

LATIN AMERICA--ECONOMIC SURVEY AND POTENTIAL

16 March 1950

CONTENTS

	<u>Page</u>
INTRODUCTION--Lieutenant Colonel D. A. King, TC, Member of the Faculty, ICAF.....	1
SPEAKER--Dr. Amos E. Taylor, Executive Secretary, Inter- American Economic and Social Council.....	1
GENERAL DISCUSSION.....	13

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## LATIN AMERICA—ECONOMIC SURVEY AND POTENTIAL

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COLONEL KING: General Holman, guests, and gentlemen: Latin America has been of special concern to the United States since that December day in 1823 when President Monroe announced to the world the Monroe Doctrine. More recently, the Bogota Conference and President Truman's Point IV Program have further assured hemispheric solidarity. During and since World War II, our Latin American States have provided us with many critical and strategic materials so vital to our economy.

Our speaker today has had a long and distinguished career in the political and economic field. As Director of the Department of Economic and Social Affairs of the Pan American Union, he is thoroughly familiar with the economy of Latin America. His subject will be "Latin America—Economic Survey and Potential." I introduce to you Dr. Amos E. Taylor. Dr. Taylor.

DR. TAYLOR: I am going to start this morning by being commercial for just a moment. I would like to call your attention to the fact that, beginning on Monday, the Inter-American Economic and Social Council is having a special session at the Pan American Union which will probably run for two or three weeks. The agenda falls under four categories, the most important of which, from almost any way you look at it, is the subject of developing, if possible, a Technical Assistance Program that the American States can participate in and support through contributions of various kinds in accordance with the general ideas enunciated by the President in his inaugural address of January 1949.

The economic agreement of Bogota, signed in 1948, is a second subject to be assigned to a special committee that will be set up by the special session; then, thirdly, there is the subject of currency devaluation; and, finally, the session will deal with the subject of the proposed Buenos Aires Conference which has been postponed several times. The sessions will be open. I am somewhat embarrassed, however, in extending a blanket invitation because, except for the Hall of the Americas in which the plenary sessions will be held, it might be difficult to find adequate room for you if all of you come. But in any event the meetings are open. The first session—the plenary session—will be held Monday morning at ten thirty in the Hall of the Americas.

I might say, incidentally, that there has been a very genuine interest in this special session all through the Americas. Although we don't know at the moment the exact composition of all the delegations, insofar as they have been recorded they consist, in the main, of men

in the very highest posts in their respective governments--Finance Ministers and others of Cabinet rank, together with men who are well known because of their technical experience and their long official tenure in various posts.

I am going to take more or less literally the suggestion that I speak of the economy of Latin America by way of a general survey. In doing that, I think it might perhaps be a good idea to take a look at the Latin American countries from the standpoint of their national income. I think that if we want to consider the problems of resource development, diversification of the economy, and possibilities of industrialization the point of departure has to be an accurate knowledge of the economic potential of each country, measured in terms of economic output and national income and an appraisal of the various economic factors that give one an idea as to what the future possibilities really are.

When we consider the problem of inter-American cooperation among the 21 republics, it is rather interesting to note that we are forced really to view the problem in the light of the relative position of the different countries. We are at once confronted with the fact that within the Americas we have one country (the United States) which, by the end of the recent war, had approximately 50 percent of the world's industrial capacity. It is thus apparent that the moment we relate the United States to the other countries of the Western Hemisphere, excluding Canada, the difference is much more pronounced. It puts the United States in a position of having to assume a definite responsibility for leadership within the inter-American organization. The moment we examine the position of any single country in relation to the United States, whether on the basis of national income or of any other important index, the comparisons show naturally very wide differences.

It is, however, important to bear in mind that the difference, for instance, in per capita income between the United States and the Latin American country with the highest per capita income, namely, Argentina, the difference is much less pronounced than it is between that of Argentina and some of the other countries in the Americas. It is not very easy to make a statistical comparison as of a relatively recent period because the available national income estimates for the Latin American countries are not exactly scientific in every case. (At times even the statisticians in this country raise a question as to whether ours are entirely satisfactory.) Different methods are employed and in some cases it is difficult to apply any adequate method because of the paucity of basic data.

