Globalization 2.0: The Geopolitics of the US Exchange Stabilization Fund, 1934-1945

Flores Zendejas, Juan; Nodari, Gianandrea

FACULTÉ DES SCIENCES DE LA SOCIÉTÉ
Paul Bairoch Institute of Economic History

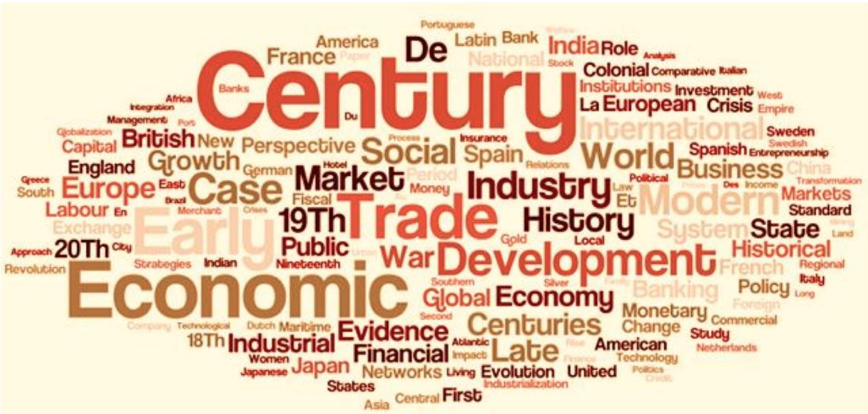
UNIVERSITÉ DE GENÈVE

Economic History Working Papers | No. 3/2025

Globalization 2.0: The Geopolitics of the US Exchange Stabilization Fund, 1934-1945

Juan Flores Zendejas
University of Geneva

Gianandrea Nodari
University of Geneva



Paul Bairoch Institute of Economic History, University of Geneva, UniMail, bd du Pont-d'Arve 40, CH-1211 Genève 4. T: +41 22 379 81 92. Fax: +41 22 379 81 93

Globalization 2.0:

The Geopolitics of the US Exchange Stabilization Fund, 1934-1945

Juan Flores Zendejas & Gianandrea Nodari[1]
University of Geneva
15 May 2025

Abstract

This paper adopts a historical perspective to examine the geopolitical dimensions of monetary policy, focusing on the 1930s. During this period, Stabilization Funds were established to promote exchange rate stability as nations abandoned the gold exchange standard. These entities intervened in foreign exchange markets and extended stabilization loans to other countries. This article analyzes the experience of the U.S. Exchange Stabilization Fund (ESF), situating it within the broader context of global economic fragmentation and the formation of currency blocs. The analysis reveals that rivalries with foreign powers significantly influenced the outcomes of these loans, and the political conditions attached to them delineated the boundaries of the expanding "dollar bloc." The U.S. ESF emerged as a pivotal instrument, enabling the United States to secure trade markets while bolstering the war efforts of allied nations.

Keywords: economic fragmentation, great depression, geopolitical competition, currency crises, dollar diplomacy

JEL codes: N112, N16, N22, N26, F15, F34, F36, F53

---

[1] Juan Flores Zendejas is Professor of Economic History at the University of Geneva. Gianandrea Nodari is Research Associate in the same institution. We are grateful for comments from Pierre-Hugues Verdier and participants at the 35th Sokol Colloquium on Private International Law at the University of Virginia School of Law on International Finance and its Regulation in an Era of Geopolitical Competition, on April 2025.The authors acknowledge financial support from the Swiss National Science Foundation.

Introduction

There has been a renewed wave of scholarly research exploring the role of geopolitics in international finance. It is now widely acknowledged—perhaps even feared—that geopolitical tensions and state interests influence the volume and direction of international trade and investment, though the ultimate consequences for the global economy remain uncertain. As we navigate a new era of global instability, it is useful to revisit historical periods during which geopolitical competition significantly shaped the world economy. This article asks how states have used economic tools to achieve geopolitical objectives and examines the short- and medium-term effects of such strategies on international trade and credit.

This paper focuses on the economic fragmentation of the 1930s, arguably the most illustrative example of global economic disintegration. The decade began with one of the most severe financial crashes in history and ended with a devastating global conflict. In the intervening years, political tensions were exacerbated by competitive devaluations and protectionist trade policies, leading to the fragmentation of world trade. Countries coalesced into currency and trade blocs, deepening intra-bloc political and economic ties. Within these blocs, governments sought to stabilize exchange rates and promote trade, while insulating themselves from external shocks. To a considerable extent, these efforts succeeded. What emerged was a new form of globalization—Globalization 2.0.

The historiography of the 1930s has often emphasized the consequences of currency disintegration on trade flows, often assuming that blocs formed spontaneously in response to the Great Depression. However, scholars have tended to overlook the proactive financial and monetary strategies adopted by governments to consolidate their spheres of influence. This article contributes to the literature by examining the formation of the U.S. dollar bloc and, more specifically, the early operations of the U.S. Exchange Stabilization Fund (ESF). While the ESF was not the first institution of its kind—the United Kingdom had established its Exchange Equalisation Account two years earlier—it was the first to engage in overseas lending through conditional packages tailored to individual circumstances. Existing studies have primarily provided narrative accounts of the ESF's long-term evolution, offering limited analysis of the factors that shaped its early interventions, which were marked by considerable experimentation and geopolitical intent.

We argue that the ESF was central to the formation of the dollar bloc. It aimed to stabilize foreign currencies in relation to the U.S. dollar, thereby facilitating international trade and private investment. While the ESF collaborated with other stabilization funds to support the value of major currencies, it also extended loans to foreign governments and central banks to encourage the alignment of their currencies with the U.S. dollar.

As we prove in this article, the ESF was a powerful economic instrument that effectively delineated the boundaries of the U.S. dollar bloc. Its actions were largely driven by geopolitical considerations. Although the Federal Reserve managed its technical operations, the U.S. Treasury retained authority over credit decisions. Our historical analysis reveals that, despite the U.S. government's ostensibly open-door approach, it assigned varying degrees of importance to different countries based on internal factors—such as tariff increases, nationalization of U.S. firms, or unfriendly regimes—and external threats, including the growing political and economic influence of rival powers like Germany, Japan, and even the United Kingdom. ESF deployed a combination of incentives and deterrents, adjusting the conditionality of its loans to include not only economic but increasingly political dimensions as the outbreak of World War II approached. It also coordinated with other financial instruments, such as Export-Import Bank (Exim Bank)loans, and helped resolve disputes involving private investors affected by nationalizations or government bond defaults.

Using newly available archival materials, we map the scope and conditions of ESF loans and compare them with those offered by other financial assistance programs, particularly the Export-Import Bank. We trace the negotiations surrounding these loans, including cases in which countries refused assistance (e.g., Argentina) or pursued policies contrary to U.S. interests (such as Bolivia and Mexico). While Latin America was the primary region of engagement, the ESF also provided support to countries beyond the hemisphere, including Iceland, Liberia, and China—raising important questions about whether the Fund pursued a strictly regional strategy.

To deepen our understanding of recipient-country agency, we conduct a case study of Mexico, which was the first country to receive an ESF loan in 1936. Mexico subsequently received both the highest number of ESF credits and the largest volume of funds. This is particularly noteworthy given the strained bilateral relations that followed Mexico's 1938 nationalization of its oil sector, which severely affected U.S. companies. Nonetheless, Mexico's precarious external position and overlapping interests with the United States—including stabilizing the silver market, promoting bilateral trade, and securing favorable conditions for U.S. investment—sustained the relationship.

Our findings offer new insights into the role of state intervention in shaping episodes of economic disintegration. ESF lending had lasting effects on the internationalization of the U.S. dollar as both a trade and reserve currency. It also reinforced commercial ties within the dollar bloc, while easing the exclusion of rival powers. Although the ESF's approach was shaped by a process of trial and error, it demonstrated a remarkable capacity to adapt to changing conditions—most notably, the onset of World War II. Contrary to many contemporary accounts, it was not only private market actors who adapted to new geopolitical conditions; it was also the U.S. government that actively shaped them through deliberate intervention.

The article proceeds as follows: Section I briefly discusses the parallels between the current moment and the interwar period. Section II analyzes the rationale behind the ESF's creation and the factors driving its early credit operations. Section III presents a detailed case study of Mexico. Section IV examines the conditions attached to ESF loans and their implications for bilateral economic and political relations. Section V concludes.

I. Fragmentation, decoupling and the reshaping of globalization

The impact of current geopolitical tensions on the global economy is a growing concern. Scholars and policymakers have suggested that globalization may be in retreat, as reflected in shifting trade patterns, capital flows, and declining international cooperation. Others argue that rather than deglobalization, we are witnessing a process of decoupling. Given the resilience of international trade and capital in the face of geopolitical pressures, global economic ties may not be severed but will instead adapt to an evolving environment (Altman and Bastian 2023). In this context, political risks may prompt investors and multinational firms to adjust their strategies without fully withdrawing from global markets.

The nature of this potential decoupling remains an open question. Recent trends point to the emergence of economic "blocs," in which politically aligned countries deepen their integration (Nagy 2025). This development may be driven by economic agents' assessments of political risk, with government policies further accelerating these shifts. For instance, nearshoring—originally promoted to address supply chain disruptions during the COVID-19 pandemic—may gain renewed momentum amid escalating geopolitical tensions. To a large extent, such dynamics could result in a natural regionalization, even though some scholars question whether this trend can deepen further, given that regional integration has long been a prominent feature of globalization. In any case, these circumstances have prompted governments to foster economic and political environments conducive to leveraging complementarities within regional blocs.

