationist and pacific traditions. Oppositionist leader, Ulate, however, does not himself wish to assume office at this time and is thus content to mitigate the more radical measures advocated by Provisional President Figueres by innuendo and political maneuver.)

The military junta headed by José Figueres, which now governs Costa Rica, assumed office in May 1948, upon the conclusion of the civil war and the ousting of the previous regime dominated by Calderón Guardia. An agreement was made with the legally elected president, Otilio Ulate, that Figueres, who had led the military forces to victory during the civil war, should rule by decree for the next 18 months. The junta immediately undertook a vigorous recovery and reform program. It annulled the old constitution and sponsored a free election for a constituent assembly to pass on a suggested new one embodying its theories of social obligations and a planned economy, appointed a new Supreme Court, outlawed the Communist Vanguardia Popular, decreed the nationalization of private banks and a 10 per cent capital levy, demobilized the army, and, when it realized 18 months was not sufficient to give effect to its program, obtained a six-month extension of its term of office. Lack of political acumen, arbitrary methods, and several socialistic decrees, however, reduced the popularity of the junta to the point where the Social Democratic Party, identified in the public mind with junta policies, was overwhelmingly defeated in the January constituent assembly elections by Ulate's National Union Party. Thus Ulate is now in a position to associate himself with any successes the junta is able to achieve and at the same time to attack it for its blunders and oppose the growth of a possible rival political party against the time when he shall take office. The position of the mildly liberal Ulatistas, representative of Costa Rica's business and professional interests, is now such that they can make their influence felt on junta policy.

Costa Rica is confronted with serious economic distress resulting from inflation, debt, dollar and revenue shortage, and property and crop damage caused by the recent civil war. As an effort to alleviate distress, the government has decreed a 10 per cent capital levy and increased excise and import taxes; has signed a new contract with the United Fruit Company that

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will bring in an increased amount of revenue over the old contract; has decreed nationalization of private banks, monetary reforms, price and exchange control, expansion of credit facilities, and certain wage increases; has issued large Treasury drafts; and is encouraging cooperatives, more productive government-owned public utilities, and increased domestic food production. But tax returns are disappointing. The government has not enough money to buy up the shares of the nationalized private banks and pay for the Treasury drafts, and undoubtedly will have extreme difficulty in meeting its unprecedentedly high \$15,300,000 (at free market rate) budget for 1949. Business and commercial interests are protesting vigorously many of the economic measures, and are threatening non-cooperation. It now appears unlikely, therefore, that the junta's economic program will achieve substantial success unless supported by extensive US loans.

The junta's foreign policy has encountered considerable domestic opposition. Junta Chief Figueres, in exchange for the assistance of the Caribbean Legion gave him during the 1948 civil war, committed himself to support the Legion, and is now harboring this group which seeks to destroy the neighboring regime of General Somoza of Nicaragua. Costa Rica is, however, traditionally pacific and isolationist; its present military strength is but 615 men, who, as a group, have military capabilities inferior to those of the Legion. A majority of the Costa Rican people, and specifically Ulate, are emphatically opposed to Costa Rican abandonment of its traditional isolationist policy and are most reluctant to see the country undertake an expensive foreign adventure with the Legion. Figueres is thus caught between his commitments to the Legion and the desire of the Costa Ricans for detachment from Central American revolutionary movements. At the same time, he lacks the military force necessary openly to deny Costa Rican bases to the Legion should he elect to follow an isolationist policy. The existing impasse will thus probably cause him to pursue a policy of compromise and delay which may further impair his popularity both with the Legion and the Ulatistas.

Because of the multitude of serious and vexatious problems which now confront the Costa Rican Government, however, oppositionist leader Ulate is himself most reluctant to assume the responsibility of public office. It is estimated, therefore, that he will not conspire against Provisional President Figueres to the point where the position of the latter will become untenable, but will be content to seek to mitigate the more radical of Figueres' measures by innuendo and political maneuver.

