ECONOMIC TRENDS IN LATIN AMERICA

Dr. George Wythe

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Reviewed by: Colonel P. B. Klein, USAF

Date: 31 May 1960

INDUSTRIAL COLLEGE OF THE ARMED FORCES

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CAPT. HUMES: The subject for our lecture this morning is "Economic Trends in Latin America." Our speaker is Dr. George Wythe, from the Department of Commerce, where he is Director of the American Republics Division, Bureau of Foreign Commerce.

Dr. Wythe has had a long record of service related to Latin America, and he has written extensively on this subject. Among his books are "Industry in Latin America," "Outline of Latin American Economic Development," "Brazil: An Expanding Economy," and several others which you will find in the library.

Dr. Wythe, it's a pleasure to welcome you again to the Industrial College of the Armed Forces.

DR. WYTHE: Captain Humes and members of the Industrial College: I appreciate the honor of appearing before such an important group. I would like to explain that what I say is my own opinion and not any official expression of opinion of the Department of Commerce.

Our subject, as the Captain explained, is "Economic Trends in Latin America," or the United States and its relation to the Latin American economy.

Historically, the Latin American countries have been of interest to the United States in the economic sense primarily as sources of raw materials and foodstuffs. Until recently, most of our large investments went into the development of these products and of the transportation facilities necessary to move in the machinery and supplies, and get out the raw materials. The development of sugar plantations and mills in Cuba, railways and mines in northern Mexico, oil wells in Venezuela, copper mines in Chile and Peru, illustrate the process. And, of course, this investment and the exports that followed it give a great stimulus to sales of U.S. goods.

The period from the 1770's to 1895 or 1899 was the classic period of economic development in Latin America and witnessed a tremendous inflow of peoples and investment capital. Movements of immigrants, capital, and goods constituted an indissoluble trinity. Much of our literature on Latin America reflects a nostalgia for this golden era.

Last year (1959) Latin America lost the position it had held for two decades as the principal source of U.S. imports, but it still remains a major supplier--in second place.

Now, most of our imports consist of foodstuffs or raw materials in crude or semi-manufactured form. Coffee, sugar, cocoa beans, bananas, fresh vegetables, meat, and fish are the chief items in the food category. Petroleum and products are second only to coffee among the major import items. The metals are also important--iron ore, copper, lead, zinc, nickel, and tin. Some iron ore has been imported from Latin America for many years, but this has become a major item as U.S. supplies of high-grade ore have dwindled. Latin America also supplies a number of additives or alloy metals, although these do not weigh very heavily in the value totals. Other important industrial materials include wool, vegetable seeds and oils, quebracho extract, and wood. Some items that were formerly important have either disappeared from the trade, such as flaxseed, or have declined to relative insignificance, such as hides.

Of course, Latin America has some important exports that do not come to the United States. For example, the United States does not take any of Argentina's three leading export products--wheat, corn, and fresh meat--although the United States is a good market for canned meat. And it is no longer in the market for flaxseed or linseed oil; in fact, it is a competitor. Although the United States imports some special grade of cotton under a quota, we cannot take most of Latin America's cotton crop, which usually goes to Europe or Japan. The United States takes tobacco from Cuba on a preferential basis, and therefore it can't take the good tobacco that Brazil grows. The United States is the chief market for Latin American bananas and takes some pears and other fruits seasonally, but does not take some other fruits which are export items in several countries.

No doubt our imports from Latin America will continue to consist chiefly of crude and simply processed commodities, but it would be a mistake to think of Latin America solely as a vast reserve of foodstuffs and raw materials waiting to be developed, or to conclude that our purchases of these items will be in sufficient quantity to insure Latin American prosperity.

For one thing, Latin America is going to consume a larger proportion of its own output, as the result of rapid population growth, higher per capita income, and the requirements of its own manufacturing industries. Already exports of some foodstuffs and raw materials have declined, for example, meat from Argentina, cotton from Brazil, hides from Mexico. Not so many years ago, when I was commercial attaché in Mexico, the United States supplied a large part of Mexico's imports of shoes and bought tremendous quantities of hides. Now we export hides to Mexico and import shoes.

Now, for another thing, there are some doubts among the Latin Americans that the United States market will be sufficiently dependable, or yield returns adequate to maintain an acceptable rate of economic growth in Latin America. The Latin Americans have seen markets for their materials destroyed or reduced by the development of substitutes or by other types of technological change. Likewise, they have seen their European markets threatened by increasing programs of national self-sufficiency or preference to other areas. A recent announcement that the U.S. armed services were following with interest commercial experiments in the development of synthetic coffee caused a near-panic in Brazil. Nor does anyone know for certain what the ultimate effects of wider use of instant coffee will be.

Some Latin American economists have expressed pessimism regarding the future of Latin American exports, owing to the relative inelasticity of demand for foodstuffs, which comprise the larger share of Latin American exports. This inelasticity of demand arises from the fact that, as incomes rise, a reduced proportion of the total income is spent on food, while a larger share is devoted to manufactures and services.

