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THE OUTLOOK IN THE LATIN-AMERICAN COUNTRIES

by

Dr. Alexander V. Dyc, Commercial Attache,
American Embassy in London

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THE OUTLOOK IN THE LATIN-AMERICAN COUNTRIES

Gentlemen I am very happy to be with you this morning. I want to talk about trends, primarily, of trade with Latin-America as a whole this morning. Now, to speak of Latin-America as a whole and to generalize about it is difficult and dangerous from the standpoint of clarity, because before I start generalizing about it I want to say this--that those of you who want to study Latin-America--well, the very first thing you have got to do is to divide the problem of Latin-America, from a trade or any other standpoint, up into 20 problems, because there are twenty republics that compose Latin-America. The countries that lie south of the Rio Grande are all so different and so individual in their characteristics that not many generalities apply. There is, to my mind, as much difference, for instance, between Mexico and Argentina as there is between Mexico and France, and some of the other countries are as widely different from each other as the countries of Europe, so that we can only take in generalities up to a certain extent.

Latin-America comprises all of that part of the Western Hemisphere, roughly, which lies south of the southern border of the United States. It lies almost entirely in the tropical or subtropical area, with the exception of the northern part of Mexico, which is arid, and most of the Republic of Argentina, which lies beyond the tropical belt and in the Southern Temperate Zone, and a few narrow valleys in Chile which run up and down.

Now, the trade of Latin-America comprises about 7 to 8% of the world's trade. That is one point that you can generally fix in your memory. It swings from $5\frac{1}{2}$ to 8% on their import trade and on the export trade it swings between $6\frac{1}{2}$ and 9% of the world's trade, so that, roughly speaking, you can say that Latin-America does about 8% of the world's international trade. Now, 60% of the trade of Latin-America is done with three nations that we can call "The Big Three." Those are the United States, The United Kingdom, and Germany. With those three countries the trade, roughly, is 30% with the United States, 20% with the United Kingdom, and 8 to 10% with Germany. Then, you say, what happens to the other 40%? Well, of the other 40% there is no nation that does more than 5%, only two of them that do between 4 and 5% of their export trade--the selling trade, and on the buying side, where they buy from, there is only one other nation that does over 3% and all the rest do less than 3%, so that you will see the great predominance in Latin-American trade of what we might call 'The Big Three', the United States, the United Kingdom, and Germany.

Now, take this chart first. This is titled 'Trend of Exports of Latin-America with the United States, the United Kingdom,

and Germany. Now this trend means their exports to the United States, the United Kingdom, and Germany and this is the record of the last 28 years from 1910 to 1937 inclusive. This top figure is the curve of what Latin-America exported to all the world. The percentage figures on the side are zero, 10, 20, 30, 40, 50, and 60, and those at the bottom are the years, 1910, 11, 12 on up to 1937. You will note in 1910 the United States purchased of Latin-American exports, as you will see, about 33% and that ran along until during the war it reached its peak in 1917 when we took 51% of everything that Latin-America sold to the world. From that time, as you can see, the curve has been gradually dropping down. I don't mean our trade has been dropping. I mean that the percentage of things that we take from Latin-America has been reduced. Of course, in 1925 and 1926 when this curve was dropping, the percentage was dropping but our trade was increasing tremendously during those years. Our percentage or proportion reached its low point in 1933, when it began to come up. It came up until in 1936 and dropped again a little in 1937 and it is probably that that curve in 1938 was down just a little more than that but probably not quite so accentuated. That shows our purchases from Latin-America. Now the United Kingdom, which means Great Britain--England--you see where that curve is. They started in 1910 with about 20% and they have bought what they could. They increased it up to about 25% in 1917 but right after the war it dropped and has been up and down and at the end of 28 years--even 29 years, because in 1938 the curve would probably come a little lower--it would be a little lower than when they started 28 years ago. Now Germany's curve started in with a little over 10%. Of course, during the war it went down until it went out of sight and there are no statistics and apparently no trade until 1919 when it began to come up again. It came up until 1927, when it reached its peak prior to the depression in 1932. It has been gradually coming up since and the increase is probably still on the upcurve for purchases from Latin-America.