In this regard, monetary policy may play a key role in supporting the formation of such blocs. An emerging body of literature explores how monetary instruments can be used to pursue geopolitical objectives. Central bank swap lines offer a pertinent example. Empirical evidence suggests that the Federal Reserve has deployed these facilities in ways consistent with U.S. foreign policy interests (Tooze 2018). Historically and today, central bank swap arrangements have drawn criticism for their opacity, a concern seen as particularly problematic in democratic societies. Similarly, China's use of swap lines has been characterized as a form of financial statecraft—that is, the deliberate use of credit and currency mechanisms by states to secure economic and political advantages (Armijo and and Katada 2015). At the same time, geopolitical considerations may also deter central banks from establishing swap lines, even when such arrangements are economically justified.

Some parallels from the interwar period

Looking back at the interwar period suggests that proactive government intervention, coupled with strategic monetary policies, significantly shaped the trajectory of economic decoupling. While the interwar period differs markedly from the present—particularly given the substantially lower level of economic integration in the 1930s—certain parallels resonate with current debates. The aftermath of World War I saw the creation of several multilateral institutions. However, the institutional framework established during these early years of multilateralism was characterized by a high degree of informality. These institutions relied on the discretionary behavior of member states for enforcement and intervention. Moreover, the United States did not participate in key bodies such as the League of Nations and the Bank for International Settlements (BIS), thereby limiting their scope. These institutions also excluded colonies and, in the case of the BIS, non-European countries. As a result, despite several efforts to reduce the trade barriers implemented after World War I, levels of protectionism remained high compared to the 19th century.

The literature is relatively unanimous in its assessment of the newly established international organizations' inability to mitigate the effects of the Great Depression or to foster effective international cooperation. The postwar economic recovery was sluggish and uneven, with commodity prices remaining persistently low. The onset of the Great Depression in 1929 exacerbated these trends, triggering a sharp contraction in global economic activity. In the financial sector, private capital exports declined dramatically after the 1929 crash. Accominotti and Eichengreen (2016) describe this as the "mother of all sudden stops," referring to the severe reduction in foreign lending that began as early as 1928. The economic downturn also fueled widespread political instability. Alongside the imposition of austerity measures, it contributed to the rise of nationalist movements and the emergence of autocratic regimes in several countries (Straumann 2019; Ponticelli and Voth 2020; Galofré-Vilà et al. 2021).

The Great Depression also precipitated major shifts in international trade and finance. Following World War I, colonial empires controlled vast territories across Africa, Asia, the Americas, and Oceania—laying the groundwork for the trade blocs that would emerge in the 1930s. In efforts to support foreign trade, countries established export promotion agencies. The United Kingdom led the way in 1919 by creating the Export Credits Guarantee Department (ECGD). In the United States, the Export-Import Bank became a key instrument for promoting exports and providing financial assistance to trading partners, thereby advancing U.S. foreign policy goals (Adams 1976; Baron 1983; Becker 2003; Emery et al. 1984).

The 1930s also witnessed important shifts in monetary policy. Before the Great Depression, a broad consensus held that central banks should function as technocratic institutions, insulated from political influence and focused on prudent financial management. The League of Nations and various national governments promoted the independence of central banks during this period. For example, the League's Brussels Conference in 1920 underscored the need to establish independent central banks to ensure monetary stability (Hawtrey 1922; League of Nations 1923). Similarly, the Bank for International Settlements, established in 1930, aimed to promote cooperation among central banks and to reinforce their role as apolitical guardians of monetary expertise and stability (Flores Zendejas and Nodari 2025).

However, Britain's abandonment of the gold standard in September 1931 triggered a realignment of exchange rates, with many currencies subsequently pegged to alternative standards or to major currencies like the U.S. dollar or the British pound sterling. This shift prompted national treasuries to assume greater control over monetary policy, leading to the creation of stabilization funds in countries such as the United Kingdom, Belgium, Switzerland, France, the Netherlands, Canada, Spain, Japan, China, and others (Bloomfield 1944). In the United States, the Exchange Stabilization Fund (ESF) was established in 1934 to stabilize the value of the dollar and manage foreign exchange operations.

Monetary stability remained a central concern, and managing exchange rates was seen as essential to safeguarding a country's international competitiveness. Export promotion efforts became closely tied to exchange rate stability, with the ESF playing a critical role in supporting bilateral trade and advancing U.S. foreign policy objectives, particularly within the context of growing geopolitical considerations. Ragnar Nurkse highlighted the advantages of stabilization funds over traditional central banks, noting that they enabled governments to incorporate broader objectives—often geopolitical—into monetary cooperation (League of Nations and Nurkse 1944). He also emphasized that funds under Treasury control could maintain the level of confidentiality necessary for sensitive negotiations, unlike central banks (League of Nations and Nurkse 1944, 157). Johnson (1939) similarly noted that the scale of resources required for these funds made them dependent on state backing, as they were exposed to financial losses that privately owned central banks could not absorb. He concluded that, given the growing political influence over monetary affairs, stabilization funds necessarily required government oversight.

II. The emergence of trade and currency blocs

The 1930s was a decade marked by severe commercial and monetary tensions. Eichengreen and Irwin (1995, 2) note that in the early 1930s, world trade collapsed, with its value in current U.S. dollars falling by 50 percent. However, this decline was accompanied by the expansion of what they describe as "compartmentalized" trade flows. New commercial and currency blocs emerged, including the British Commonwealth, the European gold standard bloc centered on France, and a Central European trade bloc linked to Germany. Findlay and O'Rourke (2009, 459) claim that the trade collapse between 1929 and 1932 reached 42 percent for manufactured products and 13 percent for primary products. The modest recovery that followed was primarily driven by bilateral trade within blocs—between European countries and their colonies, Japan's expanding role in regional trade, and Germany's growing exports to Southeast Europe. Trade blocs increasingly diverted commerce from previous channels, and in the case of Axis countries, a portion of this trade was influenced by military considerations.

The formation of trade blocs during the interwar period was shaped by multiple factors beyond economic affinities such as geographical proximity or existing trade patterns. While colonial ties often determined bloc membership, other cases were more ambiguous, as trade and currency blocs did not always overlap. For example, Eichengreen and Irwin (1995) identify Brazil as part of the Reichsmark bloc, while noting that Canada—despite its membership in the British Commonwealth—was not included in the sterling area. Similarly, Jacks and Novy (2020) classify Argentina and Bolivia as members of the sterling bloc. These scholars argue that the formation of commercial blocs began during World War I and was reinforced by protectionist measures implemented in the early 1930s. Notably, geographical distance played only a limited role in shaping trade flows, particularly within the sterling bloc.

The wave of protectionism intensified following the 1929 financial crash, beginning with the United States' implementation of the Smoot-Hawley Tariff Act in 1930, which raised import duties to protect domestic industries (Irwin, Mavroidis, and Sykes 2008). This triggered retaliatory measures from trading partners, initiating a downward spiral of trade restrictions. The United Kingdom responded by convening the Imperial Economic Conference in Ottawa in 1932, which led to agreements favoring intra-Empire trade through preferential tariffs. Concurrently, Germany established bilateral clearing agreements with Central and Eastern European countries to secure export markets and gain access to raw materials.

In contrast, the United States began to shift away from protectionism with the election of President Franklin D. Roosevelt in 1932. His administration introduced the Reciprocal Trade Agreements Act in 1934, which empowered the president to negotiate bilateral trade agreements aimed at reducing tariffs reciprocally. This approach marked a departure from earlier U.S. trade policies and laid the groundwork for strengthened economic ties with Latin American countries. The Pan-American Conference in Montevideo in 1933 had already signaled this new direction, in line with the principles of the Good Neighbor Policy, which emphasized non-intervention and cooperation in the Western Hemisphere.[2]

Alongside efforts to revive international trade, the 1930s also witnessed several initiatives aimed at monetary cooperation. Some of these were institutionalized through the creation of multilateral organizations. The League of Nations, active since the 1920s in promoting economic recovery in countries such as Austria and several Eastern European states, organized conferences aimed at restoring monetary stability (Flores Zendejas and Decorzant 2016). In addition, the Bank for International Settlements (BIS) was established in 1930 under the Young Plan adopted at the Hague Conference, serving as a forum for cooperation among central banks—primarily in Europe—along with the Federal Reserve and the Bank of Japan (Toniolo and Clement 2005). Despite these efforts, successive economic shocks and divergent national interests frequently impeded effective cooperation, contributing to the reinforcement of trade diversion through the formation of currency blocs. [3]

The formation of the dollar bloc

As mentioned above, while the relationships between major powers have received extensive scholarly attention, less has been written about the formation of intra-bloc structures. Trade and currency blocs were shaped by a range of factors. They were not governed by formal treaties, authorities, or central institutions, and lacked codified rules or provisions (Leitner 2025). However, member countries could hold a substantial portion of their international reserves in a specific currency, peg their exchange rates to an anchor currency, or both. Drummond (1981, 3) notes that countries considered part of the sterling area held most or all of their reserves in sterling and invested in short-dated United Kingdom government securities or Treasury

[2] By late 1936 Corder Hull had negotiated fifteen trade treaties, among which Cuba, Brazil, Haiti, Colombia, Honduras, Nicaragua and Guatemala. See Grandin (2025, 443–44), Gardner(1964, 47–63), Gellman (2019, 40–59) and Green (1971, 19).

