

# AN IMPECUNIOUS PILOT: BRITISH BUSINESS CULTURE AND THE CASE OF LOWELL YEREX, 1933-1946.

Erik Benson

*Ouachita Baptist University*

## ABSTRACT

This article examines the relationship between a New Zealand-born entrepreneur, Lowell Yerex, and the British government. It will give particular attention to the role of British business culture in shaping the government's response to Yerex. During the 1930s and 1940s, Yerex built an important airline network in the Caribbean Basin. A British subject, he had an affinity for the empire. However, the British rebuffed his repeated efforts to form an alliance. While they had political, economic and strategic reasons for doing so, the British also manifested a disdain for Yerex because he did not measure up to their business ideals.

There are many telling scenes in the 1981 Academy award winning film, *Chariots of Fire*. One involves the "College Dash" in which the character of H.M. Abrahams bests a centuries-old challenge. The achievement does not escape the notice of two dons, who proceed to discuss the new hero's background. When one mentions that his father is a "financier in the city," the other responds, "what's that supposed to mean, I wonder." The first replies, "I imagine he lends money," leading the other to sniff disdainfully, "Exactly."<sup>1</sup>

In his work *The Rise of Professional Society: England Since 1880*, Harold Perkin states that an anti-entrepreneurial sentiment has existed amongst Britain's business and political leaders. Unlike Martin Weiner, who attributes this attitude to aristocratic influences in British society, Perkin cites what he calls a "professional" ideal. He argues that British leaders have adopted as their ideal a career of public service that eschews "mere money making." As a result, they regard entrepreneurs with a certain disdain.<sup>2</sup>

This article considers this argument in light of the experiences of a New Zealand-born entrepreneur, Lowell Yerex, who had extensive dealings with the British government in the 1930s and 1940s. During this period, Yerex built an important airline network in the Caribbean Basin. A nominal British subject, he had a heartfelt affinity for the empire. Yet the British rebuffed his repeated efforts to form an alliance. They had significant political, economic and strategic reasons for doing so. However, they also manifested a decided disdain for Yerex because of his business practices, which struck them as "American."<sup>3</sup> In essence, he did not measure up to British business ideals. While it is difficult to ascertain to what extent these ideals may have influenced British policy toward Yerex, the disdain for his entrepreneurial style amongst British officials is evident. This paper will address the entire Yerex-British relationship, but will give particular attention to this matter. In the process, it will identify historical connections between business, culture, and international relations.

## *ESSAYS IN ECONOMIC AND BUSINESS HISTORY (2003)*

Lowell Yerex was born a British subject in 1895 in the dominion of New Zealand. His father, while also a British subject, was an ardent admirer of all things American. He manifested this attitude in a variety of ways, including naming several of his children after leading American figures. As a result, his New Zealand neighbors referred to the Yerex children as "the American kids." (This was not a compliment in the ardently pro-British New Zealand of the day.) Lowell's father sent him to college in the United States, where he earned a teaching degree. During World War One, he joined the Royal Flying Corps as a pilot and served in France. He recorded some kills before being shot down and captured.

After the war, Yerex returned to the United States and became a partner in a "flying circus." Danger and showmanship were the key elements in his act. "Captain" Yerex performed many daring stunts and even crashed a plane. Such tendencies were hardly desirable in a commercial pilot. Yet Yerex learned how to fly under demanding conditions and managed the outfit's financial affairs. This experience would prove useful later. Still, it was hardly a stable lifestyle, and in the mid 1920s Yerex left barnstorming.<sup>4</sup>

His retirement from aviation was brief. The Depression left him looking for work, and he joined a Honduran airline as a pilot. The owners were financially incompetent, and he went unpaid. This proved to be a blessing in disguise. In lieu of his salary, Yerex took ownership of the company's only aircraft, and with it started "Transportes Aereos Centro Americanos," or TACA, in December 1931. From these humble origins he would build the region's most important airline.

Central America was hardly the ideal setting for an airline. It had some of the world's most forbidding topography and lacked any infrastructure for commercial aviation. However, the setting did offer some promise. Ironically, the topography was a blessing in that it limited the efficiency of alternative means of transport, which were slow and precarious. Airplanes could leap the mountains and jungles, reaching areas with valuable economic resources. A boon was waiting for the person who could overcome the obstacles and establish an air network.

Yerex did just that. He displayed a natural aptitude for negotiating Central America's difficult political terrain. Soon after he established TACA, a revolution broke out in Honduras. Yerex decided to support the government, and he aided it by ferrying supplies, scouting and, some accounts claim, attacking rebel forces. On one occasion Yerex's plane came under fire and he lost an eye to a bullet. Ironically, this proved to be a blessing. A grateful (and victorious) Honduran government offered him a cash reward. He wisely turned this down in favor of a mail contract and other privileges, such as the right to import planes, parts and other materials duty-free. This windfall allowed him to establish TACA on a firm footing in Honduras. From here he expanded his operations into neighboring countries, where he continued to demonstrate his political aptitude.

