1559

ECONOMIES OF WESTERN HEMISPHERE

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CONTENTS

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COLONEL SMARTT: Gentlemen, the economy of the Western Hemisphere is really so large a subject that, with relation to the time available, I am forced to give it the well-known nightgown treatment. In fact, it must be a bride's negligee of the transparent variety--one that I hope will sufficiently arouse your interest to pursue the subject further.

I propose to touch upon four general areas: first, some basic aspects of the economies of Latin America and Canada; second, their patterns of foreign trade; third, the complimentary and conflicting aspects of the economies of these two countries in relation to that of the United States; and, finally, the prospects for economic growth in Latin America and Canada.

(MAP OF WESTERN HEMISPHERE)

First let us examine the map of the area and see just what we are talking about. (Map was not reproduced.)

Basically there has been no change in the geography since we were kids and went to school. As when we were kids, North and South America make up the Western Hemisphere. In general we have high mountain ranges in both continents running up the western side. On the Atlantic coast we have the Appalachian Range here, with its counterpart in the high mountains of eastern Brazil.

We have a 2000-mile water highway leading into the central North American continent, the St. Lawrence-Great Lakes system; its counterpart is the Amazon River system in Brazil. Running up the middle of North America is the Missouri and Mississippi River system; its counterpart is really the Plate and Parana Rivers system. You might say another comparison would be the Magdalena River in Colombia, running north into the warm Caribbean, contrasted with the Mackenzie in Canada, running also northward, but into the cold Arctic.

So much for the general area.

When I use the term "Latin America" I refer to the 20 republics in the area. It comprises the 10 republics of South America, excluding, of course, the Guianas; the six republics of Central America, commonly referred to as the banana republics--Panama, Costa Rica, Nicaragua, El Salvador, Honduras, and Guatemala; Mexico; and the three island republics--Cuba, Haiti, and the Dominican Republic. You will note that the term "Latin America" does not include any possessions of foreign governments. It excludes the Dutch possessions, British Honduras and Jamaica, French Martinique, U. S. Puerto Rico, and the like.

It is important to keep in mind that this area consists of 20 individual republics. They are not a unit in development, in attitudes, in aspirations, or in background. To understand the economy of this area, it is necessary to examine the physical resources upon which it is based; namely, the land, its people, and its natural resources.

The greater part of Latin America lies within the tropical zone. This has its ill effects upon the health of the people. Coupled with the natural physical features, it constitutes a definite handicap to the economic expansion of the railroads and to highway construction. I refer primarily in Latin America again to the high Andes, which are definitely a stumbling block to east-west rail transportation, and the four plateaus of Latin America--three of them running from 1,500 to 4,000 feet in height--the Patagonian plateau of southern Argentina; the Brazilian highlands; the Mexican plateau, running down the center of Mexico; and the high Bolivian plateau, which is from 6,000 to 12,000 feet high.

Also hindering construction are the numerous river systems, the jungles in the headwaters of the Amazon, and the forests of the lower Amazon and the Parana Rivers area.

The great masses of the population are Indians, Negroes, and Mestizos. They are generally illiterate, unhealthy, and suffer from malnutrition. Sixty percent of the population is engaged in agriculture. Even so, the area is unable to produce enough to provide an adequate diet. Despite these handicaps, the rate of population growth is twice the world rate.

A Chilean minister of public health stated that one-fifth of the Chilean labor potential is eliminated by illness. This is the equivalent of a running cut of 20 percent in national production. The population of Latin America is approximately that of the United States, but popular education has not been geared to an industrial civilization.

Let us now consider the natural resources of this area.

Approximately 5 percent of the total land area of Latin America is suitable for agriculture. This compares with an average of 10 percent in Europe. Since a substantial portion of the land has not been placed in cultivation, the area does have fair prospects for agricultural expansion.

A somewhat pessimistic view of the agricultural capability of Latin America was expressed by William Vogt, a noted American conservationist and former lecturer from this platform. In studying the combination of land misuse and population increase, he stated bluntly that: "With the possible exception of Argentina and Brazil, the countries to the south of us are fundamentally and inescapably so poor that a living standard approaching that of the United States is unattainable." He went on to state that: "The land of Latin America has such a low carrying capacity and is able to produce so little wealth per thousand acres that the purchasing power of the people cannot be increased to a degree even comparable with that of European and North American countries."

The other natural resources of this area may be briefly characterized as follows:

In forestry they have large reserves. However, they are mostly hardwoods and for the most part economically inaccessible.

Coal reserves are extremely small; they are of poor quality--little, if any, coking coal. All of them lack favorable location with respect to iron ore and limestone deposits.