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The Current Situation in Nicaragua

Despite talk of instability, the Nicaraguan political situation remains under the firm control of Dictator Somoza, who has recently admitted his willingness to be returned to the presidency. By sending Dr. Cuadra Pasos to Spain as Ambassador, and by forcing the resignation of Foreign Minister Debayle, he has removed from power two possible candidates of the "loyal opposition" — the Conservative group which was granted representation in the government last year when a more democratic façade was desired as an aid to recognition.

The major opposition, formed of the Independent Liberal Party and the Conservative Party, and not represented in the government, is weak and uncoordinated. General Emilio Chamorro, Conservative military leader whose intended coup of last year was a dismal failure, is no longer a threat and is rumored to have given up active leadership. Rosendo Argüello Jr., as leader of the Caribbean Legion, represents the only military force that might depose Somoza. Argüello's supposed dictatorial ambitions have cost him the support of the Independent Liberal Party within Nicaragua and have prevented the consolidation of an effective internal anti-Somoza bloc. Oppositionists within the country would probably hesitate to come to his aid if he should decide to invade. At present they prefer to contemplate the formation of some sort of international commission which could effect a peaceful and democratic solution through supervision of free elections.

The small Partido Socialista de Nicaragua (PSN), whose leaders were arrested, and later released by Somoza last year, is currently engaged in the promotion of subsidiary Communist organizations and the expansion of control of labor groups. Also competing for control of labor are increasingly militant anti-Communist groups which look to Argentina and Spain for ideological support. Although the PSN leaders are theoretically barred from political activity through the terms of their release, they may support Somoza in return for greater freedom of action.

The military situation, as always, rests on the loyalty of the Guardia Nacional to Somoza. Although there is obvious dissension among the poorly paid officers stationed in provincial cities and towns, the higher officers in Managua and at special posts are kept loyal through good salaries, extra compensation, and opportunities to participate in officially sanctioned graft. General Somoza's residence, La Curva, is also the principal arsenal of the Guardia, and only the defection of key military posts, such as the General's bodyguard or the Presidential Guard, could assure the success of a barrack-room revolt. At present, there is no evidence of such disloyalty, though it may develop out of the coming economic crisis, which may force curtailment of military expenditures.

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The economic outlook for Nicaragua is exceedingly dim. The coffee crop this year is disastrously poor, possibly the worst in almost 40 years. Dollar receipts from the current crop are expected to be about \$3,770,000, compared to \$8,390,283 last year. The sesame exports will also be under those of last year, about \$3,000,000 compared with \$3,557,136. Last fall the Nicaraguan National Bank, unable to obtain further credits from the International Monetary Fund and the Bank of America, finally obtained \$1,551,000 through advances from the three leading Nicaraguan gold-mining companies and through short-term credits from the Bank of London and South America and the Grace Bank. These loans must be paid back through dollar exchange earned in 1949 from exports. Since coffee might normally be expected to supply about 40 per cent of the dollar exchange, the failure of this crop can virtually destroy Nicaragua's credit position.

Before the failure of the coffee crop was known, the government had already anticipated cutting import authorizations to about half the amount authorized in 1948. Local merchants have become increasingly alarmed and critical of the government's refusal to grant or extend import permits, and some are considering returning deposits made on shipments which have not yet left the US. Charges of political favoritism in the granting of permits will grow worse as the situation deteriorates. The government, which has long been relying on stringent controls to alleviate the exchange shortage, may eventually decide to remove all restrictions, which will, in effect, devalue the córdoba.

In foreign affairs, Nicaragua's current problem is that of absolving itself from responsibility in the recent Costa Rican invasion. The condemnation of both countries by the COAS investigating committee is privately viewed by the government as a Nicaraguan moral victory, which Somoza hopes to convert into a rout through emphasis on Figueres' rejection of peace offers and the continued presence of the Caribbean Legion in Costa Rica. Under the surveillance of the COAS military commission, the Guardia Nacional has ceased to support Costa Rican revolutionaries, but those interned in Managua are permitted considerable freedom of movement and are presumably still in contact with those fighting in Costa Rica. Somoza's opponents are less pleased with the work of the COAS. Although they believe that its prompt action prevented the spread of the conflict, they hoped for severe action which would undermine Somoza's strength. Having disassociated themselves from the military factions involved, they have advanced the proposal that an international army be formed to supervise elections, and that national armies be reduced to purely police units.