I might say parenthetically that with the completion of the Census of the Americas which is soon to be conducted, almost simultaneously

with the decennial census of the United States, and for which considerable preparation has made, we should be in a much better position after a few years to make accurate comparisons among the different countries relative to such things as output, income, and so on.

Before I get further into national income, let me just call attention to one or two other things. It is perhaps important to recall that, roughly, the population of the other 20 American Republics is the same--probably a little higher--as that of the United States while their area is about 2.5 times that of the United States. The density of specific areas varies, of course, quite a great deal among these countries. In a country like Haiti, the density is much greater than in the others. On the other hand, in Paraguay we have only 7.8 persons per square mile as against 47.7 in the United States and 19 in Latin America as a whole.

When we examine these populations on the basis of industry distribution, we immediately find, of course, that the populations are primarily agricultural. The relatively large percentage of people identified with agriculture is often used as a basis for saying that the output per agricultural worker is exceedingly low, which, of course, it is, but I think we must also bear in mind that the large number of people identified with agriculture are there, not so much because it takes that many to produce what is produced, but because in a one-sided economy, such as you have in most of Latin America, you don't have people moving into industrial areas. Industry is too undeveloped to provide many jobs. After all, the agriculturalist leads, in many cases, a kind of self-sufficient life. We have in a number of countries--for instance in Mexico and Bolivia--large segments of the population really living outside the money economy, and, incidentally, that situation is one of the things that make it very difficult to develop accurate and comparable estimates of national income and of some of the other basic economic measures.

We find, however, in Latin America, as in the United States--only not in such a pronounced degree--a gradual shift in the percentage of those gainfully occupied, from forestry, agriculture, and other related occupations to service industries and to industrial production. For example from 1900 to 1940 the distribution of the gainfully occupied in the United States showed a drop in agriculture, forestry, and fishing from 35.6 percent in 1900 to only 17.6 percent in 1950. In Latin America--although the figures are not entirely comparable--the shift hasn't been pronounced except in some instances. Only Cuba, Argentina, Chile, and Uruguay have less than half of the gainfully occupied employed in agriculture.

If you are interested in the percentages, in Cuba, there were 41.4 percent employed in agriculture in 1943; in Argentina, 40.5 percent in

1937; in Chile, 35.6 percent in 1940; and in Uruguay, 41 percent in 1947. On the other hand, in such countries as El Salvador, the Dominican Republic, Honduras, Nicaragua, and Bolivia, there are over 70 percent employed in agriculture. To this group should be added some of the countries for which we have no adequate information, such as Haiti, Costa Rica, Ecuador, Paraguay, and Guatemala. In addition to the sharp shift in the United States, where we went from more than 35 percent engaged in agriculture and related industries in 1900 to only about 17 percent in 1940, we find that in mining, manufacturing, construction-- I am talking about the United States now--the number rose from 24.3 percent in 1900 to 31.5 percent in 1940; and in services--communications, transportation, banking, and so on--the percentage rose from 40 percent in 1900 to nearly 51 percent in 1940. We don't find that kind of shift in Latin America, and it is the difference in the degree of shift that roughly suggests the relatively lower rate of change from an agricultural economy to an industrial or more diversified economy.

It is interesting to note that, when we consider the output in the different Latin American countries from the standpoint of what they export, we will find, for example, that in Venezuela the principal export represents almost 100 percent of the total export values while only about three percent of the gainfully occupied in Venezuela are employed in petroleum production. Of course, the reason for this becomes fairly clear when we bear in mind that agriculture is the base on which the economy rests. The food produced is not exported but is produced to keep the people alive. Food is one thing that the whole population needs and produces.

The living standards generally are low. Since the income figures I mentioned a moment ago are not entirely a complete reflection of relative living standards, perhaps it might be worth while to note a few of the differences. In 1940, when our estimated per capita income in the United States was somewhat over \$600, we had in Argentina a figure of \$334, but in other countries it was much lower--about \$30, for instance, in Ecuador and probably still lower in a few others where we have no good statistics. Again I want to emphasize that we can't take these estimates too literally. But they have at least been worked out on a basis of reasonably comparable methods, and we have every reason to believe that, for purposes of comparison, they give us a rather satisfactory bird's-eye view of the economy, the output, the income, and related indices in the Latin American countries.