In petroleum the area is in a much better position. Latin America has reserves equal to one-half of those in the United States. Petroleum is produced in 10 of the 20 Latin American republics. It is worthy of note, however, that two of the largest and most modernized of these Latin American republics, namely, Brazil and Argentina, are extremely short of petroleum. Petroleum in Latin America is essentially an export commodity.

Water power perhaps holds the best promise for the future so far as energy resources are concerned. It has large water-power resources. However, the bulk of them are economically inaccessible with respect to centers of population; and it will be some time before they really become of large-scale importance. That is particularly true with respect to Argentina and the centers of population, where their sources are at such great distances.

So far as the mineral picture is concerned, I think that Table I will give it to you at a glance. One comment in connection with the mineral resources of Latin America is to the effect that the undeveloped resources will be handicapped for some time due to the inadequacy of rail transportation and the location of those deposits--primarily in the high Andes.

So much for these natural resources. Now something about the economy.

Latin America has strictly a colonial economy. It depends upon its exports of raw materials in exchange for the importation of manufactured items and processed goods. The European market normally takes one-half and the United States one-third of all Latin American exports. This, of course, varies between individual countries in Latin America.

The Plate River area--Uruguay, Paraguay, and Argentina--normally ship about one-third to three-fourths of their exports to Europe. Of course their exports are competitive with those of the United States on such items as cereals, beef, mutton, and the like.

Table 1. Latin American mineral production (Percentage of world production)

		Percent 1938	Percent 1948
*	Copper	23	24
*	Lead	11	19
*	Zinc	11	15
*	Antimony	58	48
*	Tin	18	25
*	Vanadium	38	30
*	Tungsten	12	13
	Gold	7	5
	Silver	43	48
*	Manganese	7	7
	Iron Ore	1.3	2
	Coal	0.3	0.3
*	Cadmium	16	19
*	Chromite	4	6
*	Molybdenum	2	4
*	Natural Graphite	8	24
*	Mercury	6	7
*	Platinum	10	8
*	Bismuth	35	33
	Nitrogen	8	8

* On current list of strategic and critical materials for stockpile.

On the other hand, Cuba, Mexico, and Central America ship less than one-fourth of their exports to European markets. Their export capacity is complimentary to United States production--sugar, bananas, coffee, and the like. Hence the bulk of its exports flows to the United States and Canadian markets.

In the great period of expansion of Latin American exports of farm products we find that the European population was growing rapidly; British industry increased its needs for materials and food; the German industry had expanded rapidly, creating an industrial population that needed to be fed; and, in addition, the growth of the American market reduced our surpluses available for export.

By 1930 however this condition had changed materially. We find that the European population growth was slowing down; British industry was losing ground to foreign competition and it turned to the Commonwealth countries that were growing; Germany was achieving greater balance between industry and agriculture; and, the growing economic nationalism in European countries tended to discourage foreign imports.

This change affected Latin American development policy in two ways. First, it could no longer count on a steadily increasing export market upon which it depended to supply the necessary foreign exchange with which to finance foreign purchases of capital goods.

Secondly, it could no longer control imports to insure the inflow of capital goods, because Europe began demanding bilateral balancing of accounts. For instance, Germany might require Brazil to accept harmonicas in settlement of accounts when actually Brazil wanted railroad equipment.

World War II again demonstrated the vulnerability of the Latin American economies, especially those with heavy European exports. For example, continental Europe had taken 30 percent of the Latin American exports. Of course, with the outbreak of the war these markets were immediately cut off.

In the postwar period export demand was heavy, primarily due to a delay in European recovery reaching prewar levels, and also to the high level of prosperity, holding American demands at high levels. Total Latin American exports rose from 1.7 billion in 1938 to 6.5 billion dollars in 1948. Despite Marshall Plan aid, continental Europe and the United Kingdom were taking considerably less than their prewar levels.

This decline in the European markets, coupled with the postwar world shortages in foreign exchange, have left Latin America with an uncertain market for its exports. It fears a continued narrowing of the European market in peacetime and its total loss in wartime.

In the United States market, Latin America had no balance of payments problem and no bilateral balancing of accounts. The basic outlook was good. We had a growing population and large requirements for foreign materials generated by the defense production program. Dollarwise, exports to the United States increased over fivefold between 1938 and 1950. In physical volume this represents about double the 1936-1938 figure.

Demand will remain strong for traditional United States purchases, such as coffee, sugar, cacao, bananas, oil, metals, wool, and hides--all of which are complimentary to United States production. However, there is very little prospect of expansion to offset European losses in other foods, animal feedstuffs, oils, and cotton, since these are

1586

competitive with our production. Those losses amounted to approximately one-third of the total exports.