[3] In 1935 BIS made the last attempt to promote monetary cooperation in Europe. See Ljungberg and Ögren (2022).

bills. Their exchange rates were pegged to the pound—albeit with varying degrees of flexibility—which was not, in itself, a sufficient condition for bloc membership. Drummond also observed that a formally structured sterling area only emerged in 1939. Prior to that year, the bloc was difficult to define precisely, but the British government nonetheless pursued policies—such as bilateral trade treaties, loans, and ad-hoc credit lines—to attract non-imperial countries into the bloc (Aldcroft 2004, 14).

The formation of the sterling bloc was relatively straightforward and began when the United Kingdom abandoned the gold standard in September 1931, prompting a group of countries to peg their currencies to the pound. Initially, this bloc comprised British colonies and dominions, but it later expanded to include Scandinavian countries. Many of these states had the United Kingdom as a major trading partner and had received significant inflows of British capital, including loans and foreign investment. The Imperial Economic Conference held in Ottawa from July 21 to August 20, 1932, represented a crucial step in the institutionalization of this monetary arrangement. Although not explicitly framed as a "sterling bloc" conference, the Ottawa Conference helped solidify informal rules and practices governing the bloc (Stewart 1937; Gaitskell 1952; Clavin 1992; Eichengreen and Flandreau 1996).

By contrast, the dollar bloc emerged only after the United States devalued the dollar in April 1933, following the British example. Latin American countries were among the first to align with the dollar bloc, reflecting the United States' long-standing interest in fostering closer economic ties with the region. Despite increased U.S. interest in Latin America after World War I, earlier initiatives had produced only vague proposals for monetary cooperation.[4] Latin American countries—excluded from institutions such as the Bank for International Settlements and the League of Nations in the 1920s—were largely sidelined from broader efforts to institutionalize economic collaboration.[5] By the early 1930s, President Franklin D. Roosevelt's administration sought to re-engage with Latin America, aiming to reorganize the international monetary system and counterbalance the growing influence of the British-led sterling bloc. In April 1933, Roosevelt invited representatives from fifty-three governments to Washington for consultations ahead of the London World Monetary and Economic Conference, scheduled for June.[6] Although Roosevelt did not present a formal plan for establishing a dollar bloc, these discussions laid the groundwork for deeper regional cooperation.

This novel approach was welcomed by Latin American counterparts. According to Mexican delegate Alberto J. Pani, President Roosevelt expressed support for a new framework aimed at fostering exchange

[4] See, for example, the proposal for a Pan-American Monetary Unity designed by Edwin Walter Kemmerer in 1916, see Kemmerer (1916).

[5] Stabilization loans were promoted by the League of Nations in the 1920s, and the BIS granted such credits during its early phase, though Latin American countries were not recipients of these programs (Flores Zendejas and Decorzant 2016; Flores Zendejas and Nodari 2025). Bordo et al. (2015) consider the ESF loans as a modern iteration of these early cooperative schemes.

[6] The invitation was extended also to various Latin American countries, like Argentina, Brazil, Chile, and Mexico. See Nichols (1950).

rate stability between the U.S. dollar and other currencies.[7] However, Roosevelt's early goodwill did not translate into practical measures during the London Conference. On the contrary, the conference collapsed following the infamous "Bombshell Message," in which Roosevelt renounced the idea of dollar stabilization (Eichengreen and Uzan 1990). Pani, who participated in the conference, linked Roosevelt's message to the accelerating fragmentation of the international monetary order. He noted that the United Kingdom had already begun to expand the sterling bloc by signing monetary agreements with countries such as Argentina and Denmark. Simultaneously, France and other nations adhering to the gold standard formed what he referred to as a "Little Entente." In this context, Pani guessed that the U.S. might respond by proposing the formation of a dollar bloc at the upcoming Pan-American Conference in Montevideo. According to him, "surely the American government [would seek] to follow the example of Great Britain, creating a regional monetary system."[8]

At the Montevideo Conference, however, the United States displayed reluctance toward formalizing a mechanism for regional exchange coordination.[9] Yet just a few months later, the U.S. government unveiled a new strategy to foster more durable cooperation with Latin America. This initiative was spearheaded by Harry Dexter White at the U.S. Treasury Department. In a memorandum to Treasury Secretary Henry Morgenthau, White emphasized the need to return to "a currency exchange and trade relationship that more closely approximates the world setup that prevailed before the 1929 crisis."[10] The primary target for White's monetary diplomacy was Latin America. Morgenthau supported this vision and proposed to President Roosevelt the formation of an "American dollar bloc" with South American countries—excluding Brazil and Argentina, which were viewed as politically unfriendly at the time—and including China.[11]

Institutional innovations in U.S. monetary policy were necessary to make this vision workable. One such innovation was the ESF, established in the wake of the Gold Reserve Act of 1934 and the devaluation of the dollar (Bordo, Schwartz, and Humpage 2015, 56). The ESF's main objective was to conduct official interventions in foreign exchange markets to stabilize the dollar's value. An implicit secondary goal was to counter the British Exchange Equalisation Account, which was perceived as an attempt to prevent sterling appreciation relative to the dollar. To achieve its goals, secrecy of operation was essential. The ESF was therefore created as a self-financing entity that did not require congressional approval, relying solely on the executive branch. This autonomy made the ESF a highly effective geopolitical instrument for promoting

---

[7] "Pani to Calles", 11 April 1933, Archivo Calle Torreblanca, Fondo Plutarco Elías Calles. File 109, File 5/7.

[8] Letter addressed to Mexican President Ortiz Rubio, "Background for action of Mexico and Washington talks related to Montevideo. Confidential Memorandum", 29 Jun 1933 Archivo de la Secretaria de Relaciones exteriores (hereafter ASRE) LE-245.

[9] Spruille Braden, the American delegate, confirmed Roosevelt's will to give priority to domestic economic issues with respect to an international stabilization. See "Seventh International Pan-American Conference held in Montevideo, Uruguay, from 3 to 26 December 1933", 29 Jun 1933, ASRE LE-235.

[10] "Recovery Program: The International Monetary Aspect," 15 Mar 1935, Harry Dexter White Papers, Box 3 Folder 13.

[11] "Morgenthau to Roosevelt", Morgenthau diaries, Book 5, 15 Apr 1935.

the creation of a dollar bloc. In addition to defending the dollar's exchange rate, the ESF was authorized to issue loans to foreign countries to help stabilize their currencies relative to the dollar.

The operational framework of ESF stabilization loans was relatively simple, though loan terms and conditions varied. Typically, the ESF extended currency swaps—exchanging U.S. dollars for foreign currency—for a specified period, often with options for renewal. The recipient central bank would open an account on behalf of the Federal Reserve Bank of New York, acting as the U.S. fiscal agent, and would receive an agreed interest rate. In parallel, the Federal Reserve would process the corresponding amount in U.S. dollars at the prevailing New York exchange rate. The next section examines the case of Mexico to illustrate how this framework was implemented and to analyze the ESF's negotiation strategies and the conditions it imposed on recipient countries.

III Mexico as the pioneer case

The choice of Mexico as a case study is justified for several reasons. First, Mexico was the first country to receive an ESF loan, in early 1936. Second, from 1936 to 1945—apart from a brief hiatus of roughly two years—Mexico consistently ranked among the ESF's main recipients. Lastly, the Mexican case exemplifies the geopolitical dimension of ESF lending. Even during the period when Mexico's government enacted the oil expropriation that severely affected U.S. companies, it not only secured a new ESF agreement but also obtained what Treasury Secretary Henry Morgenthau referred to as a comprehensive "overall agreement," which included support in areas such as trade and sovereign debt. Overall, Mexico's successive agreements served as a model for similar loans later extended to other Latin American countries, particularly after December 1941, when the attack on Pearl Harbor compelled the United States to adopt a more proactive and energetic diplomatic posture toward the southern continent.[12]

Before analysing Mexico's long-standing relationship with the ESF, it is important to recall that U.S. interest in promoting the formation of a dollar bloc stemmed from a complex mix of economic motives, geopolitical objectives, and New Deal values. As previously noted, the failure of the London Conference and the institutionalization of the sterling bloc were key catalysts. By April 1935, Morgenthau and Roosevelt had officially opened the door to active cooperation with countries interested in joining the dollar bloc. The initial idea was to dispatch an "unofficial ambassador" to Latin America and China to inform these countries of the U.S. government's willingness to lend them gold to bolster their central bank reserves.[13]

Mexico and China were selected to receive assistance due to the adverse effects of the U.S. Silver Purchase Act of 1934. In Mexico's case, the Act led to a significant increase in the market price of silver, which

[12] From its creation until 1945, the ESF opened twelve lines of credits, four of which were for Mexico, including the first in 1936. Se section IV: The loans from the Exchange Stabilization Fund.
[13] "Morgenthau to Roosevelt," Morgenthau diaries, Book 5, 5 April 1935.