That is the picture of the buying side of Latin-America's exports. Now, what about the sales to Latin-America? Here is the picture over here of sales to Latin-America or the imports of Latin-America from the United States, the United Kingdom and Germany. In 1910 we sold about 22% of everything that Latin-America bought from abroad. During the war when they were cut off from Europe it went up until it furnished about 55%. After that it dropped until 1927. From there, likewise, the curve has been generally dropping. There was a sharp drop between 1920 and 1922, then it came up a little bit and drifted along until 1937, you see, the low point was in 1932. Since then our proportion of sales in Latin-America has been going up. That is, we are getting a larger percentage of what they buy from abroad. The United Kingdom has been steadily going downhill. Of course it dropped--they aren't sell much during the war and they

have never recovered the trade--never gotten back to the high level before the European War. It has been, generally speaking, down, but it reached its highest post war percentage at the time when everybody was down. Their percentage was about the highest of recent years in 1932 and 1933. Since then it has been downhill. Now the German export curve looks very much like the import curve. Her sales to Latin-America fell off to nothing at all during the war. In 1919 she started buying and selling. She sold increasingly until 1922 and it is rather remarkable now for about ten years, 1922 to 1932, Germany has furnished just about an even 10% of everything Latin-America bought from abroad until 1933 and 1934 when she began to put in her barter system of compensation. Then it started to go up in 1934, 1935, 1936 and 1937 and the curve is still up in 1938. Now it is quite obvious whose trade Germany is biting into in Latin-America. It is quite obvious that it is not affecting American trade so much as it is British trade. There is the curve--there is the picture right there on those two curves.

Now, what happened in 1938, to bring it right down to date? In 1938 on the buying side what did these "Big Three" do for Latin-America? Well, 1938 was a bad year. Take the top one, ourselves, who are the big fellow--we reduced our imports from Latin-America nearly 33%. The United Kingdom reduced her purchases 28%. Germany reduced her purchases from Latin-America $4\frac{1}{2}$ or 5%. Now that is the picture of the "Big Three." We don't know yet what the other fellows, the little fellows that make up the 40% did, but we assume they reduced their purchases likewise. We know, for instance that Italy reduced her purchases from Latin-America 55% and we assume that the others did likewise. It won't change the general picture. The general picture is that the world generally reduced purchases from Latin-America materially last year. When they reduced their purchases they could naturally expect to reduce their sales. What happens on this curve, the sales of the "Big Three" to Latin-America? We reduced our sales $14\frac{1}{3}$ %. Great Britain reduced hers 15 and Germany reduced hers $4\frac{1}{2}$ %, so that they all sold less and bought less. (Now with regard to Germany, this should be said--that that figure I have given is taken from the German statistics and is in Reichsmarks. Now the business was not all done in Reichsmarks but partly in Askri Marks, through barter and compensation arrangements. Generally speaking, I don't know if you know how that system works, but it was in yesterday's paper very clearly set forth in the announcement of the imposing of Countervailing Duties). The example given is a very fair example of how the barter system works. For instance, say in Germany they buy from the United States a thousand dollars worth of cotton. The importer in Germany pays for that cotton not a thousand dollars, which is the market price, but there is 33 $\frac{1}{3}$ % added to it, so that he pays \$1,333.00 for that cotton. But the marks in exchange for that

\$1,333.00 are put in a special account in the bank and they can be used only for sales to the United States. Then when there is an export of say cameras to the United States they take that \$333.00 which was added to the price and give it to the exporter so that he can reduce the price of cameras by \$333.00 or one-third so that he can undersell the market to this country on German exports and our imports. That is the general way the Askimarks or compensation arrangement works.

Now it isn't always 33 1/3%. In Latin-America we have no accurate statistics, but just from traveling up and down the coast and from our reports we know that it roughly varies from 10% to as high as 30 or 40% but I believe the bulk of it is done around 10 or 15% increase over the price of the world market for exports into Germany or a corresponding reduction in the world price for the things they sell. Now if it were possible to correct those figures accurately of German exports and imports, of the loss of trade by giving the real value at which the goods were actually bought and sold, it is probably that the reduction in the volume of goods which move would approximately be about the same as the other two members of the "Big Three". It would probably be relatively about 15% on the selling side and somewhere about 25 or 30% on the buying side, so that the general picture of Latin-America shows that last year was a bad year for trade.