Yerex coupled this political aptitude with a remarkable business acumen. This included a certain entrepreneurial ruthlessness. In its early years TACA went to great lengths to eliminate any competitors. It often did so by undercutting their prices. To cover the resulting losses, it employed risky operational practices, such as overloading airplanes. This led to crashes, fatalities, and complaints about its tactics. Yet TACA's success was

## AN IMPECUNIOUS PILOT: BRITISH BUSINESS CULTURE

not simply the result of ruthless competitive methods. Yerex demonstrated some real genius and sophistication. For example, he developed a "deferred freight" system. For a lower fee, TACA stored materials for transport until there was a sufficient load to make a flight profitable. Because flying was so much faster than the other available forms of transport, the materials still arrived at their destination sooner and at a lower cost. Yerex had realized that economy, not speed, was the key to success in commercial aviation, and wisely applied this principle to his airline. Moreover, while TACA bent the accepted rules of air transport with such practices as overloading aircraft, it developed sophisticated methods for minimizing the resulting risks. As a result, it suffered no accidents between 1935 and 1943. The airline demonstrated a growing sophistication in other areas. It established a radio network that provided pilots with up-to-date information on weather and landing conditions. It also bought more multi-engine aircraft, which provided greater safety and reliability. Still, despite these changes, the public perception of TACA would remain one of a "bush" outfit that operated outside the bounds of normal business and operational standards.<sup>5</sup>

TACA soon became a growing and profitable enterprise. From its humble origins in Honduras, it spread to El Salvador, Nicaragua, and Guatemala. This attracted the attention of powerful Pan American Airways, the U.S. government's "chosen instrument" which dominated the international airways of the western hemisphere.<sup>6</sup> TACA's local operations did not concern Pan Am. However, TACA clearly was aggressive and could pose a competitive threat if it entered the international field. Pan Am had reason to worry, for Yerex wanted to do just that. In early 1933, he established services between Tegucigalpa, San Salvador, and Guatemala City. He then signed an international airmail contract with the Nicaraguan government. These actions incited a skirmish with Pan Am. Both sides used their political influence in the region to harass the other. The fighting only abated after 1934, as Yerex turned his attention to developing his local operations and Pan Am devoted itself to spanning the oceans. The outcome was a victory of sorts for Yerex. His fledgling enterprise had battled the American giant and survived; in fact, it had thrived. Few others before or since could make such a claim.<sup>7</sup>

TACA also attracted the attention of U.S. officials, who had their own concerns about the airline. They disliked its practices that seem to risk life and limb for a few dollars. They also disapproved of Yerex's involvement in the Honduran civil war, which threatened the regional political stability they desired. Finally, they had a vested interest in Pan Am's success and hardly appreciated the competition. Yet as the conflict with Pan Am cooled, and as TACA became a safe and established airline, these worries diminished. In the eyes of U.S. officials, TACA contributed to regional stability by fostering increased trade and communication. It also employed American equipment and personnel. However, they were mindful that Yerex was not an American, but a "Britisher."<sup>8</sup>

From the British perspective, Yerex's identity would not be so clear-cut. The British Minister in Honduras, William Gallienne, submitted his first report on the New Zealander in mid-1933. He provided a brief biography of Yerex and a summary of his operations. Like his U.S. counterparts, he expressed concerns about Yerex's competitive practices and political activity. Yet he praised Yerex in glowing terms and identified him as "British."

## *ESSAYS IN ECONOMIC AND BUSINESS HISTORY (2003)*

However, he also noted that TACA primarily used American equipment and personnel. Perhaps most importantly, he commented that Yerex had spent much of his life in the United States; as a result, "he speaks and looks like an American."<sup>9</sup>

Officials in London were rather lukewarm in their response to the report. One Foreign Office official stated, "if Mr. Yerex is shot in his next revolution, I suppose we shall have to make a row about it, though his company and his machines are U.S." It is evident that Yerex's American ties raised doubts in London about his loyalties. In part he encouraged such doubts. He did not rely exclusively on either the British or the Americans. Rather, he courted both. With regard to the Americans, Yerex made no pretense about his citizenship—he was a British subject. However, he also told U.S. officials that they should assist TACA in some way because of its American investors, personnel, and equipment. At the same time, he made use of Gallienne's good offices in various diplomatic matters.<sup>10</sup> Yerex manifested a determined independence. To a certain extent, he was willing to do whatever was necessary in order to advance his interests. Yet his flexibility went only so far. He would not give up his British citizenship, and he would not compromise his independence. As a result of this strange mix of adaptability and inflexibility, he did not fit the molds that the respective powers had for him. This would be the cause of much future uncertainty in both Washington and London.

The uncertainty on the British side may have had other, more subtle, causes. In his earliest report on TACA, Gallienne outlined the many challenges to aviation in the region, including the rough terrain, the lack of proper facilities, and other natural and man-made obstacles. He then stated,

One is accustomed to think of an air-line as a carefully-studied organization, with responsible officials, adequate capital, and probably concessions and subsidies. Not so here. An out-of-work impecunious pilot borrows enough money to buy a cheap second-hand plane and look around for passengers and freight wherever he can find them.

This description of TACA must have given the impression of a "bush" operation. One official in London, upon reading the account, commented that the minister "was very brave to risk his neck in a flight carried out in the conditions he describes." (Gallienne had reported that he had flown on TACA.) Clearly, Yerex's operations struck the British as unsafe and did not measure up to their standards. Moreover, there were indications of some distaste for Yerex's business practices. The comment about having to make a "row" if the *New Zealander* was shot manifests a certain disdain. The commentator made it in response to one of Gallienne's reports that noted that Yerex might suffer from "a lack of scruple." However, the report did not address any illicit activities on Yerex's part, but rather emphasized his "aggressive" business tactics, such as fare cutting.<sup>11</sup> It would seem that the British found these methods objectionable.

By 1939, Yerex oversaw one of the most remarkable airlines in the world. TACA had 23 pilots, 36 aircraft and 550 employees. It operated scheduled services to 118 sites

## AN IMPECUNIOUS PILOT: BRITISH BUSINESS CULTURE

throughout Central America. It carried 22 million pounds of freight, 65,000 passengers, and 354,000 pounds of mail. According to aviation historian R.E.G. Davies, TACA was the world's largest freight-carrying airline. The company was worth millions of dollars.<sup>12</sup>

Yerex was not satisfied, however. He wanted more than a regional freight-hauling business. He aspired to build a "first-rate" international airline that covered the entire hemisphere. In 1938, he began laying the foundations for such an enterprise. TACA founded a Costa Rican subsidiary and started exploring the possibilities of establishing a service between Panama and the United States. It purchased new Lockheed passenger airplanes for such a service. These were faster, sleeker, and far more modern than any other aircraft in the TACA inventory.<sup>13</sup> The intent behind these actions was clear.