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The Current Situation in Paraguay

Recent events in Paraguay have demonstrated that political confusion need not disrupt a primitive, low-subsistence-level economy. Political turmoil, that has been more or less continual since the overthrow of former President Moriffigo, reached a new climax on 30 January when President González was forced to resign. The group that forced González out was essentially the same one that had previously secured his nomination and election and had allowed him to assume office after Moriffigo's fall. Once González was in office, however, this group became his principal political opponent and ultimately caused him to resign.

González' government was weak from its inception because the selection of González as president was more or less a by-product of the struggle between Moriffigo and his opponents. González, a loyal friend of Moriffigo, was backed by the militant Guión Rojo wing originally as a means to preclude Moriffigo's continuance in power. González' nomination by the Colorado Party was forced through by the Guión Rojo, and his election was easy since there was no opposing candidate. Later, the Molista faction separated from the rest of the group. After Moriffigo had been forced from office, even though it was doubted that the Molistas would allow González to assume the presidency, he came into office without incident on 15 August 1948.

The equivocal attitude of the Molistas towards González was further illustrated when, after harassing González continually during his first month of office, they, backed by the Asunción police and certain army units, rallied to the support of the President and put down a revolt. They then resumed their former attitude towards González and appeared to have all power in their hands by 12 January. At the crucial stage, however, the army refused to participate in a "party affair" and González was saved momentarily and was enabled to prolong his incumbency another two weeks.

On 30 January the Molistas, supported by Demo-Colorados, the police, and Canata were able to execute a coup quickly, efficiently and with due invocation of constitutional processes, insofar as they referred to the naming of General Raimundo Rolón as provisional president.

The reaction of the general public to the change of government apparently has been one of relief to be rid of González. It is estimated that the persisting political differences will be difficult to resolve, and that the military have improved their relative position in this maneuver and may eventually dominate the government. Lack of unity and strong leadership among the armed forces reduce somewhat the chances of such an

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eventuality but the army will remain a significant factor in political developments and any government that comes into power must depend for its existence on army and police support.

The change of regime has not been marked by any evidences of ideological shifts or of a change of attitude toward Paraguay's neighbors or the US. Presumably the new government will be as pro-US as the old. Both Brazil and Argentina seem satisfied with the new regime. Brazil, perhaps, has made its satisfaction somewhat more patent than has Argentina.

Paraguay's economy, weak at all times, has not overcome the setbacks caused by the 1947 civil war. Recent political disturbances, however, have had relatively slight effect. Staple food crops — corn, beans, and mandioca — are expected to be sufficient for the normal needs of the population. The supply of animals for slaughter appears to be greater than in 1948. Wheat and wheat flour, as usual, will have to be imported from Argentina. Similarly, recent imports of edible oils from Brazil will cover requirements until mid-March when local supplies will be available. Paraguay is principally a "hermit", self-sustaining nation and foreign trade is relatively unimportant because of the limited economic and industrial development of the country. Recently, however, Paraguay's normal exports of a rather limited number of products such as quebracho extract, petit grain and tung oils, corned beef and some cotton, have failed to pay for its modest imports. The postwar pattern of an excess of imports over exports has continued to deplete foreign exchange to the point that an increasingly difficult situation looms.

Argentina is normally Paraguay's best customer and principal source of supplies. This characteristic of its trade will probably remain regardless of Paraguay's political orientation. A regime favored by Perón would presumably facilitate harmonious trade relations and reduce Paraguay's fears of Argentine economic pressure. The US, Brazil, and the UK follow in that order as other important suppliers and customers of Paraguay.

An attempt to improve and modernize agriculture was initiated by former President González. The first shipments of US agricultural equipment ordered by him arrived in Asunción last December. Although it is not known whether the new government will continue the program, it is doubtful that any governmental effort will make progress in developing a sounder Paraguayan economy. Principal obstacles are the nearly hopeless present state of Paraguayan export industries, the prevalence of graft, and a popular attitude that nothing can be done about the country's economy, despite the customary façade of high-sounding measures always proposed by politicians.

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