jeopardized the stability of Banco de México's reserves and the convertibility of the Mexican peso.[14] In response, on January 2, 1936, the ESF extended its first stabilization loan to Mexico as a "gesture of friendship."[15] At the same time, Morgenthau regarded this initial loan as a crucial instrument for fostering the creation of a "dollar bloc area, as opposed, possibly, to the rest of the world."[16]

In 1937, Morgenthau further emphasized the importance of these dollar swaps and the benefits they provided to Banco de México. In discussions with representatives of the Brazilian government, he recalled how the ESF loan had bolstered Mexico's foreign exchange reserves and helped maintain a fixed exchange rate with the dollar. Morgenthau explained:

> […] you might have a raid on your exchange over, let's say, the first of January or over the new year, or the first of July […] and for three days you might need dollar exchange to tide you over the first of January. Or you might need it for three months. The only time we have ever had such arrangements is with Mexico and with China, and we are working it out the same way.[17]

The importance of having access to a concealed dollar reserve became evident when Mexico faced a financial crisis, driven primarily by the radical policies implemented by President Lázaro Cárdenas, including land redistribution and the introduction of new welfare programs (Knight 1994; Niblo 1995; Meyer 2010).. By the end of 1937, according to Finance Minister Eduardo Suárez, Mexico was experiencing capital flight and abnormal withdrawals of deposits from private banks. These events forced the Mexican central bank (Banxico) to intervene in the market to defend the exchange rate, resulting in a loss of 70 million pesos in a matter of days. To address the turmoil, Mexico requested another ESF stabilization loan.[18] Suárez attributed the flight of both foreign and domestic capital—which weakened the peso—to the government's social and economic reforms proceeding "faster than you can afford on a capitalistic system."[19]

Given Mexico's history of political instability and financial crises, the radical reforms promoted by Cárdenas sparked public panic. The conversion of pesos into dollars, the flight of capital, and the failure to attract foreign investment weakened Banxico's reserves.[20] These pressures were compounded by the central bank's credit policy, which, in violation of its statutes, extended loans and overdrafts to both the government and the Bank of Agriculture. According to Suárez:

> "Our reserves in the Bank of Mexico have been dwindling, coming down and down, and people have seen the report of the Bank of Mexico while the credits of the bank with the Government

[14] See Friedman (1992).
[15] "Draft of Letter from Federal Reserve Bank of New York to Banco de Mexico," Morgenthau diaries, Book 15, 6 Jan 1936.
[16] In May 1937 Bank of England organize a conference of Empire central bankers to strengthen the sterling bloc. See Harris (p. 65) "Morgenthau to White", Morgenthau diaries, Book 28, 14 July 1937.
[17] "Morgenthau to Artur De Sousa Costa," Morgenthau diaries, Book 28, 15 July 1937.
[18] "Bank of Mexico to Morgenthau," Morgenthau diaries, Book 47 and 48, Dec 8 and Dec 13, 1937.
[19] "Eduardo Suarez to Morgenthau," Morgenthau diaries, Book 49, 31 Dec. 1937.
[20] "Report on Mexico," Morgenthau diaries, Book 49, 28 Dec. 1937.

> have been increased and there has been distrust in the Bank of Mexico to keep the rate of exchange and people have been purchasing foreign exchange in future or spot and our surplus has been going down and down."[21]

This temporary financial crisis increased U.S. concerns over Mexico's internal political stability. Morgenthau, worried that "Mexico will be another Spain on our hands," proposed an entirely new financial assistance package, including an Exim Bank credit, a new stabilization loan, and even the possibility of "writing down all their debts."[22] The most urgent issue was the state of Banxico's reserves. Within Banxico's board, internal discussions focused on the need to secure a new ESF loan. This position echoed Suárez's belief that injecting additional dollars into Banxico's reserves was essential to restore public confidence.[23] Notably, the conditions attached to the prospective loan were more favorable than those of the 1936 agreement.

The 1938 loan created a rift within the U.S. government. The State Department, concerned about the future of American assets in Mexico, advised the Treasury Department to cancel the loan.[24] Nevertheless, a $10 million credit was promptly issued and swiftly drawn upon by Banxico.[25] Additionally, a new silver purchase agreement was signed, under which the U.S. bought 35 million ounces of Mexican silver at 45 cents per ounce. The proceeds from the ESF loan and the silver sales significantly increased Banxico's reserves.[26] From the U.S. Treasury's perspective, the silver purchase served as a diplomatic tool to preserve friendly relations with Mexico while securing commitments from Suárez regarding improved treatment of American nationals.[27]

The State Department's concerns materialized soon after the loan was disbursed. On March 18, 1938, the Mexican government nationalized foreign-owned oil assets. In response, foreign oil companies imposed an embargo on Mexican oil exports. To mitigate the economic impact, Mexico sought alternative markets, notably by engaging in trade with Nazi Germany (Schuler 1998). This development strained U.S.–Mexico diplomatic relations and deepened existing divisions within the U.S. government. The State Department described the Mexican government as "completely irresponsible" and advocated using silver purchases as a diplomatic lever, proposing a reduction in acquisitions to apply economic pressure.[28] Conversely, the U.S. Treasury Department favored keeping—and even renewing—silver purchases to preserve amicable relations.

[21] "Eduardo Suarez to Morgenthau," Morgenthau diaries, Book 104, 28 Dec. 1937.
[22] "Morgenthau to Roosevelt," Morgenthau diaries, Book 103, 18 Dec. 1937. For background on how U.S. officials perceived similarities between polarization in Mexico and the Spanish Civil War see Grandin (2025, 470–72).
[23] Banxico, minutes N. 704, 12 Jan. 1938.
[24] "Mexico. 1938", in Sumner Welles Papers (hereafter SWP), Box 186, File 7.
[25] See Henning (1999: 14)
[26] Banxico, Minutes N. 705, 19 Jan.1938.
[27] "Morgenthau to Key Pittman," Jan. 4, 1938.
[28] " Corder Hull to Morgenthau", Morgenthau diaries, Book 125, May 18, 1938.

Harry Dexter White also supported continued financial aid to the Cárdenas administration, arguing that the situation, while challenging, was "bad, but by no means hopeless."[29] In response to the depletion of its reserves, Banxico temporarily suspended peso convertibility and imposed exchange controls between March and May. To prevent panic and speculation, the central bank stopped publishing its weekly balance sheet.[30] Despite these measures, Treasury Secretary Morgenthau—after initially halting silver purchases to placate the State Department—resumed them by mid-1938.[31] This decision enabled Banxico to partially rebuild its gold reserves and to establish a new exchange rate with the dollar by the end of the year.[32]

From Mexico to Latin America: adopting a broad continental strategy

The State Department's hardline attitude toward Mexico and Latin America softened in 1939. The growing threat posed by Axis powers, along with the cultural and political influence of Franco's victory in Spain on Latin American politics, compelled the U.S. government to seek new ways to strengthen continental economic cooperation.[33] These efforts were led by Harry Dexter White. In an internal and confidential pamphlet titled United States Foreign Economic Policy, White criticized the State Department's approach toward Latin American countries—a policy, he emphasized, consisting only of "fireworks" that produced merely "negligible results."[34] Skeptical of such symbolic gestures, White underscored the need to increase both economic and financial assistance to Latin America.

This shift in U.S. strategy did not immediately translate into practical multilateral action at the Lima Conference in early 1939.[35] However, the Inter-American Conference held in Panama in September of the same year marked a turning point in U.S. foreign policy. On this occasion, the U.S. government proposed a comprehensive financial assistance plan for Latin American countries. This plan included both currency stabilization loans issued by the ESF, and long-term development loans offered by the Export-Import Bank.[36] At a meeting held in Secretary Morgenthau's office, he expressed his commitment to extend ESF

[29] " The Mexican situation", Morgenthau diaries, Book 118, Apr.1, 1938.
[30] Between May and June alone, Banxico lost 40 million pesos in reserves. As of December 1937, total reserves stood at MX$108 million (approximately US$30 million). See Banxico, Minutes No. *705*, 19 Jan. 1938.
[31] " Morgenthau to Roosevelt", Morgenthau diaries, Book 125, May 12, 1938.
[32] A new exchange rate of 5 to 1 with the US dollar was officialised by December 1938. See Banxico, Minutes 753, Dec. 6, 1938.
[33] «Draft Resolution on Machinery for Inter-American Economic Cooperation», Nov. 17, 1938, Lima Conference, 1938-Drafts, Corder Hull Papers. For an overview see also «Panama Conference», in Latin American Files, 1919-1943, Sumner Welles papers, Box 106, Folder 103.
[34] Henry Dexter White Papers (hereafter HDWP), Box 8 Folder 7 " United States Foreign Economic Policy", 30 Mar. 1939.
[35] "White to Morgenthau. Subject: The Achievement of Lima Conference," Morgenthau diaries, Book 161, Jan. 18, 1939.
[36] On this occasion, U.S. and Latin American officials launched a project to create a new regional financial institution, the Inter-American Bank (IAB). The initiative, however, never came to fruition. See "Memorandum of Panama Conference," Morgenthau diaries, Book 211, Sep. 13, 1939 and Gellman (1979), Helleiner (2014) and Thornton (2021).

loans to all the "appropriate Latin American countries, for the purpose of strengthening their monetary systems and helping to stabilize their currencies."[37]

