

THE MAN WITHOUT A COUNTRY: LOWELL YEREX, HIS AIRLINE, AND U.S. POLICY CONCERNING INTERNATIONAL COMMERCIAL AVIATION, 1939-44.

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ABSTRACT

Even as World War Two hung in the balance, the United States looked to the postwar period as a time of opportunity for international airlines. However, U.S. officials disagreed over the best course of action for the future. Would they support one airline or competing carriers? Those favoring competition found a champion in Lowell Yerex, a New Zealand entrepreneur with a thriving Central American airline. However, his nominal British citizenship aroused concerns in an Anglophobic U.S. government, and thus it never accepted him as an option. Still, Yerex played a critical role in the development of U.S. policy and the maturation of modern commercial aviation.

The commercial aviation industry has had more than its share of larger-than-life figures. Even so, the story of Lowell Yerex is both unique and compelling. As a Royal Air Force pilot in World War One, the tall, rugged New Zealander fell into German hands but made a daring escape from his captors. As a mercenary pilot, he lost an eye in a Central American revolution. As an entrepreneur, he displayed audacity, ingenuity, and persistence in building a successful airline in one of the world's most difficult settings for commercial aviation. Yet the historical importance of this man transcends his colorful existence. During the Second World War, Yerex challenged the American *status quo* in international commercial aviation, with great ramifications for both the industry and U.S. diplomacy.

Even as World War Two hung in the balance, many nations looked to the postwar period as a time of opportunity for commercial aviation. The war was fostering many technological and operational advances in air transport. As the economic and strategic potential of airlines grew, the world's leading commercial aviation powers, the United States and Great Britain, became embroiled in a struggle for preeminence in the international field. In preparation for an expected diplomatic battle, the two rivals reexamined their commercial aviation policies. In the U.S. State Department, differences of opinion arose concerning the best course of action for the future. At the heart of these debates was the matter of means.

Pan American Airways, under its hard-driving chief, Juan Trippe, had long been the nation's only international airline. It had enjoyed the exclusive financial and diplomatic backing of the U.S. government, which had viewed the airline as a valuable instrument for advancing American economic and strategic interests abroad. By the

late 1930s, however, disagreements had arisen between Pan Am and its benefactor. As a result, U.S. officials came to realize that Pan Am's monopoly allowed it to act with impunity toward U.S. policy. Determined to end their dependence upon the recalcitrant airline, they began seeking a competitor.

Yerex was a logical candidate to fill this role. Many in the State Department hailed him as a potential savior who could help break Pan Am's stranglehold on American international aviation. However, there were those in the government who viewed him as a potential threat. His New Zealand citizenship made him a nominal British subject and aroused doubts about his loyalties. For his part, Yerex made several attempts to please U.S. officials by involving American capital in his ventures. Yet he also encouraged American suspicions by unsuccessfully courting British aviation interests. As a result, he never gained the complete favor of the United States. In his diplomatic wanderings Yerex became, in essence, a man without a country. Still, his efforts came at a crucial time, as U.S. policy makers were facing critical choices about the future of international airlines. Confronted by this viable competitor seeking their support, they had to consider just how far would they go to break Pan Am's monopoly. In effect, Yerex acted as a catalyst for thought and debate in Washington, thereby contributing to the development of U.S. policy and the maturation of modern commercial aviation.

The interwar period was a time of tremendous growth in international commercial aviation. No one did more to foster this growth than the head of Pan American Airways, Juan Trippe. Between 1927 and 1939 he built an air network that dominated all of Latin America and spanned both the Atlantic and the Pacific. Pan Am was, without doubt, the most prolific international airline of the time. Its success was due in large part to its relationship with the U.S. government. Since Pan Am's earliest days, Trippe had cultivated close ties with key government officials and used these connections to advance his company's interests. During the late 1920s and early 1930s, his influence was such that he effectively shaped U.S. policy for international commercial aviation. As a result, Pan Am became the U.S. government's "chosen instrument" in the field. As such, Pan Am was the exclusive recipient of U.S. mail subsidies and diplomatic assistance. In exchange for these benefits, the airline provided the U.S. government and American business with speedier communications and travel. Also, it drove foreign competitors from areas of strategic importance to its benefactor. Considering Pan Am's achievements, the nation clearly benefited from its "chosen instrument."¹ However, from the government's perspective, there was a potential drawback. Because the airline was a commercial operation, there was no certainty that its interests would always harmonize with those of the government. Moreover, because Pan Am was a monopoly, the United States was dependent upon it to provide a service of vital economic and strategic importance. Thus, if there ever was a clash of interests, the government could find itself "stuck" with a partner that contravened its policies. In sum, while the United States benefited greatly from the "chosen instrument", the U.S. government faced the possibility of a grave predicament.

THE MAN WITHOUT A COUNTRY

This possibility became a reality during the early months of World War Two. When hostilities broke out in Europe, the Roosevelt administration launched a campaign to eliminate Axis influence in the Western Hemisphere. One of its highest priorities was to shut down the Axis-controlled airlines operating in Latin America. To accomplish this, the administration needed Pan Am. When U.S. officials pressured their Latin American counterparts to ground the Axis airlines, Pan Am stood ready to provide the needed replacement services. Yet beneath the guise of cooperation was a growing conflict. From the administration's perspective, the airline obstructed its agenda all too often. For example, Pan Am delayed the removal of German nationals from one of its Latin American subsidiaries for over a year, citing the costs of such action as prohibitive. Only when the government agreed to subsidize the training of new employees did Pan Am relent. This and other episodes left a bad taste in the mouths of many administration officials.²