Generally speaking--to go back to agriculture--we find that at least 35 percent of the gainfully occupied are in agriculture. When we relate that to the population as a whole--including everybody, not just the gainfully employed--we have anywhere from 50 to 80 percent of the population dependent on agriculture. In that connection, it should be emphasized that the proportion of the contribution to the general economic welfare is less than those percentages would indicate.

except perhaps in Argentina and Uruguay, where agriculture is the source of a substantial part of exports and thus of foreign buying power. In other words, in those countries you have agriculture directly contributing to the accumulation of foreign buying power which makes possible the import of various consumer goods and services and thus contributing to the general level of economic welfare in the country. There are, of course, other countries which produce tropical food products for export, such as coffee, sugar, bananas, and so forth.

With the exception of Argentina, Uruguay, and possibly one or two others, I think it is safe to say that in the countries of Latin America there is effectively cultivated too little land in relation to the population which has to be supported. The most extreme case is found, I think, in Haiti. Another comparison we might make in that connection is one that shows that in the United States the approximate area cultivated per agricultural worker gainfully occupied is 17.5 hectares, a hectare being somewhat less than 2.5 acres. In Argentina it is 13.5 acres. Then we drop pretty sharply down to Cuba, 3.1; Peru, 1.3; and some of the others, less. The Latin American countries employ anywhere from 5 to 15 times more workers per hectare or per acre than does the United States.

That all adds up to what we, of course, know--the yield is relatively small. We need not go into the various reasons--problems of conservation; poor agricultural methods; poor machinery, if any at all; and so forth, all of which accounts for the relatively low output in agriculture. We might add to that the system of landholding prevalent in many of the countries. If you add it all up, you find one common characteristic, one common pattern of landholding, that is the farms are either very small or very large.

We hear a great deal about industrialization. World Wars I and II and the world depression have given a tremendous momentum towards industrialization in many of the countries. Agricultural production bears a very close relation to industrialization. Agricultural output, too, must go up. The industrial workers require food; the market tends to become enlarged. You cannot very easily have a healthy industrial advancement without agriculture itself improving from the standpoint of output and, from a long-range viewpoint, that, of course, also means conservation, better agricultural methods, and so on. It is, in my opinion at least, quite apparent that agriculture is one of the fields in which considerable use could be made of technical methods and technical know-how which have been developed in other parts of the world. Agriculture is certainly one of the economic areas in which a great deal could and really needs to be done in Latin America, especially as it applies to better agricultural techniques and modernization, mechanization of agricultural machinery and implements, and in many countries, no doubt, to changes or reforms in the method of landholding.

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Despite the fact that every country in Latin America today is still basically agricultural, we cannot ignore mining. Even though in the field of mining the percentage of the gainfully occupied is relatively low--I think the highest percentage in any country is 5.5 in Chile--mining becomes very important because in many of the countries it provides the exports.

I have here just a few very interesting figures I might cite in that connection. Venezuela, in 1945, with 93.4 of the total exports in petroleum shipments--it has been higher in some of the more recent years--only 1.9 of the employment was centered in that industry. In Bolivia in 1945, where 92 percent of the total exports were in the mineral field, you had only 3.5 percent of the gainfully employed in that industry. In Chile, in 1945, you had 70.7 of the total exports represented by the products of the mining industry, and only 5.5 percent of the employment was in that industry. Of course, all that means is that it is the mining segment of the economy in these cases where exports take place. The agricultural exports, of course, are important when we consider some of the countries that have the very important tropical food-product exports, as, for instance Brazil, Cuba, and so on.