Table 2. Distribution of Latin American trade among leading nations

(Percentage of total)

Country		Percent 1913		Percent 1938		Percent 1941
EXPORTS						
United States		25.0		35.8		62.4
Europe:		54.3		35.9		8.05
United Kingdom	24.4		12.2		7.8	
Germany	16.6		17.1		.05	
France	8.3		3.5		.1	
Italy	5.0		3.1		.1	
Japan		.1		2.7		2.6
Others		20.6		25.6		26.95
Total exports		100.0		100.0		100.0
Dollar value (millions)		1,601		1,707		1,907
IMPORTS						
United States		30.8		31.5		54.0
Europe:		43.6		31.7		13.3
United Kingdom	21.2		15.9		13.1	
Germany	12.4		10.3		.03	
France	8.0		4.0		.1	
Italy	2.0		1.5		.2	
Japan		.0		1.3		2.7
Others		25.5		35.5		29.87
Total imports		100.0		100.0		100.0
Dollar value (millions)		1,404		1,492		1,487

The distribution of Latin American trade among the leading nations of the world is shown by this table. It shows the trend and also the volume--the trend is shown in percentages, with the total dollar value at the bottom of the table.

Trade among the Latin American countries themselves is relatively unimportant. There is very little trade in manufactured goods. What little trade they have is in foodstuffs.

In Latin America a slump is associated with a decline in exports. It hits with a devastating force. But, being generated overseas, it is more difficult to handle than a business decline generated at home.

Table 3. Latin American exports by commodities

(Percentage of total exports)

Item	Percent 1938	Percent 1947	Percent 1949
Petroleum	17	13	18
Coffee	13	13	19
Sugar	6	12	10
Cotton	4	4	4
Meat	7	4	5
Cereals and linseed	12	11	10
Hides and skins	3	3	3
Oils, nuts, etc.	2	4	3
Wool	5	3	3
Minerals	14	9	10
Other foods	7	13	10
Miscellaneous	10	11	6

Table 4. Importance of the leading export commodity

(Percentage of total exports)

Item	Percent 1938	Percent 1948
Brazil--coffee	45	42
Columbia--coffee	61	77
El Salvador--coffee	92	80
Guatemala--coffee	66	62
Haiti--coffee	51	35
Costa Rica--coffee	49	45
Dominican--coffee	60	51
Cuba--sugar	78	90
Honduras--bananas	64	56
Panama--bananas	77	50
Venezuela--petroleum	92	97
Bolivia--tin	68	65
Uruguay--wool	44	37
Chili--copper	52	60
Nicaragua--coffee	47	45
Peru--petroleum	36	26 (cotton)
Paraguay--cotton	27	18 (quebracho)
Ecuador--cacao	29	41 (rice)
Mexico--silver	25	17 (lead)
Argentina--beef	18	19 (meat, 1947)

1588

How heavily the external purchasing power of individual countries depends on a single commodity is shown by table 3. Referring to table 4, you will notice that these are of primary importance within each of those countries. They represent the percentage of exports derived from a single commodity; they also represent the shifts in place. For instance, Paraguay shifted from cotton in 1938 to quebracho in 1948 as the leading product.

Table 3 shows the concentration of exports by commodities. If you examine that closely, you will note that really only two commodities there would be competitive with United States production, primarily cotton and Argentine meat.

Now, after examining table 3 you can readily understand Latin America's desire to diversify its economy in order to lessen its dependence upon the fluctuations of foreign demands for its exports. I also suspect the growing spirit of nationalism, coupled with a Communist-inspired campaign against "foreign imperial capitalists," lies behind the currently strong desire to industrialize the economies of many Latin American countries.

Its drive to diversify its economy has shown some results. To date the chief gains have been in the consumer goods field, primarily cotton, wool, and rayon textiles.

For the Latin American, however, the steel mill has really become the symbol of his development aspirations and the showcase of his achievements. Latin America's consumption of steel per capita is so low that few countries can absorb the output of a mill of economic size.

Other industries in which notable advances have been made include such items as cement, wood pulp, electric power, the pulp and paper industry, chemicals, and food processing.

Export from industry has been largely limited to the food processing field, and it is likely to continue to be limited to this field for some time. In fact, there are indications that the increasing demands of domestic consumption may result in a shift from export to domestic outlets for this industry.

I will briefly mention some of the obstacles to large-scale industrialization throughout Latin America. Then if you wish to pursue the subject further, you may do so in the question period.