Pan Am quickly launched a concerted and ruthless campaign against TACA. It spread false rumors about its competitor's safety record and used its political influence in the region to harass TACA. Reportedly it encouraged Nicaraguan strongman Anastasio Somoza to establish his own airline and oust TACA from his country. This forced Yerex to make certain financial concessions to Somoza. Then, in September 1939, the U.S. State Department received reports that Pan Am had asked a Costa Rican airline to extend its services northward to parallel TACA's main routes. Pan Am promised to pay the airline \$50,000 and cover all its losses if it would undercut TACA's fares. In effect, Pan Am was trying to drive TACA out of business. Yerex asked the U.S. government to call off its chosen instrument. While many in the U.S. government were disgusted by Pan Am's activities, U.S. officials told him that they could not help him because he was not an American. They did suggest that if he "Americanized" TACA they might be able to do something.<sup>14</sup>

Yerex instead decided to approach the British for help. He found a devoted and vocal ally in J.H. Leche, the new British Minister to Central America. Leche urged London to support TACA, which was of "immense value, strategically, politically, and economically, to Great Britain." In December he asked the British Minister in Panama, Charles Dodd, to assist Yerex in getting U.S. permission to fly over the Canal Zone. Dodd replied that the U.S. naval commander in the zone had doubts about Yerex's character and asked for a response. Leche sent a quick reply rebutting various rumors about Yerex, whom, he noted, came from a good family, one unlikely "to produce a black sheep." Leche was certain that Yerex an "honourable gentleman" and urged Dodd to give him all possible support.<sup>15</sup>

At this time Leche also sent a report about Yerex to Whitehall. This was rich in facts and revealing in how he presented them. Yerex came from a "well-to-do" New Zealand family and had married into a Honduran family of "pure" Spanish descent. He had rendered worthy service to Britain as well as Central America. While some criticized his actions in the Honduran revolution, these had been necessary to defend his "livelihood," came at the government's behest, produced few deaths, and shortened the war. Since that time, TACA had become a large, prosperous and stable concern. Yerex possessed many good qualities, including "vision, unbounded energy, and an infinite capacity for taking pains." He did not spend TACA's profits on himself, but rather lived on a modest salary

## *ESSAYS IN ECONOMIC AND BUSINESS HISTORY (2003)*

of \$600 per month. He wanted to build his company into a “great network of British Lines in Latin America and the West Indies.” While he used American personnel and equipment, he did so only for reasons of economy, and hoped to use British resources in the future.<sup>16</sup>

Clearly Leche was trying to allay concerns about Yerex’s character by portraying him as a respectable and responsible businessman in the British mold. He came from a good family and married into another. His actions in the revolution were not those of a devil-may-care mercenary, but of a concerned businessman who had put a humane end to the conflict. His company was not a fly-by-night operation, but a well-established concern. Yerex was motivated not by money, but by British imperial glory. In all, he was a model subject.

In May 1940, Yerex sent a letter to Clive Pearson, the head of the British Overseas Airways Corporation (BOAC). He stated that he had “the best interests of the Empire” in mind, and that TACA could help BOAC in promoting these interests. He presented a summary of his vibrant airline, and explained that he had decided to issue \$1 million in stock to finance further expansion. He preferred that the company remain in British hands, and thus was asking if BOAC wanted to purchase this stock.<sup>17</sup>

British officials faced a momentous decision. TACA impressed them, but they had several concerns, not least about Yerex’s character. One Foreign Office official expressed doubts about whether Yerex was “an honourable gentleman.” Another commented that even “the best families...produce black sheep.” It is significant that these doubts stemmed not from specific charges against Yerex, but from uncertainties about his personal character. Yet these were not the only concerns. TACA’s American equipment and personnel led to questions about whether the company was truly “British.” Moreover, British officials worried about the American response to any British interest in TACA. As one put it, U.S. officials likely would think that “we are poaching on their preserves” if the British invested in TACA. Also, there was the matter of Yerex’s evident ambition. As one official saw it, Yerex wanted to build a large and profitable network in the region, which meant “we may therefore...be deciding the whole question of British air transport in the West Indies by encouraging T.A.C.A. to open up this service.”<sup>18</sup>

Pearson sent a reply to Yerex. He explained that it was BOAC’s policy to focus on trunk routes while leaving “local” services to local nationals. Thus, it could not invest in TACA. It was interested in a “joint venture” in the British West Indies, but because of the war, it could not “partner” with him at this time. As 1940 progressed, British caution only grew. The fall of France left the empire alone in the struggle against the Axis. The British needed U.S. help to survive. As a result, they had to subject their commercial interests to their strategic interest of winning the war. No longer could they openly compete with the Americans in commercial aviation. As the months passed, British officials became more concerned about U.S. sensibilities as they pertained to TACA. They were willing to support a West Indian service, but that was as far as they would go.<sup>19</sup>

Yerex had little choice but to “Americanize.” A new U.S. international airline, American Export Airlines, expressed interest in acquiring control of TACA. The U.S. govern-