This renewed policy again began with Mexico. The Mexican central bank had created an internal "hidden stabilization fund" to maintain stability during the period of uncertainty caused by oil negotiations, concerns over the continuation of the U.S. silver policy, and a rising demand for dollars. This fund was quickly exhausted between 1939 and 1940. To stabilize the peso, Banxico needed U.S. support.[38] In July 1941, Mexico and the United States negotiated a new ESF loan. According to Mexican representatives in Washington, this loan allowed the United States to achieve two goals simultaneously. First, it secured Banxico's commitment to uphold the principle of free exchange and to strengthen commercial and financial ties with Washington. Second, it served a geopolitical function: Mexican officials emphasized that—after two years of strained relations following the oil expropriation—a friendly rapprochement would send a positive signal to the rest of Latin America. According to Mexican delegate Eduardo Suárez, a new ESF loan to Mexico signaled U.S. goodwill to:

> " preserve some monetary order in this Continent, and then, if such order is to be preserved at all, your country, as the only financial center in the world should not only lead the way, but also help us to avoid the pitfalls of crude monetary nationalism."[39]

The new loan allowed Banxico to reinforce its reserves and to create a "shock absorber" fund.[40] At the same time, the U.S. offered more than Mexico had initially requested. The total loan package amounted to $40 million, issued without collateral, and, as White emphasized, Mexico "also has a more liberal repurchase agreement than we have given any of those other countries so far."[41] As for the conditions, Mexico agreed to make no substantial change in the dollar–peso exchange rate and to introduce no significant exchange control measures without prior consultation. Mexican delegates also agreed to adopt a cautious monetary policy to "prevent internal currency and credit expansion as would cause an undue drain of dollars."[42]

The ESF loan was only part of the new agreement. The July 1941 arrangement also included compensation for oil companies, the settlement of agrarian claims and foreign debt, an Exim Bank loan of up to $30 million for the construction of the Inter-American Highway, and the renewal of the silver purchase agreement. Morgenthau emphasized the need to "settle with Mexico everything that has been in controversy

[37]See HDWP, Box 5, Folder 6 " Proposal of loans to Latin America", 27 Mar.1940 and "Stabilisation loans to Latin America. Conference held in the Secretary's Office," Morgenthau diaries, Book 282, July 11, 1940.
[38] Banxico, Minutes 758, Feb.1, 1939.
[39] "Memorandum on the Stabilization Fund", Aug.1, 1941, in Jacob Viner Papers, Box 49 File 7.
[40] "Financial aspects of Mexican negotiation." Morgenthau diaries, Book 421, July 16, 1941, and Banxico, Minutes 891, Sep. 30, 1941.
[41] "Stabilisation of the Mexican peso-U.S. dollar Exchange rate," Morgenthau diaries, Book 436, Aug 28, 1931, and Banxico, Minutes 30 Sep. 1941.
[42] "Status of the Mexican stabilization and silver negotiations", Morgenthau diaries, Book 447, Oct.3, 1941.

for the past thirty years" and to reach an "overall agreement," despite opposition from oil companies and some members of the State Department.[43]

The Rio Conference of January 1942—organized by the United States in the wake of the Japanese attack on Pearl Harbor on 7 December 1941—marked a new phase in U.S.–Latin American economic and political relations. On this occasion, members of the U.S. government highlighted the need to follow the "Mexican line" and to develop comprehensive financial packages in order to strengthen relations with all Latin American countries.[44] Meanwhile, Banxico and the U.S. Treasury deepened their cooperation by organizing bilateral meetings twice a year to discuss appropriate exchange rate policy.[45] Finally, the 1941 ESF loan was extended for an additional two years in June 1943.

IV. The loans from the Exchange Stabilization Fund

Nurkse (1944) identified exchange stabilization as the core function of stabilization funds, distinguishing it from other roles such as supporting government bond markets or providing resources (e.g., gold) to finance government purchases. Morgenthau similarly described the purpose of the ESF as being to "stabilize the exchange value of the dollar," a goal that could be pursued through various operations, including the buying and selling of gold and foreign exchange to minimize fluctuations (United States, Senate 1939, 3). He had U.S. interests in mind when referring to the ESF's interventions in the U.S.–pound sterling market, explaining that the Fund aimed to "protect the dollar's position and American commercial and trade interests." The ESF would be one among several tools introduced during this period, alongside institutions such as the Export-Import Bank and the Lend-Lease program.

The loans extended by the ESF during this period should be interpreted through the lens of U.S. strategic objectives. Latin America had not yet been firmly consolidated as a U.S. sphere of influence in the late 1930s.[46] Several proposals were advanced to provide financial support to the region, most involving large-scale, indiscriminate lending. Key motivations for adopting a more proactive approach included concerns about shifting international trade patterns, the rise of economic nationalism in certain Latin American governments, and the broader geopolitical context. With the outbreak of World War II, U.S. agencies sought to secure access to essential raw materials for the war effort, protect American financial interests in the region, ensure favorable procurement conditions, and deny those resources to the Axis powers (Heilman 2017, 25).

Economic and geopolitical interests were closely intertwined. By 1935, the dollar bloc encompassed most of North and South America, as well as China. However, Brazil and Argentina remained on the periphery,

---

[43] "Morgenthau to White. Subject: Mexico," Morgenthau diaries, Aug. Book 436, 27,1941.
[44] "Memorandum on Rio Conference", Morgenthau diaries, Book 489, Jan. 27, 1942.
[45] Banxico, Minutes 920, Apr. 29, 1942.
[46] HDW Papers, Box 5 file 5, Letter from HD White to Secretary Morgenthau, March 31, 1939.

their governments viewed as "unfriendly" toward the United States. International trade had become a growing concern, as internal memoranda indicated that Germany—and to a lesser extent, Japan—had gained significant market share in the export and import structures of many Latin American countries since World War I.[47] Correspondence between U.S. officials Haas and Morgenthau emphasized Germany's increasing trade presence in Mexico and Brazil.[48] Notably, the U.S. share of exports to Latin American markets had declined in countries such as Mexico, Brazil, and Argentina. In the case of Mexico, this trend was partly attributed to high tariffs on U.S. goods, which adversely affected American exports. Germany's aggressive trade expansion strategy alarmed U.S. policymakers, as it was seen as undermining American economic and political influence in the hemisphere.

The broad picture: The Exchange Stabilization Fund's first loans

Table 1 presents the loans granted by the Exchange Stabilization Fund (ESF) from its inception until 1942, prior to the creation of the Bretton Woods institutions. It details the amount, maturity, and interest rates associated with each loan. Additionally, the table outlines the key conditions negotiated—particularly the elimination of exchange controls—and indicates whether the ESF loans were accompanied by other forms of financial assistance, especially loans from the Export-Import Bank.

<Table 1 around here>

The table is divided into three periods, defined by the outbreak of World War II in Europe and, later, for the United States. While the basic terms of the loans did not necessarily change, those issued after the war's onset were often supplemented by agreements under the Lend-Lease Act. Enacted by the U.S. Congress on March 11, 1941, the Lend-Lease Act aimed to provide military and economic assistance to Allied nations fighting the Axis powers.

The final column of Table 1 addresses each country's status regarding public debt defaults. While Exim Bank loans were not formally conditioned on resolving defaults with U.S. bondholders, prior settlements could influence loan decisions (Eichengreen and Portes 1989). Initially, the U.S. State Department opposed extending foreign assistance to countries that had not resolved defaults. However, as the German threat escalated, U.S. foreign policy priorities took precedence over strict financial conditions Adamson 2002). The ESF operated similarly. In some cases, Exim Bank loans preceded ESF agreements regardless of default status. Notably, China defaulted in 1939 during Japan's invasion of Manchuria, yet continued to receive loans from both institutions. It was precisely the increased importance of British exports and the threat posed by Japan that justified maintaining ESF support to China, even though it was not a major U.S. trade partner.

[47] Morgenthau to Roosevelt, Morgenthau diaries, Book 565, April 15, 1942.
[48] Morgenthau diaries, Book 107, January 31, 1938.

In two notable cases—Brazil and Cuba—ESF loans were closely linked to the establishment of central banks, previously absent in both countries. This reflects the evolving nature of U.S.–Latin American relations and the practice of "money doctoring," as analyzed by Helleiner (2014). Earlier attempts at dollar diplomacy had been controversial; U.S. involvement was often seen as intrusive, especially during the 1920s when Edwin Kemmerer's missions were criticized for serving the interests of foreign bankers and imposing ill-fitting conditionalities.

By the late 1930s and early 1940s, this approach had evolved. The 1937 loan to Brazil implicitly encouraged the creation of a central bank, though this was not formalized in the agreement. A second loan in 1938 was accompanied by an Exim Bank credit intended to finance Brazil's imports from the U.S., replacing imports previously sourced from Germany.[49] In Cuba, Harry Dexter White led a mission to provide technical advice on monetary stabilization. The mission's report, released on April 22, 1942, recommended establishing a central bank and a stabilization fund. At the time, the U.S. dollar circulated alongside Cuban currency; removing this dual-currency system aimed to curb capital flight and reduce the risk of "Axis dollars" circulating in the economy. These reforms were to be supported by an ESF loan.