American economists have done some work on this problem and have concluded that the U.S. demand for farm products as a whole is likely to increase by 40 percent during the next two decades, chiefly as the result of growth of population, but that the demand for minerals, including fuels, will increase by 80 percent or more. The growth in demand for forest products has been estimated at about 20 percent.

The income elasticity for food is much greater in Latin America itself, because of the rise of income and a more rapid population growth. Hence the increased demand in Latin America itself for farm foods will be tremendous.

There has been further pessimism as the result of studies made by GATT--the General Agreement for Tariff and Trade organization--which show that in recent years the trade among industrial countries is increasing much more rapidly and making up a larger percentage of world trade than the trade with the raw material suppliers, as a result of a number of factors, which include the more economical use of raw materials in many different industries, substitutes, and so forth.

During the postwar decade the Latin American countries did very well with their exports, chiefly as the result of greatly improved terms of trade.

The aggregate value of Latin American foreign trade at current prices was approximately four times as high in 1956 as it was in 1937, before the war; but the larger part of this increase was due to higher prices for Latin American exports. On the other hand, the quantity of Latin American exports has until recently increased very slowly. Exports of only a few commodities have shown a definitely upward trend since 1950, in quantity, the most important being petroleum, copper, iron ore, and cotton. Exports of products of the temperate zone region, like the Rio de la Plata area (grains, meat, hides, and linseed oil) have definitely declined from the peak.

The Latin American countries are major producers of a number of minerals, but the position of Latin America in relation to world output has improved since 1945 only in the case of petroleum and iron ore. Latin American production of copper, tin, precious metals, and some nonmetallic minerals has declined since the war, although the rise in prices has increased substantially the value of Latin American mineral production.

Now, of course, the underdeveloped countries are themselves in large measure responsible, in part at least, for this situation. By improving production methods and reducing costs and prices, the Latin American countries could, no doubt, find larger foreign markets while at the same time satisfying growing domestic needs. Technological progress is being made in agriculture and grazing; but it is spotty. Furthermore, institutional factors and political upsets prevent sustained or general progress that might be desired.

We are witnessing a very peculiar development in the composition of our own foreign trade. Most countries are anxious to export their products in as advanced a form as possible, but the United States is subsidizing exports of products in crude form. Our imports of finished manufactures are growing by leaps and bounds. And that's the reason why Europe last year took Latin America's place as the chief source of imports, because we imported so much steel, machinery, automobiles, whiskey, wines, and luxury goods.

Of course, some of the Latin American countries are themselves large importers as well as exporters of raw materials and foodstuffs. For example, we export $500 million worth of foodstuffs to Latin America, while importing $2 billion. Our Public Law 480 has, of course, tended to increase the purchases on their part, although at the same time, while benefitting from that in certain respects, it causes distortions in their production in other ways, and has also produced a considerable crop of grievances. The countries that produce cotton and wheat are always worried about this Sword of Damocles. And there has been some very sharp annoyance at some of our uses of what you might call the counterpart funds, the local currency funds, that we receive from them.

Although Latin American exports consist chiefly of primary or semi-manufactured products, industrialization has made sufficient headway that it is an important sector of the economy in most of the countries and in a few already accounts for a larger share of the national income than agriculture. The statistics tend to exaggerate the situation somewhat, since many of the establishments included in the industrial censuses are hardly more than one- or two-man workshops using little or no mechanical power. There are, however, some modern and efficient plants in each of the countries. The larger countries produce practically all articles of common consumption, such as textiles, shoes, pottery, furniture, beer, cigarettes, soap, and building materials. All the countries except Costa

Rica, Honduras, and Haiti produce cement.

The chemical and pharmaceutical industries have had an enormous development. A number of countries now produce alkalies, sulphuric acid, plastic materials, synthetic fibers, and dyestuffs; and there is increasing attention to fertilizers, insecticides, and serums.

Six Latin American countries (Brazil, Mexico, Argentina, Chile, Peru, and Colombia) have integrated iron and steel plants, and one is under construction in Venezuela. These countries, as well as several others, also produce steel from scrap. The production of rolled steel products amounted to 3.5 million metric tons in 1958, which is still very small, of course, but about 50 percent of their requirements. Of course their requirements are increasing by leaps and bounds too; so their imports are still heavy.

During recent years Argentina and Brazil have taken steps to bring about virtually complete manufacture of motor vehicles, so far chiefly trucks, jeeps, station wagons--service types; also tractors and railway rolling stock. This brings about, of course, the development of hundreds of subordinate industries, and the establishment of industries for casting and forging and other things that they haven't had in the past. Also a host of plants producing automotive parts. They are producing now the simpler types of machine tools and a good many other types of machinery. In Brazil the production of typewriters and other office machines has begun, as well as of sewing machines. A considerable variety of electrical apparatus is assembled in several countries, and in three countries a start has been made toward the production of heavy electrical equipment.

Generally speaking, the most important industries in Latin America are what economists call materials-oriented industries, such as sugar mills, where the cost of transporting the raw material would exceed savings on other factors through processing at a location other than one near the raw materials supply. Smelters and minerals reduction plants also fall in this category; likewise meat-packing and similar enterprises.