## AN IMPECUNIOUS PILOT: BRITISH BUSINESS CULTURE

ment actively encouraged negotiations between the two parties. In October, Yerex agreed to a deal that, pending the approval of the U.S. Civil Aeronautics Board, gave American Export a controlling interest in TACA. This agreement would prove to be a disaster. Yerex now faced the full wrath of Pan Am. To this point, TACA had been a mere annoyance for the U.S. chosen instrument. However, if united with American Export, it would pose a real threat to Pan Am's monopoly. Pan Am launched an all-out offensive against TACA in late 1940. It established subsidiaries throughout Central America, subsidizing them so that they could undercut TACA's rates. Its political tactics were even more insidious. In Guatemala, a Pan Am representative reportedly used bribes and slander to convince the government to terminate TACA's operating franchise. Then, in December 1941, only days before Pearl Harbor, the CAB nullified the American Export/TACA agreement on legal grounds. Yerex was out of the American fold.<sup>20</sup>

The demise of the American Export/TACA union coincided with the U.S. entry into World War Two. The war presented Yerex with a unique opportunity. It created a desperate need for air transport in the western hemisphere that benefited his airlines greatly. It also muted the Anglo-American commercial aviation rivalry. With the struggle against the Axis in its most desperate hours, economic competition had to give way to strategic cooperation. This allowed Yerex to negotiate a middle ground between the British and Americans. Yet the prewar rivalry lay simmering, waiting to resurface. As the two allies shifted their focus to planning for the postwar world, their differences became more pronounced.<sup>21</sup> One could not be neutral and deal with both. Yerex's efforts to maintain his independence would only increase suspicions on both sides regarding his loyalties. From the British perspective, Yerex would prove too "American."

The British had encouraged Yerex to found British West Indian Airways in late 1940. They envisioned a small-scale operation within the British West Indies. Yerex, however, clearly had greater things in mind. His friend Leche began lobbying London to consider the possibility of a network covering the entire hemisphere from Canada to Latin America. British officials were incredulous. They did not want to provoke the Americans with such grandiose designs. Then, in early 1942, Yerex informed them that he was going to ask the Americans for landing rights in Miami. British officials flatly rejected the idea. They were certain that this would dig up an undesirable bone of contention with the Americans. They were not merely considering the good of the alliance. They realized that they were falling behind the Americans in commercial aviation. The British had to dedicate their manufacturing resources completely to combat aircraft. The Americans, on the other hand, were able to develop and build transport aircraft. Moreover, U.S. airlines were taking advantage of wartime needs to expand their operations and gain valuable operating experience. The British saw that they were becoming less competitive with the Americans, and concluded that they would have to bar U.S. airlines from the empire in order to protect BOAC. This would be difficult to do if they, through Yerex, demanded U.S. landing rights. Thus, they refused to support him. Nevertheless, he applied for the rights.<sup>22</sup>

The British fear that BWIA would antagonize the Americans came true, although not in the manner they anticipated. As Yerex was applying for the Miami landing rights,

## *ESSAYS IN ECONOMIC AND BUSINESS HISTORY (2003)*

he also was trying to get the colonial governments in the British West Indies to approve an operating contract for BWIA. U.S. officials obtained a copy of the contract and promptly raised an objection. It would give BWIA a regional monopoly, which, the Americans intoned, would threaten existing Pan Am services. They insisted that the British drop this provision. This demand both concerned and angered the British. While they did not want to challenge the Americans in their own "backyard," the idea that U.S. officials would dictate policy regarding an internal imperial matter upset many. The British offered to exempt Pan Am's rights from the provisions of the contract, but stood firm on the principle that this was an internal matter for the colonies to decide. The Americans acquiesced, albeit grudgingly. While this relieved the British, Yerex's independence increasingly bothered them. He appeared to be less the loyal subject that Leche had portrayed, and more a man of, as one official put it, "intense" ambition.<sup>23</sup>

Meanwhile, Yerex still had to address the issue of "Americanization." While his companies were doing a brisk business, wartime demands and restrictions meant that he could not obtain new airplanes, capital or landing rights without the blessing of the U.S. government. However, he also wanted to maintain his independence. He came up with a solution to this dilemma. He would form a hybrid Anglo-American company, one under his control that employed American capital, equipment, and personnel.

In mid-1942, Yerex tried to implement this vision with the help of the New York investment group of Schroder, Rockefeller, and Company. He offered to place TACA's stock into a Schroder-administered "voting trust" in which American investors would hold a majority interest. Ostensibly, TACA would be American-owned. However, there were some doubts in Washington about the proposal. It would leave operational control of TACA in the hands of Yerex, whose increasingly evident ties to the British raised concerns amongst U.S. officials. When further investigation revealed that one of the holding companies in the Schroder group was in fact British-controlled, American suspicions that Yerex might be acting as a "Trojan horse" for British aviation interests grew. After 1942, Yerex would find U.S. officials far less receptive.<sup>24</sup>

The British too were growing more concerned about Yerex. Yet officials in London were also fascinated by this man whom they had not met. Leche proposed that Yerex visit Britain to discuss the future of British commercial aviation and his role in it. The Foreign Office thought this a worthwhile idea. The Air Ministry, however, was lukewarm in its response, so much so that the Foreign Office began to suspect that it was personally hostile to Yerex and viewed him as a possible rival to its chosen instrument, BOAC. Ironically, the Foreign Office might have encouraged such opposition. In late 1942, while Leche was in London for consultation, the Foreign Office sent him over to the Air Ministry to discuss Yerex. During the meeting he declared,

BOAC and its predecessor Imperial Airways has not had a very brilliant record and is unlikely to do any better in the future unless methods similar to those of Mr. Yerex are employed. It is therefore to be considered whether BWIA should not be affiliated to BOAC and Mr. Yerex taken into the latter as technical operational advisor or General Manager.



## AN IMPECUNIOUS PILOT: BRITISH BUSINESS CULTURE

He was certain that Yerex could make BOAC successful if he were “in charge of the whole concern.” For one thing, the New Zealander would not adhere to BOAC’s “exaggerated ideas of safety amounting to luxury.”<sup>25</sup> Air Ministry records are silent about this meeting, as well as the proposal to bring Yerex to London. Thus, it is uncertain what ministry officials were thinking. However, it is likely that they viewed Yerex as a rival in the western hemisphere, and perhaps even at home.