Large-scale industrialization, as you well know, requires heavy capital investment. If this is to be domestic capital, it must depend upon increased exports or decreased imports of consumer goods in order to divert foreign exchange for this purpose. However, the standard of living of the masses can ill afford to be reduced much lower.

In view of the growing population, it is difficult to see how large exports in the nonminerals field can be accomplished, particularly in view of the curtailed European market.

These countries must concentrate on improving agricultural production in order to keep abreast of their domestic requirements. The size of the domestic market makes heavy industrial production uneconomical. And the limited railroad lines tend to limit the growth of both the domestic markets and the trade between the countries of Latin America.

Again, the physical location of essential raw materials and the import costs tend to boost the cost of production above the economic ceiling.

If development is dependent upon foreign capital, I submit for your consideration that the inroads of government in business, through nationalization and government monopoly, discriminating tax, and regulatory restrictions and controls upon movement of foreign exchange, have developed in most of Latin America, under their rising nationalism and resentment against foreign capital. By 1950 many Latin American countries had succeeded in destroying confidence of foreign investors in their willingness to assign a suitable development role to private foreign capital and to permit it to undertake that responsibility with a prospect of reward commensurate with the risks assumed and the function performed by that capital.

Colonel Waterman's exposition on the theory of absolute advantage is now working for Latin America. In the event of heavy industrialization, it will probably work against the Latin American economy. Latin America has this advantage in the production of raw materials. It cannot hope to readily, if ever, gain this advantage in industrial production. Its industrialization will of necessity be limited to the extent of its domestic market for many years to come.

Now, what about the economies north of the Rio Grande? If you will take a brief look at the Western Hemisphere, you will note that the country is divided into an eastern and a western portion by the continuous range of the Rocky Mountains, extending from the Gulf throughout the continent to the Yukon, of course, hindering the transportation east and west.

In the center are the great plains and the prairie provinces of Canada, extending from the Gulf through to the Arctic. That is a great grain-producing area. The oil geologists pretty largely agree that the oil sands underlying the Texas fields really extend from the Gulf of

1570

Mexico throughout this region to the Arctic. You will recall the very recent development in Alberta. Of course we had oil produced at Norman Wells during the war. It is still being produced for use in the Northwest Territory.

On the Atlantic coast transportation inland is hindered by the Appalachian Range, which extends through the United States into the maritime provinces, terminating in Baffin Island.

Canada itself is really divided into six regions; I will briefly describe them for you.

The maritime region takes in New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland. They are principally forests, with some agriculture and a little mining.

The St. Lawrence region is a strip of fertile land along the St. Lawrence River extending into Quebec and southern Ontario. It is extremely fertile.

Third, and perhaps the most significant, is the Laurentian or Canadian Shield, which consists of a 2 million square mile horseshoe of ancient rock encircling Hudson Bay. In general it runs down along the boundary of Great Slave and Great Bear Lakes, right into the tip of the Great Lakes. This area is rich in forests, minerals, wild life, and water power. It is not suitable for agriculture.

Then we have the prairie region, taking in Alberta, Manitoba, and Saskatchewan. That is the great grain-producing and cattle-raising area of Canada.

Then the cordilleran or mountain region of the West, which takes in British Columbia and extends on up into the Yukon Territory. It is extremely mountainous, with a few rich agricultural valleys, but primarily forests and rich in minerals.

Then we have the Arctic Archipelago, which takes in all of the treeless islands of the North and the Hudson Bay lowlands.

One other item that I might mention very briefly is the river system. By and large, with the exception of the St. Lawrence, which flows eastward into the Atlantic, and the Nelson River, which flows crosswise from this agricultural region into Hudson Bay, the rivers of Canada flow northward into the frozen Arctic, and as such are of little value transportationwise to most commerce. The Mackenzie River is the main highway of the Northwest Territory, flowing from this lake region all the way down the Mackenzie valley into the Arctic Ocean. It has some boat navigation up there during the open season, but it doesn't have commerce as we normally know it.

The Canadian economy, like that of Latin America, is heavily dependent upon exports. Unlike the individual Latin American countries, however, its economy is not dependent upon a single crop or commodity. Canada is a heavy exporter of agricultural products, both raw and processed--forestry products, fishery products, and minerals. In addition, during World War II the Canadian industrial capability really reached adult status.

The Canadian economy is expanding rapidly. It increased its gross national product 20 percent during 1951.

Now let us consider its resource base.