Another large group of industries are those that provide local services or are tied in a sense to the locality, such as bakeries, foundries, repair shops, laundries, and the like.

The third large group comprises heavily protected industries producing consumer goods for the local market, such as textiles, shoes, furniture, pharmaceuticals, and innumerable other articles, as well as the new "dynamic" industries in the metal-working field, including more complete manufacture of articles formerly only assembled from imported parts or materials.

Now, so far this industrialization has only touched certain centers, and only a small part of the economy as a whole has been mechanized. As regards transportation, for example, in a book on Brazil that I published in 1949 I wrote: "Even in southern Brazil, the economically most advanced area, the traveler on the highways passes more animal-drawn vehicles than motor cars, while in the rural areas of the North, wheeled vehicles of any kind are rare, humans sharing with donkeys, mules and oxen the burden of moving produce to market. Donkey carts play a larger role in the construction of railways and highways than earth-moving machinery." That has changed a little bit since 1949, but not entirely. The latest data that I've been able to find show that the per capita consumption of mechanical power in Latin America is only 6.6 percent of that in the United States. That shows that for the economy as a whole the consumption of mechanical power is still very low.

Now, of course, they are rather short of certain fuel resources. Coal is scarce and of poor quality. They produce over 20 percent of the world's petroleum. And they have very extensive waterpower resources, which are being developed at rates of about 10 percent a year.

So far, Latin American industrialization has been derivative in character, since the equipment and know-how have been brought in from abroad. The establishment of what you might call the consumer types of industries doesn't involve any serious problems. Latin American workers adapt themselves fairly easily to machine techniques, once they've been properly trained and given reasonable incentives. Foreigners and first-generation immigrants are conspicuous among the skilled workers, production managers, and entrepreneurs. Hundreds of U.S. firms have entered the manufacturing field, either through branch plants, joint ventures, or licensing arrangements, and, incidentally, furnish their know-how. Generally speaking, these plants represent a small initial investment. Machinery which may be already obsolescent in the United States may be shipped down and capitalized. They borrow money from the local bank to get started, and then build it up through the reinvestment of profits.

But when you start creating a capital goods industry, the problem is much more complicated. It requires more capital, more technology, and a larger market than is usually available in any one Latin American country. It is this problem of finding wider markets for the capital goods industry that has given the impetus to the movement for a Latin American common market, just as it did in Europe.

Some Latin American products have been enjoying preferential tariff rates in adjoining countries under exceptions recognized at the time GATT was organized in 1947. Or in practice they have been able to carry it on for a great many years under the balance-of-payments exception, which is recognized by GATT and the International Monetary Fund. That is particularly true in the four southernmost South American countries, where 80 percent of the intra-Latin American trade is concentrated, and who have been the ones who have taken the initiative in this movement, and where they finally signed an agreement at Montevideo for a so-called free trade area.

But before getting into the details of that, I'd like to mention that some of the countries are very determined to become exporters of manufactured products. Chile, for example, the country that has historically been the most persistent advocate of the Latin American preferences, and which is perhaps more industrialized than any other Latin American country on the basis of population, has long had ambitions to become the Norway, so to speak, of South America. And they are beginning to make a start. They have a most successful steel mill in Latin America at Huachipato, and have begun modest exports of steel products. This plant, of course, was built with Export-Import Bank funds and U.S. technical assistance, and is now controlled by private stockholders.

American and other foreign engineers visiting CAP's plant at Huachipato are apt to be surprised to learn the degree of skill which has been attained at the plant in a relatively short period. Beginning in 1950 with the installation of equipment most of U.S. manufacture, the mill's operations were largely supervised by U.S. technicians. Gradually Chileans were trained to take over most of the work. Even by 1952 the majority of operations were in the hands of Chileans, and now CAP's workers and employees are considered skilful and efficient. Their safety record is outstanding and compares favorably with that of U.S. mills. At mid-1957 there were only 21 foreign employees still with the company, as against 6,030 Chileans.

Furthermore, as a large producer of copper, Chile is also beginning to realize in a small way its ambitions to be an exporter of fabricated products. Chilean products manufacturers get several advantages. The large U.S.-controlled copper mines must supply the copper bars they require at a 10 percent discount; Chilean wage rates are low; the manufacturers are disposed to accept lower profits than is customary in the United States; and the Chilean Government has provided favorable tax and exchange advantages. As a consequence, some Chilean copper sheets and tubes are being sold in the United States, as well as to other countries, including the Soviet bloc.

A third product in which they want to export manufactured products is chemical pulp and newsprint, produced by plants financed by the World Bank and using as chief raw material the Insignis pine that has been grown since 1916 in plantations mainly in the Concepcion area.

Other Latin American countries are very much interested in exports of manufactures. Mexico has hopes in Central Mexico and the Caribbean. Colombia has recently signed export contracts with five firms under which the firms agree to export annually specified quantities of manufactured products. In return, the new materials imported to produce these goods are exempt from customs duties and other charges. Many of the existing American branch plants were established with at least one eye on the export market. IBM in Brazil, for example, ships electronic calculating machines and time clocks to other South American countries and at times to Europe.