We will now go from agriculture and mining to manufacturing and examine the output there and the contribution made by that output to living standards. The chief measure of imported industrial goods is found in the exports because these are the source of all important buying power, that is, buying power abroad. We have in manufacturing--taking Latin America as a whole--only from 5 to 20 percent of the gainfully employed in industry. We need note immediately, however, that when we talk about industry in Latin America we are including a number of things which we ordinarily don't think of as part of the industrial economy. We have, for example, the small household shops. In fact, in Colombia--just taking one country--in 1938 there were reported 472,000 gainfully occupied under the category of manufacturing, but that figure included 105,000 tailors, seamstresses, hat makers, and those in similar occupations. And incidentally, over 50 percent of that number declared themselves as being owners or managers of their "industry," which is just another way of bringing out the fact that large segments of the so-called industrial group are simply the small household shops, where perhaps the manager, the entrepreneur and the employee are the same person.

There is one other index we might briefly refer to--the consumption of electricity. At a time when in the United States we had 1944 kilowatt hours per inhabitant, in Chile it was 268; in Argentina, 178; in Uruguay, 118; in Mexico, 107; in Cuba, 66. When we get to Paraguay, it is down to 8; and in Haiti, it is a question mark.

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Manufacturing, to which the consumption of electricity is, of course, closely related, has been mostly of light consumer goods, such as foodstuffs and textiles. There are a few countries in which the development of heavy industries, such as steel, have made some headway, primarily in Mexico, Chile, Brazil, and Argentina. The development of heavy industry is in itself a large problem for a number of reasons, not the least of which is the fact that any tendency to move too rapidly in that field would undoubtedly create considerable difficulty in Latin American countries because, if they develop a large steel industry, they must have local markets. They certainly can't compete abroad. Large local markets imply a level of economic activity, income, economic welfare, such as can hardly be achieved rapidly unless the industry is built and operated under a high degree of subsidization.

Industry, of course, is another very important field in which technical know-how and technical assistance might very effectively be employed. Technical ability is one of the things lacking at present, although there have been periods in the past when the rapid growth of so-called direct investments played a very important part, not only in encouraging technical schools but also in importing skills. As a matter of fact, I think that in the current every-day discussions about technical assistance adequate account is not always taken of the fact that the program cannot really mean very much unless there is a flow of capital. The period of heavy investment in commercial and industrial enterprises, first by Europe and later by ourselves, was one in which much of the progress in Latin America in applying modern technology to economic development was evidenced. In a sense the two do go together. George Wythe in his book, "Industry in Latin America," points out very clearly that the period of real activity in direct foreign investments in Latin America was the period during which the technical schools themselves made their greatest progress.

The volume of savings, of course, is low, and rapid industrialization and investments of capital can go forward under sound and healthy conditions only where the economy is developing along lines where people accumulate savings and where there is interest on the part of the people in the countries concerned to invest their own capital. In that sense Latin American countries are certainly very far behind. Perhaps this is to be expected in view of their economic structure. At any rate, they are very far behind developments in many other countries. The moment you speak of that, of course, you have to bear in mind that this does not apply equally to Latin America as a unit. The possibilities of marked industrial development in some of the Central American countries and in the Caribbean countries would be distinctly limited under any circumstances.

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I mentioned a little while ago the very sharp rise in the number of gainfully employed in the service industries in the United States, standing today roughly at 50 percent. In Latin America, they range anywhere from 10 to 45 percent, but with most of the pull toward the lower percentage rather than the larger one. For example, transportation is limited and costs are high. Incidentally, I recently acquired some of these Esso highway maps of five or six of the Latin American countries. I might say parenthetically--and I think Mr. Knox, Mr. Burgin, and others will agree--that these highways appear in much better condition on the maps than they do when you travel over them. I do want to call attention to them, however. Some of you may be interested in looking at them. They give some idea of where highway transportation is developing, in what parts of these respective countries relatively good highways exist, and which countries don't have anything that could be called good highways even by the Latin American subsidiaries of Standard Oil of New Jersey.

The scarcity of foreign exchange, as we well know and as has been emphasized certainly in recent years, is a tremendous deterrent to development and to industrialization, even in those areas where there might be some sound economic basis for it. I would like to emphasize one thing, however, after having said that: It doesn't imply that, where you do have a definite move in the direction of developing an industrial base, in every case it can be called sound by any method you might want to employ. It is true that industrialization, certainly if conceived and carried forward under conditions that would really contribute to raising the standard of living, shouldn't hurt anybody. We have been taught in the United States all along that it is a good thing for other countries to industrialize--which, I think, is true--but I do think we have to bear in mind that industrialization just for the sake of industrialization may have the opposite effect. After all, you must have labor, you must have cheap raw materials, and the problem of adaptable labor is not always an easy one to solve.