This would not prevent Yerex from visiting London in the summer of 1943. He apparently made a good impression, even with the Air Ministry. He lobbied for political, capital, and material support. The British made it clear that they still could not invest in TACA. However, at the Air Ministry’s behest, the government decided to give Yerex some used bombers that he could convert to airliners. Yerex asked for twenty-five aircraft. The Foreign Office urged caution, citing Lend-Lease restrictions and the desirability of not arousing the Americans. In the end, the British offered him five aircraft.<sup>26</sup>

Soon after his return to the Americas, Yerex shocked the British. He informed them that he did not want their aircraft, and asked them instead to press the Americans for new Lockheeds or DC-3s. He justified this request by citing, quite legitimately, the poor economic performance of the British aircraft, as well as some safety concerns about them. The British were upset nonetheless. Why did Yerex not voice such objections in London? Ultimately, they failed to understand his position. By 1943, Yerex desperately needed new aircraft. His operations were suffering from attrition, and he could barely keep what aircraft he had in the air. In addition to aircraft, he needed investment capital and a firm political commitment. A handful of old bombers would not suffice. Of course, his handling of the situation was far from ideal. Clearly there was a lack of mutual understanding.<sup>27</sup>

Earlier in 1943, Yerex had formed “Inter-American Airways” as a holding company for his various airline interests. In October, he sold over half of his Inter-American shares to several different American companies, most notably Transcontinental and Western Air, or TWA. However, no one U.S. investor held a majority of the stock. Yerex remained the company’s largest stockholder and operational head. In sum, the arrangement represented his ideal: an Anglo-American hybrid that, under his leadership, tapped into American capital and, he hoped, material resources and political influence.<sup>28</sup>

The British did not applaud this move. In fact, officials in the West Indies claimed that Yerex had betrayed British interests and took action. In his absence, BWIA’s other directors voted to remove him from his position as the airline’s general manager and issue new shares, rendering him a minority partner. This outraged Yerex, who demanded that he retain his managerial post and that the directors approve his sale of BWIA stock to the Americans. The board refused to do the latter, and informed him that his days as managing director were numbered. Yerex warned that this would upset the Americans and cause them to halt delivery of needed aircraft, parts and supplies. He coupled this threat with action by cutting off all assistance from TACA.<sup>29</sup>

## *ESSAYS IN ECONOMIC AND BUSINESS HISTORY (2003)*

Yerex's reaction upset many in London. It seemed to confirm their worst fears about his lack of loyalty to the British cause and his self-centered ambition. One official advised that the British would be best served by "getting clear of Yerex, now he has revealed himself...in this BWIA affair." Another in the Washington embassy offered a more telling response. He acknowledged that Yerex had "kept the British flag for many years in a part of the world where British influence is very difficult to maintain," and that the British had been unable to provide what he needed. However, it was "generally agreed" that Yerex was "primarily a very skillful promoter in the American manner" and that he simply would have used the British to drive up the price for the Americans to buy his airline. Moreover, his "conduct of his private affairs did not make him the most desirable person to represent British influence in Central America."<sup>30</sup>

When Leche saw this dispatch in May 1944, he sent a prompt rebuttal. He declared that Yerex "is an extremely loyal British subject, whose one ambition...has always been to develop his business as a British concern." As for his "American manner," Leche asserted "he has very little use for Americans and none at all for their business methods, even though in self-defence he may have been compelled to adopt them." The notion that Yerex was a "very skillful promoter" was "hardly true." He was skillful, "but he is not primarily a skillful promoter since...he does not care for money and his sole interests lie in aviation." As for his personal conduct, Leche reiterated that no rumors about Yerex had withstood scrutiny. He admitted that Yerex was divorced, but emphasized that his first wife had left him during the Depression, and that he had supported both her and their children since then. He was at present "happily married" with two children. Leche concluded, "I have no reason whatever to suppose that he has anything to be ashamed of."<sup>31</sup>

Doubtless, there were substantive reasons for the British course of action.<sup>32</sup> Yet it is interesting that the Washington embassy had taken a parting shot at Yerex's personal character and conduct, and that Leche had composed a lengthy dispatch to refute these indictments. Leche, one should note, did not endeavor to defend the "American" business methods but rather tried to absolve Yerex of them. As for Yerex's personal life, the British were clearly suspicious of anyone who was a divorcee and who had remarried a young, well-connected woman in Central America. Of course, the implicit suspicion was that Yerex had divorced and remarried in order to further his business ambitions. One must remember that the issue arose merely a few years after King Edward VIII had to abdicate the British throne because his love was a divorcee. Again, while it is difficult to measure the influence that British business culture may have had on British officials, their disdain for Yerex's business acumen was certainly evident.