Now, we hear a great deal about Germany taking the Latin-American market. Well, the facts are that nobody won last year in Latin-America. We all lost. By 'we' I mean the rest of the world, the "Big Three" particularly. None of them increased their sales or purchases. The trade was less both in buying and selling, so the question is as to who lost the most. Now, the indications are, as far as we can get them up to the present time, that the United Kingdom lost more of the Latin-American trade than either one of the other two "Big Three", and that we lost a little more than Germany and that Germany lost the least of all. As I said, it is a little difficult to generalize all over Latin-America because in some countries we sold more and lost less. Our relative position was improved at the end of the year. In other countries our condition was a great deal worse, - in Mexico, for example. So that the position is not alarming. And this is also true, that when you consider the fact that the whole system of barter and compensation undoubtedly works better on a falling market than it does on a rising market, there is some question in our minds as to whether it will work at all on a rising market, particularly on a fast rising market. Take the case of a man who exports cacao in Ecuador. Say he is offered market price plus 10% provided he will tie those markets up for 3 months and will buy German goods at a reduction in the price--apparently at the time, but he has to wait for three months before he can get his money.

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He is likely to hesitate if the market is rising because it is a gamble as to whether it will rise over 10% before he will get his money or whether he had better wait and sell at the world's market, which might be above that. It is not an attractive proposition and might be a real loss on a rising market. We have, unfortunately, yet to see what will happen in a general way of rising world prosperity, because we haven't had it yet, but if we get it, then we can tell how that system will work on such a rising tide.

That is generally the position with regard to our trade in Latin-America. Now, I would like to emphasize again what I said at the beginning--that Latin-America lies practically entirely in the tropics. The things that she exports are foodstuffs, primarily, of course, coffee, cacao, sugar, bananas, tropical foodstuffs. There are some minerals, but the minerals, of course, are not dependent on the fact that they are in the tropics. In Northern Mexico you have copper, gold and silver. In Chile, nitrates and coppers. In Brazil manganese. That is about all of the main ones. On the temperate zone side, there again you have quite an entirely different picture. Argentina is really a question to be considered rather aside from the general question of Latin-America because Argentina is in the temperate zone. She has a patch of land roughly 500 miles long and 300 miles wide, a rough oval, which is very fine agricultural country and raises the same products that we do and which sells primarily to a European market and lies out of the tropical zone. Our big imports from there which must be considered from a standpoint of trade are, in the first place, probably linseed, which is necessary for paint and hides, wool, quebracho extract and canned meats. We produce linseed but we don't produce more than about half what we need, so we have to import roughly about 50% of our needs. Now the rest of Latin-America produces things that we can use. For instance, there are some things that are very nice but don't bulk large in commerce, such as quinine, which comes from that region, and other minerals--manganese, which forms commercially and at present a very small percentage of our imports, most of our imports, of course, coming from Southern Russia, but in time of stress it might be desirable.

Now, what about the possibilities of raising rubber in any parts of that region? It can be done but not commercially. So far it is not commercially possible, although Mr. Ford is making an effort which is still in the experimental stage of raising rubber commercially. I might say that in 1926, when Mr. Hoover got a bill through Congress when he was Secretary of Commerce to see what could be done about securing supplies of rubber in the Western Hemisphere, several of us who were then commercial attaches

headed experimental expeditions in Latin-America for that purpose. I headed an expedition into the tropical end of Mexico, down in Yucatan, Chiapas, and Campeche and that section from Mexico City south, and as far as my expedition was concerned, I found that within that region along an area that lies about half way down the very southern end of Mexico, you could raise all the rubber that the United States would be likely to need in the next half century, if you could do it commercially, but you can't. One thing that blocked it was the price of labor. It was just double what it was in the Malay Peninsula. The industry was not developed and it was not a commercial proposition, but as far as nature was concerned, the rubber trees were growing there. I went up the river into the interior of Chiapas and found a beautiful plantation there which was taken over by Firestone and operated for a while, so that it is perfectly feasible as far as nature is concerned to raise all the rubber that we would need in that area alone, not to speak of all the vast areas that lie to the south of us in tropical Latin-America. There is this also that might be said. The tropical part of the earth has never been much developed, never been much inhabited by the white man or by civilized man for one reason--because it has not been healthful. As any of you know, the thing that we fight against in the tropics is not death but life. There is too much competition with other forms of life, particularly bacterial and insect life. We have to fight against the debilitating influence of heat, but with the combination of communication, of chemistry, of roads, and particularly of refrigeration, it is probable that the time is now about to arrive when it will be time for civilization to move in on the tropics and occupy it.