The Economic Commission for Latin America in its meeting several years ago in Santiago gave a great deal of time to the discussion of immigration. Some of the Latin American countries--Argentina, Brazil, and possibly one or two others--have very carefully worked out machinery for bringing immigrants out of Europe, especially from Italy--I mean at the present time--but it is not a problem that can be solved by just picking up so many more people. Today Italy seems to be the only relatively important source from which workers of the kind needed can be drawn. European immigration did play an important part in the development of some of the agricultural and other industries in the southern part of South America, and elsewhere for that matter. But certainly we do need to do more than merely super-impose an industrial mechanism over Latin America.

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The whole process of applying technical assistance, with a view to developing those countries, giving them a more diversified economy, is above all else one that will require a careful examination of all segments of the economy and possibly the application of technical assistance along a wide front simultaneously. For example, what would be the use of increasing the agricultural output in some of these areas, perhaps even bringing in immigrants, and then doing nothing at all about improving the health conditions? So the whole program, its method of application, and so forth, is perhaps a greater challenge than we appreciate at the moment.

Now I want to go to foreign trade because, from what I have already said, it is quite apparent that the Latin American countries are dependent on foreign trade. More important still, perhaps, is the fact that many of them are dependent upon the export of one or two basic commodities and the fact that their dependence on foreign trade and the relatively small segment upon which they can draw in building up their international trade tend to make them quite vulnerable to the vicissitudes of business in other parts of the world. We saw the full effects of that in 1931, but we have seen it at other times also such as the effect on the Chilean economy of the drop in nitrate exports and the difficulties which seemed to become cumulative some seven or eight years ago in the Bolivian tin industry, influenced, of course, in part by the Chaco war.

In agriculture you may find a country moving from a very favorable balance of payments position to a very adverse position in a relatively short time simply because of climatic conditions and crop failures. But also conditions in other parts of the world, the sharp drop in the level of industrial activity in western Europe or in the United States may have a very serious effect on the general welfare of these countries. That explains in part why 1931 was one of those years of social disturbance throughout Latin America, perhaps not revolutions such as we sometimes think of but at least of the kind that generate economic instability.

I have some charts here that are designed to show the trend in the terms of trade throughout Latin America. I don't have enough to go around but perhaps we might pass them out. For those of you who may not have the chart before you I think I can summarize the main features. While they are being distributed I just want to refer briefly to a few other factors in the general foreign trade field. (The charts were not reproduced.)

If you will examine the history of foreign investment in Latin America, you will find that there was in certain parts of South America, particularly, a fairly substantial interest by the British and the French as early as the middle of the nineteenth century. Around 1850 there was much interest in railroad building the same as there was in

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the United States, and, as you know, after some few decades, there was a fairly substantial development of railways in Argentina by the British while, incidentally, the British also played a very important part in railroad development in the United States. The British and the French made some fairly substantial rail investments in Brazil, although one might wish that when the Brazilian railroads were built they hadn't thought of so many different gauges. I think today there are seven or eight different gauges among the Brazilian railroads, all of which makes it very inconvenient for long hauls. Of course, the reason for it is that so many railroads were built for specific purposes to move into specific areas to get out the products. In the same way you have banana and sugar railroads today in Central America and in Cuba.

In other parts of South America, many of the early ventures were also carried forward through British capital and, to a certain extent, through French capital. Uruguayan railroads were built mostly in the second half of the nineteenth century, and there was also a great deal of foreign capital moving into agriculture, mining, and grazing in Argentina, and, with that, of course, came the expansion of foreign trade. As a matter of fact, much of the interest in investment was to get the basic products that the populations and industries of western Europe needed. In a way it was the same thing in the United States.