It was at this time that Lowell Yerex entered the picture. Born in New Zealand and educated in the United States, Yerex fought for the RAF during the first world war. He spent the interwar years moving from job to job, earning a living with his flying skills. He ended up in Central America during the height of the Depression, acquiring a plane when its owners could not pay him for services rendered. With this plane he launched an airline that became an institution in Central America: Transportes Aereos Centro-Americanos, or TACA.³

In many ways, Central America was hardly an ideal setting for an airline. The region's forbidding topography, with its dense jungles, rugged mountains, and primitive locales, offered few sites for viable bases and made for hazardous flying conditions. Moreover, in an age when Pan Am and other big airlines depended on substantial government subsidies, Yerex had little such funding. Yet the setting was not without promise. Ironically, the topography was a blessing in that it limited the effectiveness of alternative means of transport. Roads were rough and railroads few; as a result, travel and commerce was slow and precarious throughout much of the region. Airplanes could leap the mountains and cross the jungles, accessing areas with valuable economic resources. A boon was waiting for the person who could establish an air network.

Demonstrating remarkable resourcefulness, Yerex did just that. In 1932, he was shot in the eye while scouting rebel forces for the Honduran government. He rejected a cash reward in favor of a mail contract and other concessions for his fledgling airline. From this "privileged position" in Honduras, he expanded into neighboring countries during the 1930s. Few people traveled by air at this time, so Yerex concentrated on cargo transport, devising many innovations to increase TACA's operational efficiency. One such innovation was his "deferred freight" system. For a lower fee, TACA stored materials to be transported until there was a sufficient load to make a flight profitable. Because flying was so much faster than the other forms of transport available, the materials still would arrive at their destination sooner and at a lower cost. This innovative spirit pervaded the company, and by the end of the decade TACA had established itself as the go-anywhere, do-anything airline in Central America.⁴

ESSAYS IN ECONOMIC AND BUSINESS HISTORY (2000)

When war broke out in Europe, Yerex's network faced no immediate danger. Yet the New Zealander realized that the conflict would increase Pan Am's influence over U.S. policy. To buttress his position in Central America, Yerex took two fateful steps. First, he expanded his operations by launching an international passenger service. Second, he tried to strengthen his ties with the British government. He had an important ally in John Hurleston Leche, the British minister in Guatemala. Leche lobbied his superiors in London to support Yerex, declaring that the advantages of a "British-controlled" airline in the Caribbean were "obvious", as it would have "immense value, strategically, politically, and economically." For his part, Yerex contacted Clive Pearson, the head of the British Overseas Airways Corporation, to proclaim his loyalty to the Empire.⁵

These petitions were for naught. While many officials in London admitted that Yerex's services would be a valuable addition to British commercial aviation, no material support was forthcoming. One reason was that money and aircraft were in short supply because of the war. Another was that the British did not want to arouse American animosity. Finally, Yerex was not part of the British aviation establishment; as one British official commented, no one was sure that the New Zealander was "an honourable gentleman."⁶ In essence, the British would not risk precious resources with an outsider in the face of potential American opposition, particularly when they desperately needed U.S. help in battling the Axis.⁷

Yerex was now in a vulnerable position. His expansion had attracted the attention of Pan Am, leading to a bitter commercial skirmish. Soon, U.S. diplomats throughout Central America were inundating the State Department with reports about the "air war." By most accounts, Pan Am was the aggressor, using its diplomatic clout and a variety of "dirty tricks" to hamper TACA's operations. The U.S. ambassador to Guatemala, Fay Allen Desportes, was particularly critical of Pan Am's "scarcely defensible" tactics. Desportes warned that the airline was tarnishing the reputation of its economic and diplomatic benefactor, the U.S. government, and urged the State Department to take action. This and other pleas did not fall on deaf ears. One department official stated, "the situation...is rapidly getting out of hand, and I think that it is high time we do something about it before it blows up in our faces."⁸

The affair came to the attention of Assistant Secretary of State Adolf A. Berle. A long-time advisor to Franklin Roosevelt, Berle had joined the State Department in 1938. He had no experience in aviation matters, but the activities of Pan Am and Juan Trippe piqued his interest. The reports from Central America were among the first indictments to reach his desk. Upon reading them, he concluded that Pan Am was trying to "stamp out" the competition in the region. Disgusted by the assault on TACA, Berle reached a momentous decision in late 1940 regarding U.S. aviation policy: "I want some competition."⁹ This desire to end Pan Am's monopoly would produce much controversy in the following years.

Despite their distaste for Pan Am's campaign, U.S. officials found themselves in a predicament. How could they back a foreign airline against their valuable Latin Ameri-

THE MAN WITHOUT A COUNTRY

can instrument? As innocent as he might be, Yerex was still “to all appearances a loyal British subject.” As department officials explained to the New Zealander in an August 1940 meeting, while they were “not unfriendly” to TACA, they could not help him because he was not an American. Moreover, they added, the government’s relationship with Pan Am “had a bearing on our attitude.” In essence, the department would not oppose TACA, but it could not oppose Pan Am. This neutrality was of little help to Yerex. Desportes reported that the department’s “silence” about the “air war” left the Guatemalan government with the impression that the United States was opposed to TACA. As a result, the ambassador complained, the Guatemalans were hesitant to renew Yerex’s national franchise.¹⁰

Yerex made a concerted effort to gain the department’s favor. In mid-1940, he offered to have his pilots join the U.S. army reserve. He also suggested that U.S. military pilots fly with TACA to gain valuable experience. He even hinted that he might become an American citizen. Such overtures accomplished little. One U.S. official grumbled that they were an obvious attempts to get American approval and money.¹¹