The need for wider markets to give a firmer basis to industrialization is what has sparked interest in a regional preferential system. But they are, of course, also influenced by developments in Europe and by various emotional and political factors.

There have been two different types of movements there. One has been the small sub-region, like Central America, which was the first movement to get started--in 1951. They signed a whole bunch of treaties and have taken quite a number of steps, such as developing a common tariff nomenclature and fiscal nomenclature; and have established two or three regional institutions, and have signed some agreements for regulating traffic. And they signed in 1958 an agreement, a so-called free trade agreement, under which a long list of products would move in free trade among the countries that ratify it. Three countries so far have ratified it--Guatemala, El Salvador, and Nicaragua--although every product of any commercial significance has special exceptions.

Now, of course there's a lot of rivalry and jealousy in Central America; and just recently another agreement was signed by Guatemala, El Salvador, and Honduras. The first two were also in the other agreement. Honduras, of course, is a bitter enemy of Nicaragua; and so they squeezed Nicaragua and Costa Rica out. That agreement theoretically goes much further than the earlier agreement, in providing for a real customs union in a short period of time--five years--and setting up a common tariff administration.

Of course, historically we have always recognized the Central American preference; and we have always been sympathetic to even political use. But they are having some difficulty getting together. So far it is always the same problem. They make some big gestures, but they reserve every item that has any significance.

Perhaps of even more importance is to say that the agreement that was signed on February 18 at Montevideo by six South American countries and Mexico, which would provide for an overall Latin American free trade area, they call it, which is modeled after the Outer Seven, the free trade association in Europe, which is a rather loose organization. It provides a lot of details, but it says that within a period of 12 years the contracting parties shall gradually eliminate, for substantially all their reciprocal trade, the charges and other restrictions on the importation of products originating in the territory of any contracting party, by means of annual negotiations.

So what it means is that so far they haven't agreed on anything. Every product still has to be negotiated. So American firms that are interested in getting in have no basis of knowing for sure whether their products are going to be in or how, on what basis. The exceptions are very broad. Practically all agricultural products are excepted. And they also have other exceptions.

The general sense of this seems to be reciprocal preferential concessions on a limited list of industrial products, which is what, of course, they have been doing already. And this would provide, if it's accepted by GATT, when it comes up for review at the sixteenth session in Geneva in May, a framework within which they can do this.

A few people, including Governor Rockefeller, have made proposals for a still broader Pan American Economic Union, which would include the United States and Canada. They haven't given sufficient detail to provide a definite basis for judgment. If this would call for any opening up to the Latin American market, I feel sure we would reject it. No doubt some of you recall--not that you were around at that time, but have read--that in 1889 at the first International Conference of American States, we proposed a customs union of all the Americas. But it was indignantly rejected by the Latin Americans. They, of course, know they cannot compete with our products and would not accept any such arrangement as that, I am quite sure.

But, of course, quite possibly--and I'm speculating here--one of the main ideas back of this proposal for a Pan American Economic Union is to provide a framework for granting specific U.S. import quotas for Latin American minerals and agricultural products, similar to the quotas established under the Sugar Act. And, of course, like the Sugar Act, this would also provide a mechanism for regulating prices. It would have considerable resemblance to the British bulk purchasing of basic import products. Leaving aside the administrative and political aspects of this, of course this raises at once the question of preferences and discriminations against non-hemispheric producers, which I won't have time to go into.

I would like to point out in this connection that we do have, of course, what in effect amounts to an economic system already. Our relations are much broader than most people realize, and in practically every field we dominate it. For example, the United States supplies about half of the aggregate imports of the Latin American republics, that is, as much as all the rest of the world combined. In the Caribbean area we supply from 60 to 80 percent.

Furthermore, Latin America is much more dependent on the U.S. market than we are on their market. We buy around 45 percent of their aggregate exports, and, of course, a much higher percent in some of the countries; whereas they only take 22 percent of ours. And, furthermore, over half of our imports from Latin America enter this country duty-free. In fact, we are the only country in the world that does not impose a high duty on coffee, their No. 1 export.

But, actually, the situation now is that a good many Latin American countries are very unhappy about what they consider to be excessive dependence on the United States. Take Mexico. During the war and most of the postwar period about 80 percent of Mexico's trade was with the United States. There is no question that Mexico benefited very greatly from its overland connections during the days when the submarines created difficult supply problems elsewhere; and this big American market has been absolutely vital to their prosperity. Nevertheless, Mexico has been a little unhappy about having all her eggs in one basket; and she has set up a special bank, the Bank for Foreign Trade, whose whole purpose was to diversify sources of imports and export destinations. In practice it has not been easy to achieve too much, simply because their link to the United States is so much more favorable than anywhere else; and now we find Mexico, in spite of being unhappy about being too dependent on the American market, wanting to become more dependent. They want to have a bigger sugar quota. Of course, like a good many other countries, they are hovering like vultures over the Cuban situation and hoping that they may pick up something.