As I said a few moments ago, much of the technology moves in through these so-called direct investments. The United States didn't play a very important part in South American investments until after World War I. There had been some so-called direct investments in Argentina; the big Chicago packing houses had developed, for instance, a definite interest in Argentina prior to the war. But the real movement of capital really came after World War I, and, from that time on, Europe played a relatively less important part. For rather obvious reasons, as you know, after World War I, Britain, the great world investor, placed at certain times a virtual embargo on capital investments abroad, except within the Empire.

Now it also happened that as a result of World War I--and this became more highly accentuated during World War II--there was a shift of trade from Europe to the United States. It is true that after World War I, Argentina, Uruguay, and other countries with important markets for agricultural products in Europe regained much of what they had lost, yet the percentage of the total showed the United States on a much higher level than before the war, and, let me say, so far as Central America and the Caribbean are concerned, the United States has all along held the major part of the trade as well as the investments. Where there are exceptions, such as in the Dominican Republic, where up to this time the Dominican sugar has found its chief market in Britain, by and large, Europe didn't play such an important part in

Central America and the Caribbean area at any time, except perhaps in Mexico where many of the early mining investments were French and where at times the British also held substantial interests. But in South America it was quite different up until World War I.

During World War II there was again a sharp shift of trade to the United States. Of course, we increased our imports very sharply during the war, whereas in most cases exports fell off for reasons with which you are familiar. Imports moved up sharply because of our great interest in developing rubber and various strategic and critical materials and also, in some categories, we bought things we didn't need, just to keep them from going to the enemy countries.

Now you cannot ignore the role of foreign trade when you try to examine the possibilities of a more balanced economy in these countries. The countries of Latin America are not only vulnerable to developments in the industrial areas of the world, but they have no control over the markets in which they have to sell. I am merely stating that as a fact.

Coming back to the chart, you will find that taking, for instance, Chart 3, we have the indices of the terms of trade from 1866 to 1947. If you take the exports as a group--the top line--you find that the long-run trend has been downward. That is simply another way of saying that in general--not on the basis of short periods, but in general--they have had to sell an increasing quantity, that is give up an increasing amount of their exports, to get the same amount of goods from abroad. In many of the discussions on economic development in Latin America our Latin American friends call attention to that. Sometimes they even suggest that something be done about it although the methods suggested raise many questions.

In Santiago two years ago, a proposal was placed before the conference for setting up a kind of Latin American price-fixing mechanism, and it was certainly introduced with good intentions. I don't know whether any of you would wish to administer it, especially when you bear in mind that it would involve many commodities in which there is not even a semblance of a monopoly held by the producing countries. If there were a complete monopoly, it could at least be done. They are very conscious of the difficulties.

As you know, the whole situation became somewhat aggravated after the war, because during the war, when they were accumulating a large volume of dollars, they were not able to get from the United States many of the things they wanted; our productive effort was largely directed to urgent war needs. Yet we were buying heavily and they were thereby accumulating dollars. After the war, as we got ourselves readjusted to peacetime production, goods began to move, price controls,

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of course, were removed and the prices of what they bought moved up very sharply. I might say, of course, the problem in general was aggravated by the fact that there was also greater buying in some countries of what might be called nonessentials. If you do not have controls operating, you naturally expect that, so I merely state it as a fact. In other words, you had a combination of factors which drew down the dollars without enabling their purchases to contribute to economic recovery and rehabilitation, and perhaps to industrialization, to the degree that they had hoped or to the degree that many of them felt would be possible at the time their dollars were accumulating. So in a sense we now find them in a position where the development of their resources and the strengthening of their balance-of-payments position requires some form of outside capital investment. They don't have the capital themselves, and, as I say, any program of technical assistance could not be carried beyond training operations without capital investment.

We come to a point then where a major problem poses itself. During the war the United States identified special forms of capital investment with specific purposes having to do with the development of fibers, rubber, various minerals, and so on. The economic agreement of Bogota in 1948, which declares, in effect, that which is in the interest of one is in the interest of the other, emphasizes the need for co-operation in industrial effort and recognizes the fact that you not only need to have some device for developing the resources if you are going to improve the standard of living, raise the national income, and so on, but that you need a device whereby you are not going to have, on the one hand, a "balanced economy" within the country and an unbalanced economy within the continent. In a way, I think it is the crux of the larger problem.