Yerex’s desire to curry American favor was understandable. He desperately needed capital to modernize and enlarge his aging fleet. Fate seemed to smile on him in the summer of 1940. In August, officials from American Export Airlines informed the State Department that their company was interested in buying TACA. For many in the department, this was a welcome development. The “Americanization” of TACA would provide a counterweight to Pan Am’s dominance and eliminate the threat of British influence. The department actively encouraged American Export while pressuring Yerex to strike a deal. On October 1, the two sides reached an agreement that, pending the approval of the Civil Aeronautics Board, would give American Export controlling interest in TACA.¹²

For Yerex, this deal would prove to be a disaster. While promised American capital and planes, the New Zealander now faced the full wrath of Pan Am. To this point, TACA had been a mere annoyance for the giant airline. However, if “Americanized,” it would pose a real threat to Trippé’s monopoly. Pan Am responded by launching an all-out offensive in late 1940. It established subsidiaries throughout Central America, subsidizing them so that they could offer services at rates well below those of TACA. 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 franchise. This was a particularly damaging blow to Yerex. Guatemala had been TACA’s main base of operations, with many valuable storage and repair facilities. Also, the airline’s exclusive contract with the Guatemalan chicle growers had been an important source of income. When the Guatemalans evicted him, Yerex barely escaped with his planes.¹³ The New Zealander was paying a heavy price for “Americanization.”

However, Pan Am was now on the wrong side of the State Department. With TACA ostensibly an “American” company, the department felt free to back the challenger against the long-time champion. In October, the U.S. Minister in Costa Rica, William Hornibrook, informed his superiors in Washington that a Costa Rican official

had asked him whether the U.S. government would object if Costa Rica granted a mail contract to TACA instead of Pan Am. In a prompt reply, Secretary of State Cordell Hull declared that the United States would not object to this. He noted that Pan Am's bid for the contract was so low that it made "operation at a profit impossible." It was obvious, Hull stated, that the purpose of the bid was to undermine the competition. He asserted that both TACA and Pan Am were "essential to the economic welfare and defense of...Central America." He instructed Hornibrook to advise the Costa Ricans to "carefully weigh" the long-term implications of the respective bids, clearly implying that they should reject Pan Am's offer. Hornibrook delivered the message, noting that it would "no doubt strengthen TACA's position" in Costa Rica.¹⁴

However, despite this and other expressions of support for Yerex, doubts remained in the department about his loyalties. In December, U.S. officials learned that he and Leche were in Trinidad surveying routes for a new airline. A month earlier, Yerex had begun operations with British West Indian Airways (BWIA), committing much of his capital and human resources to the venture. He also had shifted TACA's northern terminus from Guatemala to British Honduras.¹⁵ While the Americans were assuming diplomatic responsibility for TACA, the new airline and Yerex's ongoing relations with Leche did little to endear him in Washington.

In turn, the department did not prove very helpful to Yerex, even when its intentions were good. Its handling of the "air war" in Guatemala revealed both an ignorance of the situation and a lack of commitment to Yerex. When the New Zealander struck his deal with American Export, Hull promptly instructed Desportes to inform the Guatemalan government about the merger. As noted above, the ambassador had been complaining that the department's "silence" about the "air war" had caused delays in the renewal of TACA's Guatemalan franchise. Hull apparently believed that the announcement of the buyout, coupled with official U.S. support for TACA, would lead Guatemalan authorities to renew the franchise. This proved to be a grave miscalculation. Pan Am's representative had already convinced the Guatemalans to ground TACA. The announcement of the American Export deal gave them an excuse to do so. Their contract with Yerex contained a clause stating that TACA could not be sold to foreign interests without Guatemalan approval. Citing the American Export buyout as a violation of this clause, they canceled TACA's franchise. As TACA's position in Guatemala quickly deteriorated, State Department officials washed their hands of the matter, hoping that the situation would heal itself. Of course, this sudden withdrawal did nothing to help Yerex. He later accused the department of inaction in the affair. He was only partially right; it had abandoned him, but only after completely botching the situation.¹⁶

Meanwhile, the American Export oasis was proving to be a mirage. In mid-1941 the U.S. Senate rejected a proposed mail subsidy for American Export, placing its overseas operations in jeopardy. Soon the State Department was receiving reports that American Export might withdraw its offer to buy TACA. The end came in December 1941, only days before Pearl Harbor. The CAB, responding to a legal challenge by Pan

THE MAN WITHOUT A COUNTRY

Am, nullified the sale of TACA to American Export. This was the coup de grace for a floundering union that many in the State Department now viewed as a tragic mistake. Thomas Burke, chief of the Division of International Communications, lamented that TACA had been a "victim" in the American Export/Pan Am struggle.¹⁷ Unfortunately, such expressions of sympathy did little to repair the damage done to TACA.

The demise of the American Export/TACA union produced two significant developments. First, some officials realized that the U.S. government would have to re-examine its international commercial aviation policy. John Cabot told Burke that the State Department needed to decide whether it wanted one airline or competing companies. Only then, he declared, could it act decisively with regard to carriers such as TACA. Expressing the sentiments of many in the department, Cabot argued that the United States needed a competing airline to end Pan Am's "blackmail" of the government.¹⁸ In the following months a fierce debate broke out in the department over how far it should go to accomplish this goal. At the crux of the debate was Yerex.

Second, Yerex was back on the outside, and TACA was once again a "foreign" airline. The New Zealander continued to court Washington, seeking capital and offering control to American interests. Yet he also was building an airline network in the Caribbean. While American investors were involved, U.S. officials worried that the British were behind these efforts.