Our direct private investments in Latin America amount to around $9 billion, and are probably two or three times as large as those of all other foreign nationals combined. And, of course, we are the chief source of international loan capital and credits. A recent study by the U.S. Department of Commerce showed that subsidiaries or affiliates of U.S. companies account for 30 percent of all Latin American exports. Of course, that's like the sugar companies in Cuba, the copper companies in Chile, and the American Smelting and Refining in Mexico, and so on.

This fact has been cited, no doubt correctly, as an example of U.S. contribution to Latin American economic development, and it is; but at the same time we cannot ignore the fact that it raises some serious misgivings in the breast of many Latin Americans. If you add to this 30 percent the 10 or 15 percent of Latin American exports that are produced by European concerns, then you have close to half of Latin American exports being produced by foreign companies. It is no doubt true that Latin America, at least some of the countries, could use still more foreign investment to advantage, but we have probably been somewhat insensitive in our tactical approach to Latin American susceptibilities on this point.

The recent tendency of some countries to try to break away from our leading strings and to expand trade relations with the Soviet bloc arises largely from their desire to assert their independence of action and to seek a counterweight to what they consider the overpowering embrace of the "Colossus of the North." The late Oswaldo Aranha of Brazil, who had been an ambassador to the United States in the First World War, was a notable spokesman for this point of view, and it helps to explain many things that Brazil is now doing. Of course, there are other reasons, such as attempts to achieve stronger bargaining leverage in dealing with the United States.

This raises one of the most controversial aspects of our relations with Latin America--the matter of financial assistance or aid. Back in the good old days before 1930, the Latin American governments were able to sell dollar, sterling, or franc bonds to pay for public works. But since 1930 the market for such issues has virtually disappeared. The Export-Import Bank and the international institutions are now the dispenser of intermediate and long-term loan capital, but the recipient governments would like more funds and fewer restraints on their use.

Recently there has been some criticism, especially in Brazil, because the International Monetary Fund, with the concurrence of our Government, has insisted on monetary and credit reforms as a condition for new credits. One has only to read the society columns of the Washington newspapers to learn that there is a fairly steady stream of high-ranking visitors to this capital from all quarters of the earth, and that most of them have high and rising expectations as to their financial needs. This raises some very big questions that I shall not attempt to get into at this time. However, it is apropos to point out, first, that the United States is providing more technical and financial aid than any country or group of countries, and, secondly, that our assistance, both during and since the war, has been larger than most people realize.

Now, if you take the increase in dollar availability from 1940, the beginning of the war, up through, say, 1956, leaving out these other years that present special problems, actually Latin America had a bigger increase, and leaving out purely military expenditures, than any other area of the world. Many people don't realize that. Of oourse it came from this enormous improvement in the terms of trade, from private investment, tourist expenditures, and the loans of public institutions. The definite hand-out was relatively small.

Now, I'd like to comment for just a second on one other question that is somewhat controversial. Prime Minister Castro has recently made an observation that has not received the attention in the United States that it deserves. He repudiated the term "underdeveloped," which he considers humiliating, and decreed that henceforth the low-income countries will be called "non-industrialized."

That's more significant than most people realize. Some of us were not happy, back in 1948 or thereabouts, when the decision was made to divide the world into the rich and the poor, the haves and the have-nots, the developed and the underdeveloped, and to set forth in strong colors the misery and want of the unfortunate peoples at the wrong end of the GNP curve. Some of us were old enough to remember that back in the early 1920's the Mexican Government expelled an American Red Cross mission because it was making an appeal to American generosity by depicting poverty and sufferings south of the Rio Grande. No one likes to be told that they are on the wrong side of the tracks, although they may grin and bear it in order not to offend a rich uncle.

Now, of course, development is a very relative matter. Indices of per capita income are useful, but they do not necessarily measure either welfare or democracy. There is probably a greater gap between Haiti and Argentina than there is between Argentina and France or even the United States.

All of the Latin American countries have enjoyed periods of great prosperity at various times in the past. But institutional factors have been such that the benefits were confined to a small proportion of the population, and incentives and opportunities were lacking to enlist the full economic cooperation of all classes of society, without which progress is halting and spotty. Furthermore, endemic political instability has all too often wiped out the gains of many years, and crippled all the factors that can create self-generating and self-sustaining economic growth.

Since the 1940's the Latin American republics, with a few exceptions, have again experienced a period of very rapid economic growth, one of the most favorable of any area in the world. The great boom that is reflected in new skyscrapers, luxurious homes, public buildings, and art galleries, neon lights and traffic jams, a new crop of multi-millionaires, and a rising middle-income group, has eased off a bit; and these nations face the 1960's with a mixture of hopes and fears. Can Latin America maintain the furious pace of the 1950's? There is room for some doubt.

Much, of course, depends upon world political and economic developments and particularly the maintenance of a high level of activity in the United States, but it seems unlikely that Latin America can expect to enjoy the extremely favorable terms of trade that have prevailed in recent periods. Coffee has entered on a cycle of comparative overproduction. It also appears unlikely that petroleum production will continue to rise at as rapid a rate as it has since the prewar period. You find petroleum everywhere these days. Increasing domestic consumption in the Latin American countries, as I mentioned, will reduce quantities available for export in some items, and rising costs have affected the competitive position of Latin American producers in some cases.