Argentina remains the most prominent case of a failed ESF negotiation. Although it did receive loans from the Exim Bank, Argentina never secured ESF funding. At the Lima Conference in January 1939, Argentina refused to deepen its political ties with the U.S., prompting accusations of non-cooperation and suspicions of British influence.[50] Nonetheless, Argentina reopened talks with the U.S. in May 1939.

One key sticking point in the ESF negotiations was the U.S. request that Argentina ship gold to the United States as collateral, a condition the Argentine authorities rejected.[51] White informed Morgenthau that Argentina held significant gold reserves and undisclosed dollar assets. Reports from the American consulate indicated that Argentina sought to dissociate the peso from the pound and align with the dollar, signaling a potential currency realignment. Argentine officials also hoped to use U.S. loans to repay Swiss and Dutch creditors and reduce their dependence on bilateral clearing agreements with Britain, which had led to an accumulation of sterling.

Although Argentina's central bank appeared supportive—meeting minutes showed no dissent[52]—the ESF loan was ultimately blocked by the Argentine Congress.[53] Argentina's continued neutrality during World War II and its trade with Axis countries reinforced U.S. suspicions. Despite repeated efforts by Washington to secure Argentine cooperation, the country was excluded from the Lend-Lease program and other U.S. assistance initiatives (Francis 1977).

[49] HDW Papers, Box 5 file 6, Letter from H.D: White to Secretary Morgenthau, September 19, 1939.
[50] Morgenthau diaries, Book 161, January 18, 1939.
[51] Morgenthau diaries, Book 188, May 4, 1939.
[52] Book of Minutes, Central Bank of the Argentine Republic (CBRA), Book 5, Minute 139, 7 October 1940.
[53] Book of Minutes, CBRA, Book 5, Minute 140, 16 December 1940.

The ESF loan to Ecuador, signed in February 1942, reveals the geopolitical bargaining that underpinned many such agreements. Following a brief border war with Peru in July 1941, Ecuador formally requested a US$5 million loan on August 18, 1941.[54]. The U.S. State Department viewed the request as a quid pro quo for Ecuador's conciliatory behavior during peace negotiations. [55]

The Treasury initially saw no economic justification for the loan, as Ecuador's central bank held ample reserves. Ecuador, however, emphasized the symbolic importance of a U.S. loan to reassure its domestic audience. The Treasury fast-tracked the negotiations and extended a loan "along the Mexican line." [56] The ESF loan was supplemented by a Lend-Lease agreement and an Exim Bank credit.

In Bolivia, the nationalization of the Standard Oil Company in 1937 presented significant challenges for U.S.–Bolivia relations. This case illustrates the extent to which geopolitical interests took precedence over purely private economic concerns in shaping the U.S. government's foreign lending patterns. While the nationalization created tensions between the Bolivian government and the United States, the State Department adopted a hands-off approach, allowing local legal processes to unfold. Initially, the U.S. Under Secretary employed a strategy that linked financial assistance to Bolivia with the resolution of compensation for Standard Oil. However, Bolivia's government had developed closer political, trade, and development ties with Japan, Germany, and Argentina, prompting the U.S. government to plan substantial financial support to discourage further Bolivian alignment with Axis countries (Spencer 1996).

Bolivia's foreign exchange position had deteriorated following Britain's abandonment of the gold standard, as much of the Bolivian central bank's reserves were held in sterling, while Bolivian exports had significantly declined during the 1930s.[57] The U.S. Secretary of State recognized that financial assistance would need to include currency stabilization (Spencer 1996, 151). The proposed ESF loan was initially set at $2 million, and the conditions negotiated focused mainly on interest rates—initially set at 4%—which Bolivia's central bank declined, noting that similar short-term credit could be obtained from New York commercial banks.

Most importantly, the negotiations involved the inclusion of other loans. On January 27, 1942, both governments signed an economic cooperation agreement under which the Exim Bank committed to lend up to $10 million to develop Bolivia's agricultural, mining, and other industries, as well as to construct adequate transportation infrastructure. This agreement followed a military accord signed on September 4, 1941, after the discovery of German efforts to influence the Bolivian government in July of that year (Green, 1971). [58] While the agreement did not directly address monetary stabilization, it was intended to be

[54] "Subject: Exchange Stabilisation Agreement in Ecuador", Morgenthau diaries, Book 498, Feb.19, 1942.
[55] "Status of Ecuadorean Stabilization Negotiations", Jan.31, 1942, JVP, Box 49, File 7.
[56] "Morgenthau to White", Feb.11, 1942, Morgenthau diaries, Book 495, Feb.11, 1941.
[57] Details of the Bank of Bolivia's foreign exchange reserves are provided at the Bank of England Archives, "Banco Central de Bolivia," OV19/19.
[58] Foreign Relations of the United States (FRUS), Telegram by the chargé in Bolivia Dawson to the Secretary of State, April 1 1942.

complemented by such measures. Further Exim Bank loans were anticipated for investment in strategic sectors.

Discussions regarding the ESF loan continued, and an Economic Mission was sent to Bolivia in December 1941 to assess which development projects merited funding. In its final report, the Mission acknowledged a lack of economic justification for the loan but emphasized political reasons, including support for the Bolivian government and assurances that Standard Oil would be compensated, as the credit would not be disbursed until after payment had been made.[59] Although the Treasury Department had already agreed to the loan—on the condition that Bolivia's government break with the Axis powers, rather than settle the Standard Oil case—finalizing the details took time. The U.S. government urged Bolivia to sign a comprehensive agreement to develop its resources, just as Japan's occupation of Malaysia had cut off British access to tin and the U.S. lost 90% of its rubber supply. Within that plan, U.S. Minister to Bolivia Allan Dawson aimed to provide the stabilization loan to bolster the Bolivian central bank's exchange position and secure the Standard Oil settlement, though concerns remained that the funds might be diverted for other purposes.[60] A political crisis in Bolivia in June 1942 ultimately prevented the agreement from being ratified.

ESF loans during the War

Table 1 also includes two loans to countries directly affected by the consequences of World War II. One such country was Liberia, which—despite its historical ties to the United States—had achieved independence in 1847. By the 1870s, the British pound sterling had become the dominant currency in Liberia, and the Bank of British West Africa (BBWA) established its first branch there in 1905, later being declared the country's state bank in 1916 (Gardner 2014). The West African Currency Board was also introduced in 1912. However, for several reasons, Liberia's government sought to replace the pound sterling with the U.S. dollar beginning in the 1930s. In 1939, the government commissioned Edwin Kemmerer—the renowned "money doctor"—to develop a plan to transition to the U.S. dollar as Liberia's official currency. Kemmerer's report highlighted advantages such as the United States being Liberia's main trading partner and the fact that most of Liberia's foreign debt was payable in U.S. dollars. To finance the costs associated with discontinuing the use of British silver as circulating medium, an Exchange Stabilization Fund (ESF) loan was arranged, formalized in an agreement signed in September 1942.

This agreement followed a defense pact between the United States and Liberia, under which Liberia undertook the construction of an airport in collaboration with Pan American Airways for military purposes, while the Liberian government received a series of Lend-Lease loans and other U.S. financial assistance.[61]

[59] FRUS, Telegram, The Chargé in Bolivia (Dawson) to the Secretary of State La Paz, March 28, 1942.
[60] FRUS, Telegram, The Chargé in Bolivia (Dawson) to the Secretary of State La Paz, April 16, 1942.
[61] FRUS, Diplomatic Papers, 1942, The Near East and Africa, Volume IV, March 1942.

According to the U.S. War Department, the presence of American forces in Liberia would be facilitated by the introduction of the U.S. dollar for local expenditures and salary payments.[62]

At around the same time, the United States negotiated a loan on behalf of Iceland, a nation that transitioned from the British sphere to the American, as both powers allied against a common enemy. Although Iceland maintained a formal union with Denmark, the Nazi occupation of Denmark in April 1940 prompted British forces to occupy Iceland in May 1940. This occupation was subsequently assumed by the U.S. Army in July 1941.

These geopolitical shifts significantly impacted Iceland's trade and currency arrangements. Initially, Iceland pegged the króna to the British pound in 1925. However, following persistent balance of payments deficits, the government allowed the currency to depreciate. Later, Iceland pegged the króna to the U.S. dollar, a policy maintained until 1949 (Chamberlin 1947).[63]

The depreciation of the króna led to a trade surplus with Britain, financed through blocked sterling accounts, and a trade deficit with the United States, partially offset by Export-Import Bank financing. Eventually, Iceland, Britain, and the U.S. entered into a Lend-Lease agreement, wherein the U.S. compensated Iceland for its exports to the U.K. by utilizing blocked dollars held in New York banks, thereby enabling Iceland to finance its imports from the U.S. Subsequently, an Exchange Stabilization Fund (ESF) loan supported the stabilization of the króna–U.S. dollar exchange rate, which improved as Iceland's exports to the U.S. increased.

V. Conclusions

The ESF agreements were integral to advancing the economic and geopolitical objectives of the U.S. government during the 1930s and early 1940s. These agreements formed part of a broader strategy of providing official financial assistance to nations deemed vital to U.S. economic interests and, later, to support its wartime efforts during World War II. While much of the existing scholarship has focused on agreements among major powers—which only marginally defined inter-bloc relationships and were often unsuccessful—we have shown how intra-bloc relations were actively structured, often with the purpose of excluding or sidelining rival powers, particularly military adversaries. Unlike the United Kingdom, which anchored the sterling area through its colonies, dominions, and key trade partners, the United States had to construct and reinforce its own sphere of influence—a position far from guaranteed in the early 1930s.