The entry of the United States into the second world war greatly increased the demand for air transport in the western hemisphere. Airlines assumed a vital role in the Allied war effort, flying personnel and material to the various fronts. Also, as German U-boats ravaged the waters of the Caribbean, they provided a means of safe and regular travel for diplomats, businessmen, and other important figures. The demand for air services in the Caribbean soon overwhelmed Pan Am. It was readily apparent that the U.S. government would have to turn to other airlines to meet the military and civilian needs for air transport. Among the logical candidates were TACA and BWIA.

Yerex had established BWIA with the cooperation of the British governor in Trinidad, Sir Hubert Young, who was anxious to connect Britain's Caribbean possessions by air. However, Yerex wanted more than an island-hopping service. He intended to link BWIA's routes with those of TACA, using British Honduras as the main terminus. From there he hoped to connect his air network with the United States via Miami. In late 1941, Yerex filed a request with the CAB for a permit to operate a scheduled passenger service to and from Miami.¹⁹

Yerex's plans soon ran afoul of Washington's bureaucracy. TACA was already making flights into Miami, although the CAB limited it to picking up supplies on a charter basis. In June, 1942, the Civil Aeronautics Authority ordered a halt to these flights on the grounds that TACA had violated its permit by transporting passengers. The CAA's action provoked an outcry in Central America. The president of Costa Rica, the El Salvadoran ambassador to the United States, and other leading Central American officials inundated the State Department with requests for a reversal of the decision. Some American officials joined in this chorus of protest. A note from the U.S. embassy in

Honduras gloomily predicted that the cancellation of TACA's service would create "hardship" in that country.²⁰

Amidst this deluge of protest, a storm was brewing in the State Department. As a rule, the department supported only American airlines. However, some officials believed that the department should modify its stance in light of the circumstances in Central America. Still others saw an opportunity to challenge Pan Am. A dispute soon erupted in the department, with Yerex and his airlines as its catalysts. On the one side was Burke, whose earlier sympathy for Yerex had given way to suspicion. He did not want to allow the British in the American door, and he now viewed Yerex as the proverbial foot. On the other side were the officials of the Division of American Republics, who were sympathetic to the needs of Central America, and Berle, whose primary concern was to curb Pan Am. These two parties were much more willing to allow Yerex access to Miami. In the following months these divergent interests would produce a furious debate.

When the CAA halted TACA's flights into Miami, Berle drafted a letter in which he asked the CAB to grant Yerex's airline "temporary" access to the United States. Burke promptly objected, arguing that the department could not support a foreign carrier against its "own" airline. He declared that the Central Americans would have to live with the transportation shortage, as the "availability" of TACA and BWIA did not justify issuing a permit which the United States might later regret. These protests did not sway Berle, who decided to send the letter to the board. In a memo to Burke, he announced that there had been enough discussion about the matter and that the time for action was at hand. In the margins of this memo Burke penciled a note stating that the debate had been insufficient. He clearly resented what he perceived to be an arbitrary decision by Berle.²¹ The feud was heating up.

Meanwhile, Yerex persisted in his efforts to attract American capital. Working with the New York investment group of Schroder, Rockefeller, and Company, he devised a plan. He would place TACA's stock into a "voting trust" in which American investors would hold a majority interest. Ostensibly, TACA would be American-owned. When a Schroder representative informed Berle of the plan, the assistant secretary gave his immediate approval, promising that if TACA were "effectively" in American hands, the department would accord it some measure of support. In an intradepartmental memo, he declared that this arrangement would provide the ideal vehicle to fight Pan Am's monopoly.²²

Berle had already crossed swords with Burke over the matter of TACA's "Americanization". In late April Burke had issued a memo declaring that Yerex would have to yield both financial and operational control of his airline to American interests. He claimed that the New Zealander could not be trusted with operational control of TACA because he had been diverting its best resources to BWIA, a decidedly British concern. Only direct American management of TACA, Burke insisted, would prevent such leeching and properly "Americanize" the airline. Berle was much less stringent. He stated that "Americanization" would require only that Americans hold a majority interest in

THE MAN WITHOUT A COUNTRY

the company and that the rest of the stock be in "Allied" hands.²³ Operational control was not an issue for him. Thus, when the Schroder plan blossomed in July, Berle was willing to endorse it.

Like the American Export deal, the Schroder plan did not stand the test of time. Its failure was due largely to Yerex. In September 1942 he founded Empresa de Transportes Aerovias Brasil. He and a TACA vice president were the majority owners, with two Brazilians holding the remaining stock. Yerex immediately applied for U.S. landing rights, seeking to inaugurate a service between Rio de Janeiro and Miami. While the airline was ostensibly Brazilian, the State Department suspected that it was a British front and declared that the United States would not allow it into Miami. However, the U.S. ambassador to Brazil, Jefferson Caffery, warned the department that denying the new airline access to the United States might invite reprisals from the government in Rio de Janeiro, which regarded the company as Brazilian-owned. This was no small threat, for Brazil was at the heart of the supply route to the Mediterranean front. In the end, the Americans acceded to the necessities of war and allowed Aerovias Brasil to land in Miami, but with two qualifications. First, the United States would admit only airlines with "hemispheric" ownership. Second, Aerovias Brasil would have access on a temporary basis, and only for non-commercial flights.²⁴ With the former qualification, the department managed to keep the peace with Brazil while barring the American door to the Europeans. With the latter, it served notice to Yerex that his foot was not in the door.