Population growth has been at a higher rate than gains in productivity, with the result that the per capita increase in national product since 1956 has been cut down to rather modest proportions.

On the other hand, there are a great many factors very favorable to Latin American continued economic growth. The rising world demand for raw materials and foodstuffs affords continuing markets for many other Latin American crude materials, and possibly, as I've mentioned, for an increasing amount of semi-manufactured or processed articles, and not excluding some finished manufactures. As the Latin American countries increase in population, and as their economies expand and become more diversified, the internal markets are also taking on increasing importance and stimulating vigorous growth of industry. They are making some headway in remedying power shortages, although transportation is still a major problem in many regions.

There are also reasons--and this to me is one of the most important factors--to believe that the changes during recent decades have been important not only quantitatively but qualitatively as well, involving some grass-roots changes in attitudes and institutions that may have enduring vitality. I am inclined to give particular significance to the domestication of the new technology in burgeoning industrial centers and, above all, to the growth of what economic historians call "the spirit of business enterprise" among a substantial and growing segment of entrepreneurs and investors. That is particularly significant in a few centers, like San Paulo and Mexico City.

Some of the manifestations of this spirit are not very agreeable. The early stages of an industrial revolution are seldom idyllic. For example, the nationalistic restrictions on foreign enterprise reflect not only an emotional drive for power and prestige, but also indicate that Latin Americans are becoming sufficiently interested in production to covet business opportunities they were formerly only too willing to leave to outsiders.

Behind this nationalistic facade, however, there are sober, substantial elements that realize that Latin America cannot go it alone if it expects continued progress. And even the plan for the free trade area can only touch the fringes of the problem. The Brazilian Federation of Industries, at its meeting in January, concluded that until Brazil had gone much further toward developing and consolidating its own economy, the free trade treatment should be limited to products approved in advance and that are required to cover domestic deficiencies. Even all the irritations of recent years about certain aspects of our policies may be taken as indication of the depth of the feelings of dependence on the United States as a market, as a source of capital and technology, and as a friend in need.

Thank you.

CAPT. HUMES: Dr. Wythe is ready for your questions.

QUESTION: Doctor, looking a bit into the future, looking, say, at the year 2000, when I read that the Latin Americans are going to have something like 600 million people, three times what they have today, by which time we will have about 350 million people, and this business of rising expectations and economic and social revolutions, do you think there is going to be enough money, capital, international loans, to meet their needs and take them in the direction that we would like them to go, that is, oriented toward the free world; or do you think that perhaps they are going to not get what they want and lean more toward taking money from the Russians?

DR. WYTHE: That's a pretty big question, of course. These population estimates should not be taken as final. Of course we don't know too much about just what will occur in the population curve. It may or may not decline. The rate of increase may fall off. It usually does at certain periods and under certain conditions.

Now, at the moment undoubtedly the rate of population increase is very high in most of the countries; and certainly for the immediate future it is going to increase. While their overall rate of economic growth has been very, very high, the per capita rate of increase, especially in the last few years, has been small, because this very big population explosion has consumed it.

Now, of course, if as the new population comes along, the rate of per capita production should increase correspondingly, it would be all right. But, as I mentioned, the population is increasing faster than the per capita productivity.

So the human factors are so terribly important, and that's one thing, in all this emphasis on capital, that we have tended to overlook. Undoubtedly by pouring in enough capital, you can always bring about temporary prosperity, but it won't necessarily bring about a basic situation in which you can have continuing and sustained economic growth. That has happened a good many times in the past and the motor hasn't picked up.

But it does explain some of their hopes and fears. A country like Brazil, for example, they are very much afraid that they'll become another China, that they are going to have just a vast mass of very low-grade population. So much of the population is at such a low level technically, culturally, and economically that the question of raising that mass in a short time is not an easy one.

QUESTION: I believe that the Executive Director of the United Nations Economic Mission to Latin America came to the conclusion that one of the basic deficiencies in Latin America is in the field of research facilities. Would you care to comment on that, please?

DR. WYTHE: Well, that's true. That reflects an even broader thing--the whole question of the improvement of technology.

As I mentioned here, Latin American industrialization so far has been derivative; and that's exactly what I meant. So far they haven't had any technology of their own. They merely imported the technology and the foreign machines, or people.

Now, before Latin America can change that, you must first change attitudes, the scale of values, and so forth. That's the reason I said I thought one of the most hopeful signs is that there is some indication of a change of the basic spirit of enterprise. But you've got to have a change of attitude and get more improved technology, improved education, and research as a part of it, or else it will continue to be merely derivative.

QUESTION: A lot of these resentments against the United States that seem to exist in South America today are apparently inspired by the belief that American capital has exploited these countries. We still today seem to put great emphasis on the idea that capital going into South America should primarily be capital put in by private individuals with the profit motive. Do you think we're doing enough today in this country to counter this feeling in South America, and do you have any suggestions on what we might do in the future?