[62] FRUS, Diplomatic Papers, 1942, The Near East and Africa, Volume IV, The Acting Secretary of State to the Chargé in Liberia (Wharton), March 5, 1942. For an overview on the internal and international reasons behind Liberia move from British Sterling to the US dollar see Gardner (2022, 133–37).

[63] After the German invasion of Russia, the United States deployed troops to Iceland. President Roosevelt continued to defend his hemispheric orientation, saying that although Iceland lay outside the Americas, it was "terribly important for hemispheric defense." Following the Havana Conference in July 1940, Roosevelt signed an agreement with the exiled Danish government that placed Iceland under U.S. protection. It was later officially brought under the jurisdiction of the Monroe Doctrine (Gellman 1979, 92;102).

Our research contributes to a better understanding of the emergence of post–World War II multilateralism and the evolving role of countries in the Global South. As noted in previous literature, U.S. financial and diplomatic strategies in the 1930s influenced the debates leading to the creation of the Bretton Woods institutions. The U.S. Good Neighbor Policy informed the early drafts of the International Bank for Reconstruction and Development and the United Nations Stabilization Fund. Proposals for a Pan-American Bank appeared as early as 1939–1940, although this vision only materialized in 1959 with the establishment of the Inter-American Development Bank. Some Latin American governments that had already benefited from regular ESF and Export-Import Bank financing prior to the war, saw little incentive to support new multilateral institutions. In this sense, the rise of multilateralism—and the postwar shift in U.S. geopolitical focus from Latin America to Europe—carried certain adverse consequences for these countries.

The U.S. strategy for constructing the dollar bloc intertwined trade promotion with exchange rate stabilization, often negotiating both types of support simultaneously. While economic and financial considerations played a significant role, they do not fully explain the intensity and speed with which many of these agreements were concluded. In the years leading up to and during World War II, the geopolitical dimension of the ESF's activities became increasingly central. As we have shown, beginning in the mid-1930s, the U.S. government used ESF loans to support the consolidation of the dollar bloc in response to the sterling bloc. On the eve of the war and throughout its course, the geographic scope, total volume, and the conditions attached to ESF loan packages were largely shaped by the strategic aim of countering the Nazi threat in Latin America.

The three ESF loans extended to the Mexican central bank exemplify this evolving strategy. The first, in 1936, aimed to mitigate the unintended consequences of the U.S. silver policy while anchoring the peso to the dollar. The second, in 1938, was issued shortly before the outbreak of war and reflected a spirit of genuine solidarity between officials at the U.S. Treasury and their Mexican counterparts. The third, in 1941—just prior to the attack on Pearl Harbor—anticipated and served as a pilot for a broader U.S. financial policy toward Latin America, one characterized by larger and more comprehensive aid packages. From Mexico's perspective, the ESF loans were significant. The dollar swaps provided Banxico with additional reserves to defend the peso and to strengthen internal monetary stability during periods of crisis.

Our findings also complement existing scholarship on reserve currency composition, which often attributes the interwar shift from sterling to the dollar to commercial and financial networks. Yet, such accounts frequently understate the proactive role played by the U.S. government in accelerating this transition. Although the total volume of ESF lending was modest compared to that of the Export-Import Bank, it was substantial in relation to the foreign exchange reserves of the recipient central banks. These loans, often coupled with Export-Import Bank credits, expanded access to dollars and eased the development of bilateral trade with the United States. At the same time, this strategy helped draw countries into the American economic sphere and exclude others believed incompatible with U.S. interests. Argentina, for instance, did not join the new Bretton Woods institutions and did not receive Export-Import Bank loans until the late 1950s.

Another notable conclusion is that sovereign defaults did not constitute a barrier to U.S. engagement with recipient countries. Issues related to outstanding debts were typically set aside, as they were considered incompatible with the broader goals of U.S. foreign policy. This approach was not the only possibility. The British government, also a major creditor nation, had explored the option of redirecting unpaid obligations—especially from Latin American borrowers—to finance imports of strategic raw materials. Although this plan never materialized, it illustrates that leveraging defaults was considered, even if unlikely to succeed. The U.S. policy of overlooking defaults to promote trade was ultimately adopted and extended into the postwar period, shaping the logic of subsequent debt settlements.

Archival sources

Actas del Banco de México (Bank of Mexico minutes).

Archivo Calle Torreblanca, Fondo Plutarco Elías Calles.

Bank of England Archives.

Harry Dexter White Papers.

Archivo de la Secretaria de Relaciones exteriores.

Foreign Relations of the United States series.

Morgenthau Diaries.

Libros de Actas, Banco Central de la República Argentina (Minutes, Central Bank of Argentina)

References

Accominotti, Olivier, and Barry Eichengreen. 2016. "The Mother of All Sudden Stops: Capital Flows and Reversals in Europe, 1919–32." *Economic History Review* 69 (2): 469–92. https://doi.org/10.1111/ehr.12128.

Adams, Frederick C. 1976. *Economic Diplomacy: The Export-Import Bank and American Foreign Policy, 1934-1939*. Columbia: University of Missouri Press.

Aldcroft, Derek H. 2004. "The Sterling Area in the 1930s: A Unique Monetary Arrangement?" *The Journal of European Economic History* 33 (1): 9-32.

Altman, Steven A., and Caroline R. Bastian. 2023. "The State of Globalization in 2023." *Harvard Business Review*, July 11, 2023. https://www.hbsp.harvard.edu/product/H07P2M-PDF-ENG.

Armijo, Leslie Elliott, and Saori N. and Katada. 2015. "Theorizing the Financial Statecraft of Emerging Powers." *New Political Economy* 20 (1): 42–62. https://doi.org/10.1080/13563467.2013.866082.

Baron, David P. 1983. *The Export-Import Bank: An Economic Analysis*. Economic Theory, Econometrics, and Mathematical Economics. New York, New York ; Academic Press, Inc.

Becker, William H. 2003. *The Market, the State, and the Export-Import Bank of the United States, 1934-2000*. Cambridge: University Press. https://doi.org/10.1017/CBO9780511511615.

Bloomfield, Arthur I. 1944. "Operations of the American Exchange Stabilization Fund." *The Review of Economics and Statistics* 26 (2): 69–87. https://doi.org/10.2307/1927695.

Bordo, Michael D., Anna Jacobson Schwartz, and Owen F. Humpage. 2015. *Strained Relations: US Foreign-Exchange Operations and Monetary Policy in the Twentieth Century*. National Bureau of Economic Research Monograph. Chicago: University of Chicago Press.

Chamberlin, William Charles. 1947. "Economic Development of Iceland through World War II." New York: Columbia Univ. Press.

Clavin, Patricia. 1992. "'The Fetishes of So-Called International Bankers': Central Bank Cooperation for the World Economic Conference, 1932–3." *Contemporary European History* 1 (3): 281–311. https://doi.org/10.1017/S0960777300000187.

Drummond, Ian M. 1981. *The Floating Pound and the Sterling Area: 1931–1939*. Cambridge: Cambridge University Press. https://doi.org/10.1017/CBO9780511895623.

Eichengreen, Barry, and Marc Flandreau. 1996. "Blocs, Zones And Bands: International Monetary History In Light Of Recent Theoretical Developments." *Scottish Journal of Political Economy* 43 (4): 398–418. https://doi.org/10.1111/j.1467-9485.1996.tb00855.x.

Eichengreen, Barry, and Douglas A. Irwin. 1995. "Trade Blocs, Currency Blocs and the Reorientation of World Trade in the 1930s." *Journal of International Economics* 38 (1): 1–24. https://doi.org/10.1016/0022-1996(95)92754-P.

Eichengreen, Barry, and Richard Portes. 1989. "Settling Defaults in the Era of Bond Finance." *The World Bank Economic Review* 3 (2): 211.

Eichengreen, Barry, and Marc Uzan. 1990. "The 1933 World Economic Conference as an Instance of Failed International Cooperation." Working paper 90–149. Economics Working Papers. University of California at Berkeley. https://EconPapers.repec.org/RePEc:ucb:calbwp:90-149.

Emery, James J., Norman A. Graham, Richard L. Kauffman, and Michael C. Oppenheimer. 1984. *The U.S. Export-Import Bank: Policy Dilemmas and Choices*. A Westview Replica Edition. Boulder, Colo: Westview Press.

Findlay, Ronald, and Kevin H. O'Rourke. 2009. *Power and Plenty: Trade, War, and the World Economy in the Second Millennium*. 6th print., 1st pbk. print. The Princeton Economic History of the Western World 30. Princeton, NJ: Princeton University Press,. https://doi.org/10.1515/9781400831883.

Flores Zendejas, Juan H., and Yann Decorzant. 2016. "Going Multilateral? Financial Markets' Access and the League of Nations Loans, 1923–8." *Economic History Review* 69 (2): 653–78. https://doi.org/10.1111/ehr.12126.

Flores Zendejas, Juan, and Gianandrea Nodari. 2025. "Central Bank Cooperation 1930–2: A Reappraisal." *The Economic History Review* n/a (n/a). https://doi.org/10.1111/ehr.13412.