This episode greatly altered the department's attitude toward Yerex. The once-enthusiastic Berle cooled, noting that the situation had "materially changed." Hull now declared that BWIA and TACA were commercial services with "non-hemispheric potentialities." To add to the department's suspicions, an investigation of the Schroder proposal revealed that one of the "American" holding companies was in fact British-controlled. Berle stated bitterly, "I should think Yerex might find some real American money if he really wants to 'Americanize'." He concluded that TACA would have to have "a manager other than Yerex." As suspicions rose, the Schroder plan fell. On November 24, 1942, Berle notified the CAB that the department did not support the latest "Americanization" plan. He also informed Yerex of the decision. The news was a bitter pill for the New Zealander, who was reportedly "mad" at the State Department.²⁵ He was largely responsible for his difficulties, having failed to anticipate how his business activities would affect his standing in Washington.

Despite this unhappy episode, the two parties soon were flirting again. In January of 1943, Yerex reorganized his TACA holdings and moved his headquarters to New York. This action lightened the mood of some in the State Department, most notably Berle. In a February memo that contravened what he had said the previous October, the assistant secretary declared that Yerex was valuable to the United States because he "can do a job that no American can do." However, Burke remained adamantly opposed to the New Zealander, and he clashed with Berle once again. In late February, reports filtered into the department that Pan Am was denying TACA and BWIA adequate

landing facilities in Miami. Berle promptly asked the CAB to investigate the reports, stating that if Pan Am was causing any problems, the government should deal with it. Burke quickly fired off a letter to Berle, arguing that there was no need for an investigation. He took care to mention that Yerex had not "Americanized" his companies, insinuating that the New Zealander did not deserve any assistance from the U.S. government. In a separate memo, he predicted a fight between American (Pan Am) and British (Yerex) interests. The State Department, he asserted, should give its unmitigated support to Pan Am.²⁶ Of course, this ran counter to Berle's long-standing and still evident desire to fight Juan Trippe's monopoly.

One must not overemphasize the conflict within the department, for there was a general consensus on two important issues. First, the State Department was committed to helping American aviation interests, not foreign enterprises. Second, U.S. officials viewed the British as their adversary in the field of commercial aviation and expected a conflict with them in the near future. However, disagreement arose regarding the best course of action for promoting American interests. Burke believed that the State Department had to lend its unqualified support to American airlines. He regarded Yerex as a Trojan horse for the British and believed the safest move was to shut him out, even if it meant upsetting the Central Americans or bolstering Pan Am. Thus, he viewed the matter of TACA in black and white. Berle, on the other hand, had priorities that cast the issue of TACA in shades of a gray. As much as anyone, he was suspicious of the British and would give them little quarter in any fight over commercial aviation. Yet he also wanted a competitor for Pan Am. As a result, TACA held a certain appeal for Berle, his suspicion of the British notwithstanding.

As the summer of 1943 passed, more voices spoke up in support of Yerex. Allan Dawson, of the Division of American Republics, issued a memo in which he noted that all of BWIA's British investors were hemispheric residents. Why then, he asked, "blackball" them? The United States should instead "take them in." Another official declared that there was nothing to fear about British ownership of BWIA.²⁷ On the surface, such arguments reveal some wavering on the matter of "Americanization." More importantly, however, they demonstrate that the department was developing a broader perspective on the issue of Yerex and his airlines.

This broader perspective would play a critical role in Berle's planning for the future of civil aviation. In an August memo, the assistant secretary posed some questions that went to the heart of U.S. aviation policy. While Yerex was a foreigner, what about the Americans who held stock in his companies? Also, what about American aircraft manufacturers who wanted to sell to the New Zealander? Would the State Department best serve the United States by supporting an American airline at the expense of these interests?²⁸ These questions were significant not only with regard to Yerex, but for commercial aviation as a whole. By this time, Berle, as chairman of the Interdepartmental Committee on International Aviation, had taken the lead role in formulating a new U.S. policy for the field. The above questions reflected much of the committee's discussion on the issue, as well as the maturation of Berle's thinking. No longer was he

THE MAN WITHOUT A COUNTRY

concerned merely with getting a competitor for Pan Am. Rather, he was considering the benefits of a more "open" international aviation policy. He realized that U.S. aviation interests included not only airlines, but manufacturers and investors as well. If the United States helped to establish a more open international system, it would benefit these two groups by increasing the demand for planes and capital. At this time the U.S. aviation industry was the world leader in transport plane design and productive capacity. Quite simply, it could build the best planes and a lot of them. Moreover, the nation held huge capital reserves. In an open contest, American planes and money were likely to dominate the world's air routes. Thus, for the United States, a less restrictive international system was an attractive proposition. Realizing this, Berle developed the "open skies" policy. 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 on the globe.²⁹ It is difficult to quantify TACA's role in the evolution of this policy, but the above questions demonstrate that Yerex and his airline provided a catalyst for thought and discussion.

Meanwhile, Yerex finally succeeded in his courtship of American capital. In October of 1943 he sold a majority of TACA's stock to various American interests, most notably Transcontinental and Western Air Incorporated (TWA). Because no one company held a majority of the stock, the sale was not subject to CAB approval. Thus, Yerex "Americanized" his company while avoiding previous pitfalls. The sale promised much-needed capital and better planes for TACA, setting the stage for expansion. Yerex wasted little time. In 1944 he established TACA subsidiaries in Mexico, Venezuela, and Colombia. During this period of expansion, the United States maintained an outwardly benign vigil. In April, Berle informed all Latin American consular offices that the department had no objections concerning TACA. More significantly, he told them that Americans owned the airline and that the department no longer regarded the British influence as a threat. The department maintained this calm demeanor even after the British took over BWIA in early 1944. In a dispatch to the Guatemalan Embassy, the department acknowledged that the British had control of BWIA, but emphasized that there seemed to be no effort to seize TACA.³⁰