Its human resources consist of 14 million highly literate, healthy, and intelligent people. It has a labor force of 5 million, of which only 17 percent are engaged in agriculture. The program of selective immigration for displaced persons has greatly strengthened the labor force in those areas of specific skill shortages.

In agricultural resources the proportion of land suitable for agriculture is twice that of Latin America. It has considerable virgin country that can be opened to agriculture when needed. Agriculture is the chief source of exports and is the mainstay of the national economy. About half of all agricultural products reach the export market.

In world production Canada ranks third in wheat, second and third in barley and oats, and fourth in meat. In processed agricultural products it leads the world in dried and canned milk. Its fisheries are among the most extensive in the world. It has extensive stands of softwoods and is a heavy producer and exporter of wood pulp, pulp wood, and lumber. You are perhaps aware of the fact that four out of every five sheets of newsprint consumed in the world are produced in Canada.

In electric power Canada has huge water-power resources, about one quarter of which are currently developed. Ninety-five percent of the electric power of Canada is hydro-generated. At present it has one of the highest per capita consumptions of electric power of any nation in the world. Its present capacity is adequate for immediate needs, but it has very little reserve.

Its coal and coke reserves are relatively small. It is low quality, and most of it is not economically accessible. About 10 percent is far out in British Columbia and about 45 percent in Alberta. Both are away from the centers of industry. Another 45 percent is in Nova Scotia. There it is used for a small steel industry, using iron ore from Newfoundland. Canada produces about 40 percent of its consumption and imports the remainder from the United States.

In petroleum the current proven reserves are about 1.7 billion barrels. Most of this has been developed since about 1947. Canada

1572

is currently meeting from its domestic production about one-third of its current requirements.

The chief drawback to petroleum at the present time is that of distribution and not of availability of the crude material nor of refinery capacity. You are probably aware that in 1950 a 1,150-mile pipeline was opened up to bring the Alberta production from Edmontom down to the terminal at Superior. You may wonder why that pipeline ended in United States territory. Remember, I mentioned the Canadian Shield, an area of ancient rock that comes down to the edge of the Lakes and on back. In order to miss the expensive construction through that type of terrain, it was skirted and the pipeline came in through the United States to the terminal at Superior, Wisconsin.

In mineral production Canada leads the world in the export of base metals. Since mining is Canada's third largest basic industry, the progress it makes has an important bearing on the expansion of the Canadian economy as a whole.

The surface of Canada's mineral resources is just beginning to be scratched, yet it leads the world in the production of nickel, asbestos, the platinum group metals, and probably radium. It ranks second in aluminum (from imported bauxite), zinc, gold, cadmium, and selenium. It ranks third in silver and magnesium, and fourth in copper and lead. Recent developments probably put Canada at the top of the list in titanium and give it extensive reserves of high-grade iron ore.

The United States has not been a traditional market for Canadian metals, except for nickel and asbestos. However, we are currently getting many metals from Canada to help meet the needs of the mobilization program.

Canada really became an industrial power with the expansion of its production capacity during World War II. With the termination of the war, the bulk of these wartime plants were absorbed in the civilian economy.

What about the velocity of growth of the Canadian industrial capability? In the five-year period 1946-1951 the expansion in production capacity in a few key industries was as follows:

	Percent
Durable goods	54
Nondurable	20
Iron and steel	36
Transportation equipment	53

Now let us consider some of the major developments in basic resources in this area. Again, as you will recall, large-scale development requires large-scale capital investment, the same as in South America. Since Canada is in the dollar area, it encounters no exchange difficulties in obtaining American capital.

Unlike Latin America, Canada has provided a favorable climate for foreign investments. It affords political stability; good working relations among government, industry, and labor; and favorable fiscal measures pertaining to depletion, depreciation, and development expenses in computing income taxes.

Based upon these fiscal measures and strong domestic and foreign demands for Canadian goods, capital investment has been extremely heavy. Between 1939 and 1950 the percentage of national income invested in nonresidential construction and new machinery and equipment increased 75 percent in Canada compared to 42 percent in the United States. The over-all total capital investment, both foreign and domestic, amounted to 4.6 billion dollars last year. But there is only a population of 14 million. This is equivalent to 22 percent of the national income.

Some of these major developments will indicate the dynamics of the Canadian economy. I will run over them briefly.

Hydroelectric power.--With a planned expansion program involving the expenditure of one billion dollars, it will provide an additional 1.7 million horsepower during 1952-1953 and an equivalent amount in 1953-1954.

In iron ore the huge development in Labrador and Quebec is progressing. Coupled with that is the construction of a 350-mile railroad from the Gulf of St. Lawrence through the wilderness to the iron ore site.