Francis, Michael J. 1977. *The Limits of Hegemony: United States Relations with Argentina and Chile during World War II*. International Studies of the Committee on International Relations, University of Notre Dame. Notre Dame, Ind.: University of Notre Dame Press.

Friedman, Milton. 1992. "Franklin D. Roosevelt, Silver, and China." *The Journal of Political Economy* 100 (1): 62–83. https://doi.org/10.1086/261807.

Gaitskell, Hugh. 1952. "The Sterling Area." *International Affairs (Royal Institute of International Affairs 1944-)* 28 (2): 170–76. https://doi.org/10.2307/2604014.

Galofré-Vilà, Gregori, Christopher M. Meissner, Martin McKee, and David Stuckler. 2021. "Austerity and the Rise of the Nazi Party." *The Journal of Economic History* 81 (1): 81–113. https://doi.org/10.1017/S0022050720000601.

Gardner, Leigh. 2022. *Sovereignty without Power: Liberia in the Age of Empires, 1822-1980*. Cambridge Studies in Economic History. Second Series. Cambridge, United Kingdom ; New York, NY: Cambridge University Press.

Gardner, Leigh A. 2014. "The Rise and Fall of Sterling in Liberia, 1847–1943." *The Economic History Review* 67 (4): 1089–1112. https://doi.org/10.1111/1468-0289.12042.

Gardner, Lloyd C. 1964. *Economic Aspects of New Deal Diplomacy*. Madison: University of Wisconsin Press.

Gellman, Irwin. 2019. *Good Neighbor Diplomacy: United States Policies in Latin America, 1933-1945*. Johns Hopkins University Studies in Historical and Political Science. London, Baltimore: Johns Hopkins University Press. https://doi.org/10.1353/book.67867.

Gellman, Irwin F. 1979. *Good Neighbor Diplomacy: United States Policies in Latin America, 1933-1945*. The Johns Hopkins University Studies in Historical and Political Science Series 97, 2. Baltimore [etc: The John Hopkins Univ. Press.

Grandin, Greg, and Greg Grandin. 2025. *America, América: A New History of the New World*. New York: Penguin Press.

Green, David. 1971. *The Containment of Latin America: A History of the Myths and Realities of the Good Neighbor Policy*. Chicago: Quadrangle Books.

Hawtrey, R. G. 1922. "The Genoa Resolutions on Currency." *The Economic Journal (London)* 32 (127): 290–304. https://doi.org/10.2307/2222942.

Heilman, Lawrence C. 2017. *USAID in Bolivia: Partner or Patr©dn?* Boulder, Colorado ; FirstForumPress. https://doi.org/10.1515/9781626376946.

Helleiner, Eric. 2014. *Forgotten Foundations of Bretton Woods: International Development and the Making of the Postwar Order*. Ithaca ; London: Cornell University Press.

Irwin, Douglas A., Petros C. Mavroidis, and Alan O. Sykes. 2008. *The Genesis of the Gatt*. The American Law Institute Reporters' Studies. Cambridge: University Press.

Jacks, David S., and Dennis Novy. 2020. "Trade Blocs and Trade Wars during the Interwar Period." *Asian Economic Policy Review* 15 (1): 119–36. https://doi.org/10.1111/aepr.12276.

Johnson, G. Griffith. 1939. *The Treasury and Monetary Policy, 1933-1938*. Harvard Political Studies, Pub. under the Direction of the Dept. of Government in Harvard University. Cambridge, Mass: Harvard University Press.

Kemmerer, E. W. 1916. "A Proposal for Pan-American Monetary Unity." *Political Science Quarterly* 31 (1): 66–80. https://doi.org/10.2307/2141704.

Knight, Alan. 1994. "Cardenismo: Juggernaut or Jalopy?" *Journal of Latin American Studies* 26 (1): 73–107. https://doi.org/10.1017/S0022216X0001885X.

League of Nations. 1923. *Brussels Financial Conference, 1920: The Recommendations and Their Application; a Review after Two Years*. 1mpAKundig,. http://hdl.handle.net/2027/uc1.b4277745.

League of Nations, and Ragnar Nurkse, eds. 1944. *International Currency Experience: Lessons of the Interwar Period*. Geneva: League of Nations.

Leitner, Gabriel. 2025. "Currency Statecraft and Monetary Cooperation. The Geopolitical Foundations of International Economic Order." University of Geneva.

Ljungberg, Jonas, and Anders Ögren. 2022. "Discipline or International Balance: The Choice of Monetary Systems in Europe." *The European Journal of the History of Economic Thought* 29 (2): 218–45. https://doi.org/10.1080/09672567.2021.1946121.

Meyer, Lorenzo. 2010. *México y el mundo: historia de sus relaciones exteriores*. Primera edición. México, D.F: El Colegio de México.

Nagy, Sándor Gyula, ed. 2025. *The Economics of Regional Integration*. London: Routledge. https://doi.org/10.4324/9781003506423.

Niblo, Stephen R. 1995. *War, Diplomacy, and Development: The United States and Mexico, 1938-1954*. Latin American Silhouettes. Wilmington Del: Scholarly Resources.

Nichols, Jeannette P. 1950. "ROOSEVELT'S MONETARY DIPLOMACY IN 1933." *The American Historical Review* 56:295-.

Ponticelli, Jacopo, and Hans-Joachim Voth. 2020. "Austerity and Anarchy: Budget Cuts and Social Unrest in Europe, 1919–2008." *Journal of Comparative Economics* 48 (1): 1–19. https://doi.org/10.1016/j.jce.2019.09.007.

Schuler, Friedrich Engelbert. 1998. *Mexico between Hitler and Roosevelt: Mexican Foreign Relations in the Age of Lázaro Cárdenas, 1934-1940*. Albuquerque: University of New Mexico Press.

Spencer, Jayne. 1996. "Oil, Politics, and Economic Nationalism in Bolivia, 1899-1942: The Case of the Standard Oil Company of Bolivia." PhD dissertation, UCLA. https://www.proquest.com/docview/304227591?pq-origsite=primo.

Stewart, Robert B. 1937. "Instruments of British Policy in the Sterling Area." *Political Science Quarterly* 52 (2): 174–207. https://doi.org/10.2307/2144069.

Straumann, Tobias. 2019. *1931, Debt, Crisis, and the Rise of Hitler*. First edition. Oxford: Oxford University Press.

Thornton, Christy. 2021. *Revolution in Development: Mexico and the Governance of the Global Economy*. Oakland, California: University of California Press. https://doi.org/10.1525/9780520969636.

Toniolo, Gianni, and Piet Clement. 2005. *Central Bank Cooperation at the Bank for International Settlements, 1930-1973*. Studies in Macroeconomic History. Cambridge [etc.]: Cambridge University Press.

United States, Senate, Senate. 1939. *Devaluation of Dollar and Stabilization Fund. Hearing before a Subcommittee of the Committee on Banking and Currency, United States Senate, Seventy-Sixth Congress, First Session, on S. 910, a Bill to Extend the Time within Which the Powers Relating to the Stabilization Fund and Alteration of the Weight of the Dollar May Be Exercised* . . . Washington: U. S. Govt. Print. Off. https://catalog.hathitrust.org/Record/012458125.

Table 1. Exchange Stabilization Fund loans authorized, 1936-1942.

Country	Date	Amount (US$mill.)	Interest rate	Maturity	Collateral	Conditionality	Exim loan	Default status	Land-lease agreement
Mexico	02.01.1936	5	3	2 years	Silver	No exchange control		In default	
China	25.05.1936	20	3	14 months	Silver or gold	No exchange control		Agreement in 1937	
Brazil	15.07.1937	60	2	5 years	Gold	No exchange control & establishment of central bank		In default	
China	18.07.1937	48	2	1 year	Silver or gold	No exchange control		Agreement in 1937	
Mexico	01.06.1938	10	2	1 year	None	No exchange control		In default	
Brazil	21.11.1938	50	2	6 months*	None	No exchange control	03 April 1940	In default	
*Argentina****	*09.05.1939*	*50*	*NA*	*NA*	*Gold***	-		*Provincial and municipal defaults*	
				Loans during World War II (before Pearl Harbor)					
China	01.04.1941	50	2	15 months	None	No exchange control	30.11.1940	In default	Signed
Mexico	19.11.1941	40	2	18 months	None	No exchange control	12-21.08.1941	In default	Signed
				Loans during World War II (after Pearl Harbor)					
Ecuador	27.02.1942	5	1.5	15 months	None	No exchange control	22.04.1942	In default	Signed
Iceland	01.05.1942	2	1.5	14 months	None	No exchange control		None	Signed
*Bolivia****	*01.06.1942*	*2*	*1.5*	*NA*	*None*	*No exchange control*	*06.03.1942*	*In default*	*Signed*
Cuba	06.07.1942	5	1.5	11 months	None	No exchange control	01.05.1941	None	Signed
Brazil♣	06.07.1942	100	1.5	5 years	None	No exchange control	03.03.1942	In default	Signed
Liberia	26.09.1942	2	1.5	21 months	None	No exchange control		None	Eligible

Source: Own elaboration, based on Morgenthau diaries, different books.

Notes: *: renewable every three months; **: Maintenance of gold at the Fed; ***: Loan authorized, but not ratified. ♣: Extension of previous loan, but amount increased.