Yet despite this outward calm, the U.S. government still was uncertain about Yerex. Even though he had sold TACA to American interests, the New Zealander had not won American acceptance. In separate meetings with Berle, both Yerex and Jack Frye (president of TWA) complained that the U.S. government, and particularly the CAB, was treating TACA as an "outcast." The CAB still harbored suspicions about the airline, and while it could not kill the TWA deal, it still controlled TACA's access to the United States. Berle became concerned when he learned that the CAB's hostile attitude toward TACA might cause TWA to sell its shares to British investors. In July, Berle informed the CAB of this and urged it to ease its stance vis-à-vis TACA. Meanwhile, he implored Frye to not sell TACA to the British.³¹

Once again, Berle had come to the aid of TACA. However, his relationship vis-à-vis the airline had changed dramatically. In this instance, he had acted on TACA's

behalf not to promote competition with Pan Am, but to protect his “open skies” policy. Months earlier, Berle had realized that the British could impede many American services by denying U.S. airlines landing rights in their colonies. To prevent this, in June of 1944 he approached the British with a *quid pro quo* offer. The United States would not object to the British establishing a service between London and South America if the British permitted the Americans to begin commercial operations in the Middle East. While the British showed little enthusiasm for the offer, Berle evidently hoped to use South America in bargaining with them.³² If TWA sold out to British interests, Berle would lose this leverage. Thus, he had intervened with the CAB on TACA’s behalf to forestall a British buyout. Clearly, the assistant secretary’s perspective on the issue of TACA had changed.

This change would result in an about-face in Berle’s attitude toward Yerex. In an August meeting with Frye, the assistant secretary suggested that a deal between TACA and Pan Am might be desirable. Why would Berle consider wedding TACA to his old nemesis? Because he no longer regarded Pan Am as his primary adversary. As the British took on this role, old doubts about Yerex’s loyalties resurfaced in Berle’s thinking. In his meeting with the New Zealander that same month, the assistant secretary inquired about TACA’s international expansion. His line of questioning implied that he harbored suspicions about British influences.³³ The threat of sale by TWA probably aroused his worst fears. At this juncture in his planning, any option was better than having TACA fall under British sway, even if a deal had to be made with the devil himself, Juan Trippe.

Ironically, Berle’s determination to implement his program would lead him to contravene its provisions. In their August meeting, Yerex informed the assistant secretary that four Central American nations had already designated TACA as their international airline. He asked whether these designations gave TACA the right to transport passengers between these countries and the United States. Berle answered that they did not guarantee TACA a share of the “American-originated traffic.” In essence, the designations did not obligate the United States to allow TACA to transport passengers and cargo out of its territory.³⁴ This line of reasoning completely contravened Berle’s “open skies” policy, which explicitly granted all nations the right to designate international carriers to transport passengers to and from other nations. The reason for Berle’s inconsistent interpretation of the “open skies” policy can be found in his *quid pro quo* offer to the British. In making the offer, Berle was operating on the assumption that the United States held the same degree of control over Latin America that the British held over their possessions in Africa. For this assumption to be valid, he had to insure that the United States monopolized the airways of the western hemisphere. Thus, he had to be certain that Yerex’s operations did not fall under British sway. If they did, his bilateral offer would be worthless. More importantly, Yerex’s operations posed a threat to Berle’s plan to implement his “open skies” program via a multilateral agreement. If the New Zealander gained unrestricted U.S. landing rights, the British could use him as the key to the American door. If they had access to the United States, there would be little to

THE MAN WITHOUT A COUNTRY

compel them to agree to a multilateral "open skies" program. In essence, Berle needed to keep the skies over the western hemisphere closed in order to safeguard his "open skies" policy. It was, without doubt, the greatest irony of the whole affair.

By late 1944, the department had closed the books, so to speak, on the matter of Yerex. Berle had turned his full attention to securing a multilateral agreement for international aviation. In November 1944, the United States hosted fifty-two nations at the long-awaited international aviation conference in Chicago. The Americans, led by Berle, presented their "open skies" plan for international aviation. The British strongly opposed this scheme, fearing that it would allow American airlines to dominate global air commerce. They lobbied for a more restrictive system that would limit American expansion and protect their aviation interests. The conference soon turned into a battleground between the two allies. When it closed a month later, little had been accomplished.³⁵

This was not the only front in the struggle. Juan Trippe's allies in Congress had introduced legislation intended to recast Pan Am in the role of the chosen instrument. However, this legislation ran into stiff opposition, most notably from the State Department. Its officials, mindful of the many skirmishes with Pan Am over the previous six years, warned Congress that national and corporate interests did not always coincide. Moreover, they added, it was the belief of the department that competition would be more beneficial to American trade and commerce, particularly in light of the recent performance by several of Pan Am's competitors. Despite much effort, Trippe saw his scheme languish in committee.³⁶

A new era was dawning in American commercial aviation. In February 1946, the Americans and British reached a compromise. The resulting agreement allowed American airlines the access they desired, while providing for international controls on rates and frequency of flights, thus giving the airlines of other nations a fighting chance. The air war between the two allies was over. Three months later, the CAB began dismantling Pan Am's empire, granting operational permits for Latin American routes to numerous competitors. The former chosen instrument lost some of the most lucrative routes in what had once been its private reserve.³⁷

Yerex and his airlines would not be among the beneficiaries of this revolution. In the years immediately following the war, business was poor and many TACA subsidiaries failed. By the end of the decade, TACA was only a shell of its former self. Yerex was not around to witness the demise. In December 1945 the American stockholders of TACA bought out his contract as president; within a few months they forced him to give up his stock altogether. In 1947, Yerex divested himself of BWIA, and in 1948 he left for Argentina to start anew in the import/export business. According to his nephew, Yerex left the United States a man disgusted with British weakness and American scheming.³⁸