In petroleum I have already mentioned the completion of the pipeline from Edmonton to Superior. To meet the additional demand there is another line to be constructed from Edmonton to Vancouver. It is to be a 691-mile line. Steel will be available for its construction during the second quarter of this year. In addition, 300 million dollars will be spent for additional exploration and development.

In aluminum, as you are aware, Canada is today the second largest producer in the world. In addition to that, the Aluminum Company of Canada has another project under way up in British Columbia near Prince Rupert. When completed, that project will add an additional 550,000 tons of annual capacity. That huge project involves the construction of a dam at the Nechaco River, which will back up a lake 150 miles long to provide a waterhead. It will also include two ten-mile tunnels from the lake down 2,600 feet inside a mountain to the power station, which

1574

will be located half a mile inside the mountain. They will have absolute security. In addition to that, there will be a 50-mile transmission line from the generation site to the smelter and port of Kitimat, which is about five miles below Prince Rupert.

In uranium, exploration in Canada has been outstandingly successful. A government-owned corporation has a new development under way, which, when it comes into production, will make Canada the world's No. 2 producer.

The tremendous material resources of Canada, coupled with their accelerated development and small population, demand that it maintain a healthy foreign trade. In fact foreign trade is the backbone of the whole Canadian economy. Canada is the fourth largest trader in the world, having lost third place to France last year for the first time since the start of World War II.

Table 5. Canadian trade--1950
(Percentage distribution by countries)

	Percent Exports	Percent Imports
Commonwealth countries:		
United Kingdom	15.2	12.7
Australia	1.1	1.0
India	1.0	1.2
Union of South Africa	1.4	.1
Other	2.4	5.3
Total	21.1	20.3
Foreign countries:		
United States	64.5	67.3
Latin America	4.7	6.7
Europe	6.6	3.2
Other	3.1	2.5
Total	78.9	79.7
Total, all other countries	100.0	100.0
Dollar value, all countries (In millions)	259.86 3,118	264.52 3,174

I think the direction of Canada's trade can be seen at a glance on table 5.

The importance of trade to the economies of both the United States and Canada must not be overlooked. Traditionally, Canada has had a large trade deficit with the United States and a large trade surplus with Great Britain and the rest of the world. Before World War II, when the pound sterling was fully convertible, this was not a serious problem; Canada could settle its United States trade deficit by selling sterling in New York. After the war it could not do this and by 1947 Canada had drained its dollar reserves to the point where Parliament found it necessary to enact the Emergency Exchange Conservation Act.

This act gave the Minister of Finance authority to place restrictions on imports from the United States and to control the flow of United States dollars out of the country. As conditions improved, these restrictions were gradually relaxed; the last restrictions were removed 2 January 1951.

Even though increased purchases from the United States created a net deficit last year, foreign capital inflow was so substantial that Canada continued to be in a healthy foreign exchange position. This is substantiated by the fact that in October 1951 all foreign exchange controls were abolished. Canada is now one of the few nations where foreign exchange dealings can proceed unaffected by government regulation. Another example of strength is the recent rise of the Canadian dollar to approximate par with the United States dollar in the free market.

Before World War II about one-third of Canadian exports were to the United States. Last year they reached 59 percent. Today we are each other's biggest customers.

Now, I think that an examination of the United States-Canadian economic balance sheet will reveal on the credit side the complimentary products, which will include United States cotton, citrus fruits, and nuts, none of which are produced in Canada; iron ore; coal which is not in competition with Canadian production. Remember, I stated that the Canadians produce only about 40 percent of their requirements and they import the other 60 percent from the United States; wood pulp and pulp wood, where there is a heavy Canadian production and no United States exports; lumber, of which in normal times there is a conflict, but during the current period, in fact, since the beginning of World War II, we have been an importer of Canadian timber; and farm machinery, of which there are heavy United States exports to Canada, although the Canadian production of farm machinery is growing.

1576

On the debit side of this balance sheet we find conflicting products. These include wheat and flour, which is obvious; automobiles, of which we are both heavy exporters, although we ship many of the components to the Canadian assembly plants; metals, where there is direct competition in normal times. There are also conflicts in fisheries and many individual agricultural and dairy products.

In the future conflicts are apt to develop in petroleum. At least the expansion of Canada's development facilities will eliminate a market for United States petroleum in Canada. It is highly probable that conflict will develop in normal times in aluminum, particularly with that development of 550,000-ton capacity in British Columbia. This will also apply to many industries as Canada's industrial production expands beyond the capacity of the domestic market to consume.