In the meantime, the individual countries have been taking various measures, one of the most important being import controls, usually directed toward keeping out certain imports rather than expanding exports. That is perfectly natural because, as you know, the expansion of exports, especially those exports the market conditions of which are determined in other parts of the world, doesn't always have too many possibilities. In some cases they probably couldn't sell any more even if they dropped the price appreciably. So naturally emphasis is on the import side.

On the other hand, the picture has become quite confused by the fact that internal inflation has oftentimes encouraged imports. Because of the various purposes for which exchange controls have been used certain of the less desirable imports have been permitted to come in. Because of these difficulties the subject of currency devaluation, particularly the effects of the recent devaluation by European countries and others is on the agenda of the Special Council Meeting that will open Monday.

RESTRICTED

I think I had better stop. We have a number of people here who know a great deal more about Latin America than I do. They might want to say something. If there are any questions, I will try to answer them. If I cannot, I will pass them on to Mr. Burgin or Mr. Knox.

QUESTION: Doctor, would you say a few words about labor problems in South America? I am thinking particularly of labor union problems, the influence of communism on the stability of labor, and so on.

DR. TAYLOR: You certainly came along with a nice question for the opening one. I am temperamentally so constituted that I always feel very much embarrassed even to suggest that I am going to avoid or evade a question, but frankly I don't know much about the labor situation. I do want to say one or two things about our own interest in that question. Your question is an important one and I wish I could really give you a satisfactory answer.

We have recently, through one of our divisions in the Organization of American States, tried to get together a complete directory relating to the labor unions, the people who are really officially influential in the movement, and so on, with the idea of knowing more about the very problem you mention. There have been a number of bad spots, as you know. We have had one in Bolivia. In a way we have labor conditions here that might be considered satisfactory or unsatisfactory depending on our standard. We know that one of the reasons the tin industry has suffered is not merely because of Bolivian competition but also because of the unsatisfactory labor situation.

Now, whether that is a situation that you can explain in any way by communist influence, I don't know. Of course, there are various types of influence of what you might call the leftist type or Communist type that crop up here and there, but just what their potential is for making trouble, for creating upheavals, or for making tensions so strong politically as to threaten new difficulties, I frankly don't know. I find that whenever I talk to someone who is really a student of labor in South America, paradoxically enough, even if he is a specialist, he doesn't seem to know anything about it--and I don't say that to justify my own ignorance. But the great difficulty is that we don't know very much about that segment from the standpoint that we can translate labor's influence into specific political terms that we can understand.

Mr. Knox and some of the rest of us were down in Colombia recently. I never make a point to discuss politics--at least I try to be very careful if I do--with the natives of another country, but we heard a lot about the difficulties in Colombia relative to labor and so forth. I did talk to some of the Americans stationed down there and also a few Colombians who themselves opened up the subject. I find you get so many points of view that in a way it reminds me a little of United States; it depends upon with whom you talk!

Periodically, the Communists have been presumably a potentially strong factor in Chile. Just what the situation there is, I don't know. Mr. Knox, I am sure, does, although he probably wouldn't feel free to say much about it because it is so difficult to be categorical about it. I would simply say that there are certainly potentially bad spots-- I mean from the standpoint of the way you put your question--but how dangerous they really are, I don't know.

QUESTION: Doctor, you speak my thoughts along this industrialization we are trying to do with America; and talking about sociological lines, the standard of living, I wonder what our ultimate aim is, what we are trying to do down there? They seem to be conflicting. First of all you are trying to industrialize everybody to make things to sell--to whom? I presume to sources in the country. Certainly not to us, or to western European markets which we are trying to find for our own products, or to the Russians. Right away you industrialize them to sell to whom? You create more employment; presumably you take them away from the farms. It looks to me like the more you keep on the farms, the more stability you will have down there. That is the economic point. The other point is sociological. We are very much dissatisfied because South Americans like to take a nap in the afternoon, lead a leisurely life, put a lot of emphasis on their culture and comfort. They are not eager-beavers like we are. I wonder if that is bad so far as they are concerned?