Leche's spirited defense meant little, for the Foreign Office had already sent a note to various British missions in the Americas declaring,

As a result of his recent deal with Transcontinental and Western Airlines and other United States interests, Mr. Yerex appears to have become involved with them in all his Latin American adventures. Neither he nor his agents

## AN IMPECUNIOUS PILOT: BRITISH BUSINESS CULTURE

can therefore be regarded as dependable representatives of British interests in South America.<sup>33</sup>

Meanwhile, Anglo-American relations concerning the future of commercial aviation were becoming increasingly tense. The leading U.S. policymaker, Assistant Secretary of State Adolf Berle, was pushing a program he called "open skies." Under its provisions, there would be no exclusive spheres of influence in international aviation. The duly designated airlines of any nation would be free to operate anywhere around the globe. This offered obvious benefits for U.S. airlines, with their lead in aircraft development and operational experience. The British realized this, and sought a more restrictive system. Matters came to a head in November 1944 when the two sides met at the international aviation conference in Chicago. This soon turned into a battleground between the two rivals. When it adjourned a month later, it had accomplished little.<sup>34</sup>

Lowell Yerex was at the conference. It must have disappointed him as much as anyone. It certainly offered him little hope for the future, which did not look promising. The Americans had not met his expectations since he had "Americanized," and in fact were proving hostile. Both he and Jack Frye, president of TWA, had asked Berle for help in obtaining airplanes for TACA. The assistant secretary was unsympathetic. He made it clear that he suspected that the British were behind Yerex, and that this made TACA *persona non grata*. Then, at the Chicago conference, the United States proposed a resolution mandating that any designated international airline must be under "national" ownership. In essence, if Nicaragua designated a given airline as its international carrier, Nicaraguans would have to be the majority owners. As one British official commented, this measure was "clearly aimed at the destruction of T.A.C.A."<sup>35</sup>

Yerex turned again to the British. He told them frankly that the Americans were not proving helpful and that for the first time in TACA's history it was losing money. Yet there was good news. One of the American investors wanted to sell out. If British interests bought this stock, Yerex stated, he would enter into a voting agreement with them and effectively return control of the company to British hands.<sup>36</sup>

The response of British officials was hardly enthusiastic. They had a myriad of concerns, the greatest being Yerex. As one official put it, in light of his "past history," his "loyalty to the British cause in South America is anybody's guess but nobody's certainty." This was of paramount concern since effective British control of the airline would depend on him. His loyalty was hardly certain, one official argued, because Yerex seemed to have "little faith in British enterprise to compete successfully with America either in aircraft production or air line operation." In essence, Yerex favored the "American" rather than the "British" approach to the business. This, along with other concerns, offset the attractiveness of TACA.<sup>37</sup>

Meanwhile, a related issue came up. Since Yerex's departure from BWIA, the airline had become an embarrassment to the British. It had failed to maintain several of its services and was losing money. In fact, by March of 1945, the Colonial Office had spent 200,000 pounds keeping the company afloat. This was an astronomical subsidy for such a small airline. It had become, in the words of one British official, "a poor joke."<sup>38</sup>

## ESSAYS IN ECONOMIC AND BUSINESS HISTORY (2003)

To some officials, the solution seemed obvious: reinstate Yerex. After all, as one frankly stated, "Yerex is the best freight air line operator in the world." Yet others balked. At an interdepartmental meeting in February 1945, critics argued, "Yerex was something of a free-booter in airline operations, and conducted his operations, and secured his results with standards of safety that were open to question." Because of this, he would not be a satisfactory manager for a British enterprise.<sup>39</sup> In the end, the British distrust of Yerex undermined any reconciliation. The comments about the "free-booter" with "lax" practices left little doubt that they disliked his methods, which struck them as dangerous and self-serving. This perception had developed over the years, from Gallienne's earliest report to Leche's Air Ministry visit. Lowell Yerex did not match up to "British" business standards.

By early 1945, the U.S. government was giving clear indications to TACA's American stockholders that Yerex would have to go. As the year progressed, pressure mounted on the New Zealander. He finally relented in December 1945. He resigned his position and sold all but 200,000 shares of TACA stock. He held on to these, waiting for the price of the stock to rise further so that he might get more money. This would prove to be a shackle, compelling him to linger for one last scene in the tragedy.<sup>40</sup>

TACA's American owners proved to be incompetent. By the fall of 1946, the airline was in desperate straights. It owed millions of dollars in loans and was losing \$500,000 per month. Its stock had dropped from \$10 per share to a dismal \$3.50 during the previous year. Yerex endeavored to salvage the company. He once again approached the British to see if they might be interested in buying the ailing airline. They proved unwilling. In part they cited TACA's poor condition. Yet the scorn for Yerex remained paramount. One official complained, "apart from Chicago, Mr. Yerex has wasted more man hours of this Department than any living man." In perhaps the most telling comment, another condemned him as "an individualist who likes to play his own hand." In the end, there would be no reconciliation between Yerex and the British. This prompted little grief in London. In fact, the British attitude about Yerex seemed rather smug. One Air Ministry official who encountered him on vacation in Buenos Aires observed, "having made his fortune, Yerex can now sit back and take his ease."<sup>41</sup> In essence, Yerex had accomplished what he had wanted all along: make a lot of money. This justified the British rejection of him as a money-grubbing upstart. He was the quintessential "American."

Lowell Yerex soon left the aviation business, a man disgusted with the British. There were certainly economic, strategic and diplomatic reasons for the British policy toward him. Yet certain cultural considerations were also evident. His story supports the notion that British policy makers regarded entrepreneurial effort with a certain distaste. Airline entrepreneurs were no better than the financiers.

### Notes

1. *Chariots of Fire* (Twentieth Century Fox, 1981).
2. Harold Perkin, *The Rise of Professional Society: England Since 1880* (New York: Routledge, 1989), 363-376.

## AN IMPECUNIOUS PILOT: BRITISH BUSINESS CULTURE

3. British elites often identified the undesirable excesses of entrepreneurs as “American” traits. For further explanation, please consult: Tony Fryer, *Regulating Big Business: Antitrust in Great Britain and America, 1880-1990* (New York: Cambridge University Press, 1992), 43-55.

4. For a more complete account of Yerex’s early years, consult: David Yerex, *Yerex of TACA: a Kiwi Conquistador* (Carterton, New Zealand: Ampersand Publishing Assoc., Ltd., 1985), 17-41.

5. For a more complete account of TACA’s early development, consult: Yerex, *Yerex*, 42-78; R.E.G. Davies, *Airlines of Latin America Since 1919* (Washington, D.C.: Smithsonian Institution Press, 1984), 121-130.