Yerex's disgust is understandable. He had done what the State Department had asked of him regarding TACA's ownership, only to be forced out of the business he loved. Admittedly, he was partly responsible for this, as his flirting with the British only

ESSAYS IN ECONOMIC AND BUSINESS HISTORY (2000)

encouraged American suspicions. Yet he was also the victim of circumstance. In the international arena, he was caught in a no-man's land between two commercial rivals. In the bureaucratic arena, he confronted a government determined to assert its control over business. While business interests continued to influence policy making in Washington, gone was the corporatist consensus of the 1920s in which Juan Trippe had thrived. Yerex's story reveals much about the nature of the Anglo-American relationship and the increasing complexity of the U.S. government's dealings with business interests. Despite his failure to negotiate the dangerous terrain of international commercial aviation, Yerex greatly influenced the thought and discussion on the matter in American diplomatic ranks. The questions and debates that he inspired in the State Department influenced U.S. policy and shaped postwar commercial aviation. It is somehow fitting that this man without a country played such an important role in the development of a business that crosses national boundaries.

Notes

1. For a complete history of the early years of this relationship, consult Wesley P. Newton's *The Perilous Sky: U.S. Aviation Diplomacy and Latin America, 1919-1931* (Coral Gables, Fl.: University of Miami Press, 1978).
2. Frank D. McCann, "Aviation Diplomacy: the United States and Brazil, 1939-1941," *Inter-American Economic Affairs* 21, no. 4 (Spring 1968): 35-50; David Haglund, "'De-Lousing' Scatda: the Role of Pan American Airways in U.S. Aviation Diplomacy in Colombia, 1939-1940," *Aerospace Historian* 30, no. 3 (Fall 1983): 177-188; Marilyn Bender and Selig Altschul, *The Chosen Instrument: Pan Am, Juan Trippe, the Rise and Fall of an American Entrepreneur* (New York: Simon and Schuster, 1982), 320-327.
3. R.E.G. Davies, *Airlines of Latin America Since 1919* (Washington, D.C.: Smithsonian Institution Press, 1984), 116-118.
4. Davies, *The Airlines of Latin America*, 118-130; David Yerex, *Yerex of TACA: A Kiwi Conquistador* (Carterton, New Zealand: Ampersand Publishing Associates, Ltd., 1985), 67-83.
5. Davies, *The Airlines of Latin America*, 130; Yerex, *Yerex of TACA*, 97-116.
6. Yerex, *Yerex of TACA*, 116-117.
7. At this time, the British and the Americans were negotiating the "destroyers-for-bases" agreement. The British desperately needed the destroyers, as well as American goodwill to continue the struggle with the Axis.
8. Fay Allen Desportes (U.S. Ambassador, Guatemala) to the U.S. State Department, 10 May 1940, *Records of the Department of State Relating to the Internal Affairs of Central America, 1939-1949*, 813.796 TACA/2; Gerald A. Drew (Division of the American Republics), Memo, no date, 813.796 TACA/5.5. All subsequent references to this State Department collection will provide the specific document information and the file number.
9. Diary Entry, 10 May 1940, *The Adolfa Berle Diary* (Hyde Park, N.Y.: Franklin D. Roosevelt Library, 1978), roll 2, frame V: 2, 124; Diary Entry, 21 September 1940, *Berle Diary*, 2, VI: 1, 156; Diary Entry, 14 October 1940, *Berle Diary*, 2, VI: 2, 92.
10. Albert Cousins (U.S. Charge de Affaires, Guatemala) to the U.S. State Department, 12 July 1940, 813.796 TACA/16; Desportes to the U.S. State Department, 10 May 1940, 813.796 TACA/2; Department of State Memo of Conversation, 7 August 1940, 813.796 TACA/26.
11. John D. Erwin (U.S. Minister, Honduras) to the U.S. State Department, 13 May 1940, 813.796 TACA/4; William Hornibrook (U.S. Minister, Costa Rica) to the U.S. State Department, 17 June 1940, 813.796 TACA/10.
12. Davies, *The Airlines of Latin America*, 141; Yerex, *Yerex of TACA*, 109; Ellis O. Briggs (Chief, Division of the American Republics) to Thomas Burke (Chief, Division of International Communications), 8 Au-

THE MAN WITHOUT A COUNTRY

gust 1940, 813.796 TACA/27; Drew to Burke, 31 June 1940, 813.796 TACA/6.

13. Davies, *The Airlines of Latin America*, 130-31; Yerex, *Yerex of TACA*, 120.

14. Hornibrook to the U.S. State Department, 15 October 1940, 813.796 TACA/43; Cordell Hull (U.S. Secretary of State) to Hornibrook, 16 October 1940, 813.796 TACA/43; Hornibrook to Hull, 25 October 1940, 813.796 TACA/57.

15. Davies, *The Airlines of Latin America*, 141; Yerex, *Yerex of TACA*, 124; Welles to Laurence Duggan (Chief, Division of the American Republics), 19 December 1940, 813.796 TACA/75.5; John Cabot (U.S. Charge de Affaires, Guatemala) to the U.S. State Department, 14 November 1940, 813.796 TACA/90; Cabot to the U.S. State Department, 22 January 1941, 813.796 TACA/91.