Now, to paraphrase the typical auditor's certificate: We have made a survey of the Canadian economy, examined its strengths and weaknesses; and, subject to the conflicting elements cited, find it to be healthy, dynamic, and generally complimentary to that of the United States.

QUESTION: How much of the investments in the Latin American countries are coming from the United Kingdom versus from our country in their expansion?

COLONEL SMARTT: Very little. In fact, Britain has liquidated about one billion of its foreign investments in Latin America since World War II. And, of course, it liquidated quite a bit during the war. Most of those European countries were scraping the bottom in dollar exchange to support their war effort; Britain also liquidated considerable of its Canadian investments. Most of the current investments are coming from the United States. There is some British capital flowing in, but the bulk is United States.

QUESTION: How about Canadian?

COLONEL SMARTT: Canada is using most of its own investments at home for its own expansion.

There may be some capital going in there. I don't know how much. There was one Canadian oil company operating in Colombia. As to the total Canadian investments there I don't know.

QUESTION: I understand that the economy of Argentina is having quite a bit of trouble. Would you say a little more about that?

COLONEL SMARTT: I think it is not only economic but political. Argentina's economy is in a mess, so far as I am concerned, due to the government control and the government monopoly.

The Argentine economy has been primarily an export economy, based upon wheat and beef. The Argentineans have recently run into difficulty because of the drought that cut down their wheat production. About two years ago, along with the loss of pasturage and the like, they had a rather considerable cutback in beef production. That has cut down on their available exports. In fact, they are having a difficult time meeting their commitments to Great Britain on beef.

Another thing that has hurt Argentina's economy is the fact that it has a government corporation that markets the farm products. It would hold a rock-bottom price to the farmers and to the cattle growers and then sell at a higher price on the market, skimming the cream off for the government. With that rock-bottom price the cattlemen just refused to produce cattle. Another contributing item is the fact that there has been a certain amount of industrialization going on in the centers of population and the farm hands have been drifting into the cities, where they get higher wages. The result has been a definite shortage of farm labor.

QUESTION: I notice that the export and import of minerals represent quite a considerable percentage. Can you tell us whether the USSR is represented in that; and, if so, to what extent?

COLONEL SMARTT: No, I can't. I can't give the percentage to you. They have been getting some minerals but not many. Most of the mineral items they produce from their own sources.

The USSR exports wheat; has been selling wheat, making some available. They wouldn't be getting wheat out of Latin America. They wouldn't be getting much beef out of there. I can't give you the figures pertaining to the USSR, but I don't imagine they are getting very much.

QUESTION: During the war we tried to develop rubber in Brazil. Did anything ever come of that?

COLONEL SMARTT: Firestone representatives were down there. They finally pulled out. Ford representatives were also down there. They tried to develop a lumber industry town there, but they found that the attitude of the natives in the interior of the Amazon was such that they were an unreliable labor force. So they finally pulled out.

There is still a certain amount of rubber production, but it is not from cultivated plantations. It is mostly gathered wild. There is very little export to this country. Most of it is consumed in Brazil, to my knowledge. There is a comparatively small rubber industry.

QUESTION: We hear quite a bit about these so-called banana republics getting Communist governments and kicking up their heels. But where they export such a large percentage of their products to the United States, why can't we just completely freeze them out? Why should we stand for Communist governments in any one of those countries?

COLONEL SMARTT: I refuse to step over into the political field. Things really have been working the other way around. First of all, they do ship bananas to other markets, although we take a good portion of them. But in Guatemala the American Fruit Company is just being strangled, practically, by government regulation as a result of Communist influence.

If you can get everybody in this country to agree not to eat bananas for a while, we might help cure that; but I don't think you will get everybody in this country to agree not to eat bananas.

QUESTION: You have painted a dim picture of these Latin American economies. But this month the Brazilians announced that they are free of public debt and they are getting large reserves of iron ore and things like that. How do you feel about Brazil being different from the general Latin American structure?

COLONEL SMARTT: Brazil perhaps at the present time is undergoing a greater industrialization and development of industries than any of the other countries of Latin America. The four main industrialized countries, the most progressive, are Argentina, Brazil, Chile, and Mexico.

If you read an article in one of the magazines--I think it was the "Saturday Evening Post"--a few months back, it had quite a spread on Brazil. There are many American industries setting up branch plants in Brazil.

Brazil has the largest steel mill, I believe, in Latin America at Volta Redonda. That was built, however, during the war period primarily as a political venture to soothe the nationalist spirit of some of the Brazilians. They could put pressure on us to advance funds when we needed bases down there during the war period. It has about 1.5 million tons capacity, but is turning out only about 300,000 tons annually. It is an uneconomic operation.