6. For a more complete account of these developments, consult: Wesley Philips Newton, *The Perilous Sky: U.S. Aviation Diplomacy and Latin America, 1919-1931* (Coral Gables, Fl.: University of Miami Press, 1978); Erik Benson, “Flying Down to Rio: American Commercial Aviation, the Good Neighbor Policy, and World War Two, 1939-45,” *Essays in Economic and Business History* 19 (2001): 61-73.

7. Yerex, *Yerex*, 76-80; J.B. Pate (Military Attaché, Costa Rica), G-2 Report 4483, 17 November 1938, *General Records of the Department of State Decimal File* 815.796/156; Matthew E. Hanna (U.S. Legation, Managua) to Cordell Hull (U.S. Secretary of State), 20 May 1933, 817.796/25; Alex A. Cohen (In charge of Office, Military Attaché, Costa Rica), Report 2309, 13 February 1934, 814.796/66; Julius Lay (U.S. Legation, Honduras) to Hull, 10 May 1933, 815.796/111; Hanna to Hull, 12 August 1933, 817.796/28; Lay to Hull, 9 March 1934, 815.796/116; Lay to Hull, 26 April 1934, 815.796/120. Please note that all subsequent references to State Department records will provide the specific document information and the decimal file reference.

8. A.R. Harris (Military Attaché, Costa Rica), G-2 Report 2412, 31 May 1934, *Correspondence and Record Cards of the Military Intelligence Division Relating to General, Political, Economic and Military Conditions in Central America, 1918-1941*, M.I.D. 2548-150/1; Higgins to Hull, 29 June 1933, 815.796/112; Lay to Hull, 9 March 1934, 815.796/116; Hanna to Hull, 12 August 1933, 817.796/25; Pate, G-2 Report 4478, 17 November 1938, M.I.D. 2548-150/22; Higgins to Henry Stimson (U.S. Secretary of State), 30 July 1932, 815.796/97; Lay to Stimson, 3 March 1932, 815.796/8; Lay to Stimson, 11 April 1932, 815.796/83. Please note that all subsequent references to M.I.D. documents will provide the specific document information and the M.I.D. file number.

9. F.O. (Foreign Office records) 371/vol. 16561, William Gallienne (H.M. Legation, Tegucigalpa) to Sir John Simon (Foreign Office), 8 August 1933, A6511/6511/8; F.O. 371/17498, Gallienne to Simon, 10 May 1934, A4493/671/8.

10. Raleigh Gibson (Charge de Affaires ad interim, Honduras) to Hull, 8 November 1934, 815.796/131; F.O. 371/17498, Gallienne to Simon, 28 November 1934, A10082/671/8; F.O. 371/18663, minute by [illeg.], 16 May 1935, A4381/4381/8.

11. F.O. 371/16561, Gallienne to Simon, 8 August 1933, A6511/6511/8; F.O. 371/16561, minute by [illeg.], 14 September 1933, A6511/6511/8; F.O. 371/17498, Gallienne to Simon, 10 May 1934, A4493/671/8; F.O. 371/17498, Gallienne to Simon, 20 September 1934, A8144/671/8; F.O. 371/18663, minute by [illeg.], 16 May 1935, A4381/4381/8; F.O. 371/18663, Gallienne to Simon, 16 April 1935, A4381/4381/8.

12. Fred K. Salter (Charge de Affaires ad interim, Honduras) to Hull, 21 September 1939, 815.796/161; LaVerne Baldwin (Charge de Affaires ad interim) to Hull, 10 October 1939, 817.796/75; Davies, *Airlines of Latin America*, 118-30.

13. Pate, G-2 Report 4424, 19 September 1938, M.I.D. 2548-150/17; Cohen, G-2 4463, 21 October 1938, M.I.D. 2548-150/19; Davies, *Airlines of Latin America*, 118-30.

14. Erik Benson, “The Man Without a Country: Lowell Yerex, His Airline, and U.S. Policy Concerning International Commercial Aviation, 1939-44,” *Essays in Economic and Business History* 18 (2000): 20-1.

15. F.O. 371/24207, J.H. Leche (H.M. Minister, Central America) to Lord Halifax (Foreign Office), 15 March 1940, A2189/341/51; F.O. 371/24206, Charles Dodd (H.M. Minister, Panama) to Leche, 8 January 1940, A871/341/51; F.O. 371/24207, Leche to Dodd, 15 March 1940, A2190/341/51.

16. F.O. 371/24207, Leche to Halifax, 15 March 1940, A2189/341/51.

17. F.O. 371/24207, Lowell Yerex to Clive Pearson (Chairman, British Overseas Airways Corporation), 10 May 1940, A3764/341/51.

18. F.O. 371/24206, minute by E.E. Jenkins, 14 February 1940, A871/341/51; F.O. 371/24207, minute by J. Balfour, 4 April 1940, A2190/341/51; F.O. 371/24207, minute by R.A. Gallop, 5 April 1940,

## ESSAYS IN ECONOMIC AND BUSINESS HISTORY (2003)

A2190/341/51; F.O. 371/24206, minute by J.V. Perowne, 2 February 1940, A604/341/51; AVIA (Air Ministry records) 2/2312 (Part I, 1939-40), minute by P.U.S. to Under-Secretary of State for Air, 2 July 1940.

19. F.O. 371/24207, Pearson to Yerex, 27 June 1940, A3764/341/51; F.O. 371/24207, Foreign Office to Leche, 29 July 1940, A3587/341/51.

20. Benson, "The Man Without a Country," 21-3.

21. For a more complete account of this rivalry, consult: Erik Benson, "Suspicious Allies: Wartime Aviation Developments and the Anglo-American International Airline Rivalry, 1939-46," *History and Technology* 17 (2000), 21-42.