16. Hull to the U.S. Legation, Guatemala, 1 October 1940, 813.796 TACA/37B; Desportes to Hull, 31 May 1940, 813.796 TACA/6; Hull to the U.S. Legation, Guatemala, 13 December 1940, 813.796 TACA/37B; Desportes to Hull, 8 October 1940, 813.796 TACA/41; Welles to Dr. Carlos Salazar (Foreign Secretary, Guatemala), 27 December 1940, 813.796 TACA/75.5; Welles to Duggan, 19 December 1940, 813.796 TACA/75.5.

17. Davies, *The Airlines of Latin America*, 132; Burke memo, 14 October 1941, 813.796 TACA/130; Steven Latchford (State Department) to Burke, 10 October 1941, 813.796 TACA/129; Edmund Wilson (U.S. Embassy, Panama) to the U.S. State Department, 13 August 1941, 813.796 TACA/123.

18. Cabot to Burke, 29 October 1941, 813.796 TACA/131; Burke, Memo, 14 October 1941, 813.796 TACA/130.

19. Davies, *The Airlines of Latin America*, 134-35; Yerex, *Yerex of TACA*, 139-40.

20. Hull to Erwin, 22 June 1942, 813.796 TACA/145; Robert M. Scotten (U.S. Minister, Costa Rica) to the U.S. State Department, 24 June 1942, 813.796 TACA/147; Erwin to Hull, 17 June 1942, 813.796 TACA/145.

21. Adolf A. Berle (U.S. Assistant Secretary of State) to L. Welch Pogue (Chairman, Civil Aeronautics Board), 25 June 1942, 813.796 TACA/171; Burke to Berle, 2 July 1942, 813.796 TACA/171; Burke to Berle, 17 July 1942, 813.796 TACA/151; Berle to Burke, 24 July 1942, 813.796 TACA/178.

22. John Laylin to Burke, 10 July 1942, 813.796 TACA/151; Berle Memo, 18 July 1942, 813.796 TACA/151; Berle to Laylin, 24 July 1942, 813.796 TACA/155.

23. Burke to Berle, 24 April 1942, 813.796 TACA/162; Burke to Berle, 1 May 1942, 813.796 TACA/162; Berle to Burke, 24 April 1942, 813.796 TACA/162.

24. Davies, *The Airlines of Latin America*, 132; Hull to Jefferson Caffery (U.S. Ambassador, Brazil), 23 October 1942, 813.796 TACA/185; Caffery to Hull, 29 October 1942, 813.796 TACA/193; Hull to Caffery, 1 December 1942, 813.796 TACA/201.

25. Berle to Division of International Communications, 14 September 1942, 813.796 TACA/178A; Hull to Caffery, 23 October 1942, 813.796 TACA/185; Hull to Caffery, 5 November 1942, 813.796 TACA/193; Berle to Division of International Communications, 19 October 1942, 813.796 TACA/189-4/6; Berle to Pogue, 24 November 1942, 813.796 TACA/207a; Berle to Welles, 27 October 1942, 813.796 TACA/215a; Cabot to Philip W. Bonsal (Chief, Division of American Republics), 25 November 1942, 813.796 TACA/209.

26. Davies, *The Airlines of Latin America*, 134; Burke to Berle, 22 February 1943, 813.796 TACA/219; Berle to John S. Hooker (Assistant Executive Secretary, Board of Economic Operations), 18 February 1943, 813.796 TACA/214; Berle Memo, 18 July 1942, 813.796 TACA/151; Berle to Pogue, 25 February 1943, 813.796 TACA/215a; Burke to Berle, 23 February 1943, 813.796 TACA/214.

27. Allan Dawson (Division of the American Republics) to Bonsal, 6 September 1943, 813.796 TACA/238; Philip O. Chalmers (Division of the American Republics) to Bonsal, 4 September 1943, 813.796 TACA/238.

28. Berle, Memo, 31 August 1943, 813.796 TACA/241.

29. Alan P. Dobson, *Peaceful Air Warfare: The United States, Britain, and the Politics of International Aviation* (Oxford: Clarendon Press, 1991), 138-51.

30. "First Papers for TACA," *Time*, 18 October 1943, 80-2; Davies, *The Airlines of Latin America*, 142, 152; Berle to all U.S. consular offices, Latin America, 12 April 1944, 813.796 TACA/262c; U.S. Department of State to the U.S. Embassy, Guatemala, 2 December 1944, 813.796 TACA/11-744.

31. Berle to Pogue, 20 July 1944, 813.796 TACA/7-744; Cabot to Berle, 27 July 1944, 813.796 TACA/7-2144; Diary Entry, 3 August 1944, *Berle Diary*, 5, XI: 2, 174-5.

ESSAYS IN ECONOMIC AND BUSINESS HISTORY (2000)

32. Diary entry, 3 June 1944, *Berle Diary*, 5, XI: 2, 58-60.
33. *Berle Diary*, 5, XI: 2, 174-5, Diary Entry, 23 August 1944, *Berle Diary*, 5, XI: 2, 186-7.
34. *Berle Diary*, 5, XI: 2, 186-7.
35. For a complete study of this conference, consult the following: Philip Cockrell, "International Civil Aviation and United States Foreign Policy," *The Proceedings of the South Carolina Historical Society* (1991): 29-46; Alan P. Dobson, "The Other Air Battle: The American Pursuit of Post-War Civil Aviation Rights," *The Historical Journal* 28, no. 2 (June 1985): 429-439.
36. Cockrell, "International Civil Aviation," 41-5.
37. Dobson, "The Other Air Battle," 439; Henry Ladd Smith, *Airways Abroad: The Story of American World Air Routes* (Madison: The University of Wisconsin Press, 1950), 206-10, 219-20, 222-23, 268-79.
38. Davies, *The Airlines of Latin America*, 138-43; Yerex, *Yerex of TACA*, 186-89.