DR. WYTHE: Well, I'll be frank with you. Between ourselves, I am unorthodox on that question. I don't think the problem is the manner in which the companies operate. Let's take the United Fruit Company in Guatamala. The problem doesn't arise from the fact that the United Fruit Company isn't a well-operated company. Of course it is. And if it were as perfect as the angels in heaven, to a good many Guatamalans it would still be a problem, just simply because it's too big.

The problem comes from the growth of the spirit of nationalism, which is being expanded by a lot of interested parties, not merely the Communists, but even as much as or perhaps more from the right. It's a growing feeling of nationalism, which makes them much prefer to develop more slowly rather than to have too much of their economy controlled by outsiders. That may or may not be unreasonable, but there's no question of the depth of the feeling.

QUESTION: Sir, considering the 250 million dollar loan which Russia is making to Cuba, do you consider this capital investment there, this aid to Cuba, of a lasting type, to help the Cuban economy? If you do, what do you think the policy of the United States should be toward other inroads by the Soviet Union of the same type of aid in Latin America?

DR. WYTHE: That so-called loan is a complete misnomer, completely misleading. To get an example let's go to Argentina .

Russia gave a so-called 100 million dollar loan to Argentina. Actually, in a sense it wasn't a loan at all. The actual credit was given by Argentina. Argentina shipped a lot of stuff that she couldn't find a market for elsewhere to Russia--flaxseed and so forth. She couldn't find any Russian goods she wanted to pay for it. So Argentina was really giving credit to the Russians. It was just a gesture; that's all. She set up this so-called credit of a hundred million dollars. There wasn't any credit involved, strictly speaking. The real credit was on the other side. So the Argentines finally sent a mission over to Russia to try to find something that they could get that they could use.

They did take a little oil. At one time they were desperately anxious to get non-dollar oil, because they were so short of dollars. But the Russian oil isn't suited to their needs. Furthermore, Russia was playing canny with them and wouldn't let them have very much oil. They wanted them to take certain other things. They did buy some Russian steel and timber and other things.

In Cuba it's very much the same way. Actually you're going to find that the credit that is being given is not so much by Russia to Cuba, but by Cuba to Russia. If Russia takes sugar, which she needs--after all, she's been buying large quantities of Cuban sugar right along, because as Russian sugar consumption has gone up, the beet sugar areas are not adequate. They used to import a lot of sugar from Java, and now Java doesn't have the surplus available. So they have to buy it somewhere. They've been buying it for years from Cuba and paying for it in dollars, right cash on the box. Now they are suggesting that Cuba take some Russian goods, of course at a high price. But it's completely misleading to call it a credit. It's not a credit in any real sense at all.

QUESTION: From your long experience in Latin America, what would you say would be the best thing we could do, the best course we could take, to dispel this atmosphere of suspicion and distrust which they seem to view when they look at this "damn Yankee Colossus of the North"?

DR. WYTHE: Well, that's a very big question, and it's almost impossible to even start answering it, because it involves so many questions. I would only say that it is certainly not entirely economic, not even primarily economic.

QUESTION: Sir, would you discuss the relationship between your office and your counterpart in the Department of State, and how you divide responsibility and coordinate policy?

DR. WYTHE: Of course, each department has certain responsibilities by law and carries what you might call the primary responsibility. The State Department has the primary responsibility in the formulation and conduct of foreign affairs.

Actually, most decisions in this Government are made by committees at a certain level. Of course, if they're important enough, they finally go up to the White House for final decision. If not, they're decided somewhere along the line by agreement between department heads. So on the overall policy it's a question of just a gradual thrashing out of these questions.

Of course, in all policy matters a great many of the principal decisions are made in a particular case under the clear necessity of the moment, and you sort of bring your rationalization in line with it at some subsequent date.

QUESTION: Doctor, if the situation in Cuba deteriorates to the point where we feel that something must be done about it, could we by economic means alone either cause the present government there to alter its attitude or cause it to fall? Do we have that much power economically?

DR. WYTHE: That's speculative. It's theoretically possible. Of course, sugar is such an important part of their economy. They are also dependent on the U.S. market for certain other things. And, of course, they are dependent on European markets for most of the rest. Russia can only take a limited amount of that. We can greatly exaggerate what's going to happen in that respect.

On the other hand, theoretically if you're prepared to follow a really tough policy, there's no question that you could possibly hold forth merely with economic sanctions. That's awfully difficult to carry out, though. And, furthermore, you can't be a hundred percent sure, as you know. Take Mexico. Mexico sweated it out in spite of everything. You can't be sure about those things. There's always one difficulty. The decisions are so difficult. We have put ourselves on the defensive, so to speak, everywhere, and in my opinion somewhat unnecessarily, not only in Latin America but elsewhere. But the fact is, we are.

Now, if we help and things go well, we don't get the credit. But if things go wrong, we get the blame. That's true in Cuba and elsewhere. So also it's very difficult sometimes to do something in a country, with the best of motives, without actually strengthening, in other words, tending to be counter-productive, strengthening the very forces you are trying to weaken.