22. AVIA 2/2312, minute by DGCA to PUS, 23 September 1940; F.O. 371/28703, Leche to Anthony Eden (Foreign Office), 27 November 1940, W12161/10016/27; F.O. 371/28703, "Note of a meeting held at the Air Ministry, Whitehall on the 12th June, 1941, to discuss the possibility of assisting the development of the activities of T.A.C.A. Airlines," 12 June 1941, W5144/62/802; F.O. 371/32371, Burkett to G. Labouchere, 9 February 1942, W2791/707/802; F.O. 371/32372, minute by L.E. Steele, 2 July 1942, W9380/707/802; Benson, "Suspicious Allies," 28-32; Benson, "The Man Without a Country," 22-24.

23. F.O. 371/32374, minute by Labouchere, 6 December 1942, W16401/707/802; F.O. 371/32374, minute by Labouchere, 13 December 1942, W17020/707/802; F.O. 371/36450, Halifax to Eden, 13 January 1943, W816/42/802; AVIA 2, 2312 (Part III, 1941-43), minute by DGCA to DOCA, 3 September 1942.

24. Benson, "The Man Without a Country," 24-28.

25. F.O. 371/36450, minute by Scott, 6 April 1943, W5169/42/802; F.O. 371/36450, minute by MacLean, 4 March 1943, W4220/42/802; F.O. 371/32373, minute by Leche, 10 September 1942, W12351/707/802; F.O. 371/32373, minute by Leche, 2 September 1942, W12532/707/802.

26. F.O. 371/36452, Yerex to Hildred, 15 July 1943, W14596/42/802; F.O. 371/36451, LeRougetel to Cribbett, 13 July 1943, W10209/42/802; F.O. 371/36451, LeRougetel to Cribbett, 9 September 1943, W10629/42/802.

27. F.O. 371/36452, R.A.F. delegation (Washington) to Air Ministry, 25 September 1943, W13764/42/802; F.O. 371/36452, Air Ministry to RAFdel, 28 September 1943, W13689/42/802; F.O. 371/36452, Yerex to Hildred, 15 July 1943, W14596/42/802.

28. Yerex, *Yerex*, 153-4; F.O. 371/36452, H. Foote (Press Attaché, Guatemala), memo, 28 September 1943, W14746/42/802; "First Papers for TACA," *Time* 42:16 (18 October 1943), 80-2.

29. AVIA 2, 2333, Clifford to Secretary of State for the Colonies, 22 December 1943, 52A; C.O. (Colonial Office records) 937, ref. #: 25/1, "Civil Aviation. British West Indian Airways." Part I (1943-44), Clifford to Secretary of State for the Colonies, 4 January 1944, p. 2; C.O. 937, 25/1, Part I, Clifford to Secretary of State for the Colonies, 6 January 1944, p. 6; C.O. 937, 25/1, Part I, Clifford to Secretary of State for the Colonies, 4 April 1944, p. 75.

30. AVIA 2, 2333, Balfour to Secretary of State for Air, 2 November 1943; F.O. 371/36453, R.I. Campbell (H.M. Embassy, Washington) to Eden, 13 December 1943, W17184/42/802.

31. F.O. 371/42599, Leche to Eden, 1 May 1944, W7535/11/802.

32. F.O. 371/36453, minute by MacLean, 22 December 1943, W17184/42/802.

33. AVIA 2, 2312 (Part IV, 1943-48), Foreign Office to H.M. Legation, Bogotá, 29 December 1943.

34. Benson, "Suspicious Allies," 35-8.

35. Benson, "Man Without a Country," 28-9; AVIA 2, 2333, Cribbett to Hildred, 10 December 1944; *Yerex*, *Yerex*, 167-8.

36. AVIA 2, 2333, Cribbett to Hildred, 23 November 1944.

37. AVIA 2, 2333, B. F. St. J. Trend (Treasury) to C.W. Evans (Air Ministry), 14 December 1944; AVIA 2, 2333, Cribbett to Hildred, 23 November 1944.

38. C.O. 937, 26/1, Benjamin Cross, "The Development of Civil Aviation in the British Caribbean Area," 15 December 1944; AVIA 2, 2315 (Part 4), "Record of meeting Held at the Colonial Office on the 15th of February, 1945," 15 February 1945; C.O. 939, 25/5, minute by J.B. Williams, 6 March 1945.

39. AVIA 2, 2333, minute by Hildred, 16 January 1945; AVIA 2, 2315 (Part 7), "Record of meeting Held at the Colonial Office on the 15th of February, 1945," 15 February 1945.

40. Morgan to Clayton, 21 February 1945, 813.796 TACA/2-2145; Morgan, Memorandum of Conversation, 28 March 1945, 813.796 TACA/3-2845; F.O. 371/50274, "Note on Talks with Mr. Yerex," 7 December 1945, W16519/51/802; F.O. 371/54490, Yerex to Leche, 27 November 1946, W11956/5/802.

## AN IMPECUNIOUS PILOT: BRITISH BUSINESS CULTURE

41. F.O. 371/54490, Yerex to Leche, 27 November 1946, W11956/5/802; F.O. 371/54607, "Note of Meeting in Minister's room at 3 P.M. on Wednesday, 20th November," 20 November 1946, W11615/1126/802; AVIA 2/2333, minute by Lord Winster, 31 December 1945; AVIA 2, 2333 minute by Hildred, 2 January 1946; AVIA 2, 2333, Gallop to Cribbett, 2 May 1946; F.O. 371/54477, minute by Cheetham, 13 May 1946, W5258/5/802; F.O. 371/54477, Dunnett to Cribbett, 8 May 1946, W5332/5/802.