DR. TAYLOR: At least this is a question I am willing to talk about. I would like to make a reference to the latter part of your question and for just a moment talk about culture. At the Santiago meeting two years ago, I was talking to a Peruvian about this very problem of industrialization, and he suddenly came up with this bright remark: He said, "You know if you people up there in the United States had some of our excess culture and we had some of your excess technical competence, wouldn't we have a very fine Western Hemisphere?"

On this matter of industrialization, of course, you say we want to industrialize them. It is true that some people are enthusiastic over the idea of industrialization just for the sake of industrialization, as I mentioned a little while ago. I don't think, however, that the movement in the direction of broadening the economic base through the developing of industries has been uneconomic. It may have been in specific segments. We have to bear in mind that when you have a group of countries, as you have, say, in South America, with enormous resources and which sell their minerals and agricultural output to the outside world in order to get buying power for getting their consumer goods, it might be very simple to say, "That is fine; they are producing what they are best fitted for. And of course, we can supply them with automobiles, fertilizers, shoes, and so on, because we can produce them cheaper than they can, so everybody benefits." But from their viewpoint they don't feel that this leaves them quite secure and they tend to act accordingly.

As a result of the depression, accentuated somewhat by the war, I think the momentum to their industrialization may have been carried on along a wider front than ever before. During the war when they couldn't buy what they needed, even by way of clothes and other consumer goods from the United States, you had that very fact give tremendous momentum to the development of certain consumer goods industries in Brazil, even to the extent where Brazil exported textiles to neighboring countries. Intra-American trade moved up to higher levels during the war than it had ever been before, merely because of that kind of development.

I am reminded of a very interesting review I saw some months ago when Mr. Wilcox came out with his book on the ITO Charter. If you read the book you will notice that Mr. Wilcox quite obviously believes in the charter; so do many of the rest of us, but the reviewer Mr. Baran, formerly with the Federal Reserve Board, raised a question which bears directly on your question. In effect, he said, "After all, might it not be worth while for the author to bear in mind that these countries cannot be expected to get religion suddenly just because we have, now that we have become the most powerful economic nation in the world? These countries are looking ahead and they may figure it might be better to have some industries, even if they need to be protected, if in doing so they can develop certain skills and techniques which in the past they just haven't had in time of crisis and then were at the mercy of a world that couldn't even sell to them."

That kind of psychology is powerful and it has been highly accentuated as a result of the experience of these countries during World Wars I and II and during the depression. In other words, you have to expect that, rightly or wrongly, they are motivated by what they consider the longer-run economic factors which dominate their economic life. So they are going to industrialize. They have carried forward since the early thirties and particularly in recent years, what has been a very marked movement in the direction of integrating the whole financial mechanism, usually with the central bank and a national development corporation at the top. The structure usually has certain specialized banks: an agricultural bank; in many cases, an industrial bank; in mining countries, a special mineral bank; and all are designed to help promote the respective segments of the economy, with greatest emphasis on the industrial side.

It is true, I think, that we could say quite correctly, if we had a world in which the feeling of economic insecurity weren't so powerful, it would be much easier to have these countries become reconciled to the idea, "Sure it is cheaper for us to be dependent on the outside world, especially for our consumer goods than to go into the process of industrialization ourselves. We lack power, relatively so at least, and there are only certain limits within which we can industrialize without subsidies or tariffs, all of which if they become severe enough,

might militate against our standard of living." So I think much of the industrialization is inevitable. When you get into heavy industries, as I said a little while ago, you have a little different problem. I don't think that by any reasonable test all attempts at industrialization have been sound, perhaps none of them by certain tests, but I think there are supporting reasons and they are all powerful today--perhaps too much so because of the tremendous surge of nationalism. In recent years certain countries--Brazil, for one example--have retreated from their earlier position. Foreign capital, foreign banking, and foreign insurance interests are more welcome than they seemed to be back in the late thirties.

COLONEL KING: Dr. Taylor, we can further pursue these questions in the seminar this afternoon. For the Commandant, and for your audience, Dr. Taylor, I thank you for a most interesting lecture on Latin America. Thank you very much.

(17 May 1950--350)