Argentina is a good example of that. Certain steps were taken to try to weaken Peron. I don't think there's any doubt in my mind that the effect of them was to strengthen Peron and keep him in power as long as he was.

I don't know. That Cuban thing is an extremely difficult problem. There again it's just to big to try to start guessing.

QUESTION: We have heard a lot of talk about the Cuban proposition of taking over U.S. firms there, and complaints that the U.S. is not nating the proper action. This has also occurred in other countries of Latin America. I am thinking of the power companies in the Rio Grande del Sul area. There are rumblings about a horizontal power company. This frightens American capitalists from going in there and developing the industry.

Now, there must be some other side of the question as to why the U.S. has not taken stronger action, made stronger representations to these governments. Let's take Cuba out of the picture, if we may, and would you care to comment on the position of the U.S. as to not making stronger representations in order that capital might flow into these countries to develop their industries there?

DR. WYTHE: Well, what would you suggest doing?

QUESTION: I am asking that of you, sir.

DR. WYTHE: That's another tough question. Of course, until, say, back in this golden era in the early days, both foreigners and foreign capital were very much welcomed and occupied, of course, a very privileged position. Now, for better or for worse, throughout the world you've got rampant nationalism.

Now, they still want the foreign capital in certain things. But the position in certain things that are touched with public interest, like petroleum and the utilities and basic other industries, like iron and steel, has become increasingly difficult. My own feeling is that it's going to get worse before it's going to get better.

QUESTION: A recent speaker highlighted Brazil as inherently incredibly wealthy. He even compared it as potentially equaling or competing with the USSR or the U.S. in the distant future. Can you confirm or discredit this view?

DR. WYTHE: This question of natural resources is a complicated one. I don't know whether you've read Professor Zimmerman's famous definition of a resource. My own is slightly different, although basically the same idea. A resource is not a physical thing. It's a function that depends upon fashion, technology, and the particular ideas of the time.

Now, what was the major resource of Brazil in the beginning, her dye industry, is no longer much of a resource. Quite a number of the principal Latin American countries at one time had dyestuffs as their principal exports. But analine dye has wiped that out.

On the other hand, some years ago a farmer on the island of Jamaica couldn't get anything to grow and he sent a sample of his soil to the experiment station and said, "What's the matter with my soil?" They sent it back and said, "Well, the main reason is that it's pure bauxite." And, of course, since then they have developed this tremendous aluminum industry.

Now, resources are very touchy things. Brazil has, of course, a great many resources. It also has its disadvantages. Again, a resource is a resource only provided it can be developed to meet a commercial need at reasonable cost.

Brazil has a lot of deficiencies as well. A large part of Brazil's territory is in the tropic zone, with very low nutriment in the soil. And, while it has resources--they may eventually find petroleum and they have found other minerals, like the Bethlehem developing their big manganese deposits at La Paz, and they will doubtless find others--still it's a low-level situation and probably will continue to be, because it would take an enormous expenditure in order to make it habitable for at least European type people. Of course, if they opened it up to Chinese, they'd fill it up in a hurry.

QUESTION: During your presentation you spoke of the lack of capital goods and also the research problem in being able to get them off the ground down there. Is it possible that we can assist them more in this capital goods area by training more of their people here in the United States and let them get started so they will be more self-sufficient?

DR. WYTHE: On those particular things of course we are doing an enormous amount in training. You've got some difficult practical problems.

QUESTION: Many of our foreign policies, economic policies, around the world seem to be quite contradictory. I am thinking particularly of the President's recent remarks to South America that he was not going to support any South American dictators; and yet we have some very extreme dictators around the world lined up in our camp here as our allies or people that we're assisting. This brings me to the point that if you have a program of unseating dictators and you don't have a program of moving in to help replace the dictator and the form of government that is going to take over, the Communists certainly do have; and with the fall of the dictator you can almost be certain that they will move in. This gets me to the question that I want to ask you, and that is this: In the Dominican Republic I understand that recently they have offered to vote for us in the United Nations in return for some aid under Public Law 480, and that we declined. Could you tell us the background of that?

DR. WYTHE: I don't think that for certain I know the answer. But I think the answer is the same as it is in most of these cases. It's sheer public pressures. After all, it is a democracy, and, in the last analysis, what determines policy is public pressures, rightly or wrongly. I'm sure that's what determines a lot of those things.

Well, you're getting out of my field, and I'll leave that by merely saying that I am not one of those who believe the Latin American countries are necessarily going to evolve into democracies of the same type that we have. There's no reason why they should, as far as I can see, any more than Russia is going to evolve into one of our type.

Now, the Latin Americans are very democratic in many ways, in some ways maybe more than we, but not necessarily the same type. After all, they have their own ideological and historical heritage from Spain and other places. I think, if you study the history of Spain, you will learn a little bit more about the way these Latin Americans are going to evolve politically. That's certainly no criticism. My own theory is that there is no reason to assume that other countries are going to necessarily follow our way of doing things. We do assume it all too often, I think, and that's one of the reasons why we get into trouble.

CAPT. HUMES: Dr. Wythe, we appreciate your taking time from a busy schedule to be with us today. On behalf of the entire College, thank you very much.

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