Brazil has probably the largest iron ore deposits in the world. But again I personally do not expect a large-scale steel development in Brazil, due to the fact that they do not have sufficient high-quality coking coal to make it a profitable operation. In general, I think that Brazil is coming along much faster than the rest of the countries.

COMMENT: I would like to make a couple of little observations--one on timber.

In the jungle countries at least it is unusual to find uniform stands of a certain type of timber. You don't have the big pine forests, fir forests, and things of that nature. Your forests are very diversified. If you are going to look for mahogany, you will find two or three mahogany trees suitable for cutting per acre. You must have expensive log haulers to pull those logs out. That is one reason why it is not economic.

Secondly, I personally feel that you can't characterize Venezuela with the rest of the Latin American countries, because of their oil and their iron ore. If you have paid any hotel bills in Venezuela, you know that they are not like the rest of the countries. They have kept their currency up to par for the last 10 or 15 years, and it is above par with American dollars. So I think they are in a rather special group and can't be compared with Bolivia, Chile, Paraguay, Uraguay, and some of the other countries.

COLONEL SMARTT: That is true. I think it is quite obvious to everybody that when you take 20 countries and wrap them all up in one ball of wax, there are bound to be variations. I could not talk about any of their characteristics in general terms without someone being able to find some exceptions. It is the exception that proves the rule.

So far as forests are concerned, that is absolutely correct. One of the biggest handicaps in the jungle areas, particularly in Brazil and some of the other countries, is thin and mixed distribution of the timber, although you do have rather extensive pine forests along the basin of the Parana in southern Brazil. It has been stated that, so far as the cost of producing that timber is concerned, the Douglas fir of the Pacific Northwest is transportation dollarwise closer to the consuming ports of Venezuela than are the forests of the Amazon, right next door.

QUESTION: There was a newspaper article about armed Communists making an attack on a Brazilian army post and today the country is practically under martial law because of it. The leader of the army has submitted his resignation in protest of the Communists in the high posts of the Brazilian Government. What effect is the infiltration of Communists in the army having? Is there any tendency to affect their economic development and labor because of the infiltration of Communists in Brazil? I recently finished a three-year tour in Brazil and had a chance to observe closely some of the conditions there.

The government is not infiltrated with Communists in either the high or low positions. Communists are outlawed as a party. Labor however, is completely infiltrated by communism. It has caused a great deal of unrest and many strikes and just a disturbed condition on the labor front.

1580

This is not the first time that the government has been attacked by Communists. There are Communists in the military forces but they are pretty much under control. I don't think there is any danger of communism affecting the stability of the government of Brazil. However, they do have a decided effect on the economy. The strengthening of the spirit of nationalism now prevalent in Brazil is attributed largely to the Communists. That is one reason why foreign capital has been discouraged, particularly in the case of oil.

COLONEL SMARTT: About two or three weeks ago, there was an article in either the "Business Week" or the "U. S. News and World Report" that gave a thumbnail sketch of the Communist influence throughout Latin America. It indicated that in many of these countries, due to the solidness of the Communist bloc, many of the aspirants in the coming Presidential elections were courting Communist favor. So it doesn't look too rosy for the future in some of those countries.

There is an indication of a possibility of a change in the attitude against foreign capital. In Colombia recently one of the oil companies turned back its concession to the government. There was a recent dispatch in one of the magazines that indicated that Colombia was changing its attitude and was going to change its laws, which would have a tendency to encourage foreign capital. Evidently the Colombians are beginning to realize that they cannot hope to develop their country on the basis of their own capital; that they will have to change their attitude if they want foreign help. Whether this attitude will spread throughout the other countries or not remains to be seen.

QUESTION: You spoke about the large proportion of high plateau in Latin America and that only about 5 percent of the land area was available for cultivation. There has been some discussion recently relative to the value of these high plateaus for the production of food. Would you say something about that?

COLONEL SMARTT: As you know, most of the coffee is grown up in the highlands. During the depression period, when the planters lost their market for coffee, instead of digging out the coffee trees they began planting cotton in between them. There is considerable cotton grown down there now in the Brazilian highlands.

Other than that, I don't know what the possibilities are for agriculture in general in those high areas. The chances of agriculture in the high Bolivian plateau are out. When you get up from 12,000 to 16,000 feet, there isn't too much that you can grow up there. You won't find very much in the way of agriculture in the Patagonia plateau, other than sheep raising. But I am not an agriculturalist.

If there are no other questions, gentlemen, let's call it a day.

(8 July 1952--250)S/fhl