Now we have a stake in Latin-America, an investment of roughly two and a half billion dollars. That two and a half billion dollars has been invested in an improvement of the economic conditions of the country. Foreign investments first began with the Spaniards who developed mines, estancias and agriculture. Then came the British, who developed railways and mines. We came in with power plants to develop electric light plants and factories. Generally, all the work and work of economic development in Latin-America has been done by the foreigner. The foreigners have invested their wealth in industrial economic activities. They now own that development which consists of the larger industries. Whether the Latin-American--the native will take over and develop these industries on a fair basis of compensation is part of the problem which lies before us.

Q. Would you care to speak at all about this new Brazilian Trade Treaty?

A. Well, I think the facts are known and that the only thing

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I could say about it is that, as I understand it, the Export-Import Bank has allowed a credit of \$19,200,000, which is to be applied to the unfreezing of the present accounts which are in Brazil and which shall be used to buy exchange to further our exports, in the sense that it will allow the exporters who have sold to Brazil and not been able to get their money out (due to the inability to purchase exchange.) That is all that has been done at the present time. There is a proposal to place \$50,000,000 in gold at the disposal of the Central Bank of Brazil, but which, I understand, will require legislative action. Now, that is practically the third unfreezing arrangement which has been done. It is an investment in Brazil. It is an extension of credits which will doubtless help our commerce. That drops into the broad general question which you mentioned a while ago as to our investments in Latin-America. It is increasing them and it will undoubtedly be one of the most interesting problems of the future as to how far we can increase our investments in Latin-America with profit to ourselves.

Q. What are the important items which are exported from the United States to Latin-America?

A. Well, they cover almost the entire gamut of everything that we produce, but generally speaking, the most important things are probably agricultural machinery, automobiles, and by automobiles I mean not only passenger cars and trucks, but also internal combustion tractors and roadmaking machinery. Generally speaking, industrial machinery comes first, and then in the next line probably comes petroleum products and textiles, foodstuffs and then a wide range of nearly everything that we manufacture. This general trend can be observed--that whereas 20 or 30 years ago we exported articles for immediate consumption, what are known as consumers goods--for instance, we used to export large quantities of canned salmon, we even exported rice and fruits of various kinds--now, generally speaking, we export the machinery to produce goods, what we call producer goods. They have established within a high tariff wall in most countries, factories which produce the goods that formerly were imported. For instance, going back far enough in regard to Mexico, we used to export a good many boots and shoes. We export scarcely any at all now. They have established factories in Mexico, but we do export shoe machinery. We export most of the office equipment and the payroll established enables the employees to buy many things, from typewriters to silk stockings, from the United States. That is the general trend all through Latin-America. In Argentina we used to export cotton piece goods. They established cotton mills in Argentina and then we exported cotton yarn. Then we lost the cotton yarn business, first to the United Kingdom and then to Italy because of a cheaper price. Now we export textile machinery, largely, and so it goes all down through the line. They are gradually developing factories. We

used to export a great quantity of medicinal and pharmaceutical products. Now we mostly export the formulas and the money and they manufacture them down there. You find practically all the cosmetics and pharmaceuticals are manufactured in Argentina from formulas. We used to export tires to Argentina, but two American companies put in a factory down there and now we export certain raw materials and the tire-making machinery but no longer export tires. Our exports are constantly changing in character from what we call consumer goods to producer goods, but the total volume is increasing and our experience has been with all countries that the fact that we change in that character doesn't mean that we are losing trade. Offhand you would say that as they manufacture more and more of these goods in their own industry that we would cease to export, but that is not the case and it has not so far proved the case in the history of the world. For instance, our greatest customers are the United Kingdom and Canada, who are also our greatest competitors and greatest manufacturers. Before abnormal conditions arose, Germany was our next biggest customer and one of our biggest competitors. It has not been proven at all that as manufacturing increases trade will decrease but just the opposite--it will increase.

Q. Could you tell us what Japan buys and sells to South America?

A. Japan buys the same things pretty much that she buys from the United States, except in very less quantities. Japan buys raw cotton and hides and wool, occasionally copper, and tropical fruits, and exports to Latin-America the same things that she exports here--large quantities of small manufactured articles such as are sold here. The turnover is small but it consists of a great variety of individual articles. You know what is sold in this country. They are mostly small manufactured articles. We do have a good deal of competition in certain small articles. For instance, things like zippers, which we used to export. As a matter of fact, they got the idea and now they are manufacturing those little articles and exporting them to that country. As I recall, the total trade of Japan on the buying side last year was about 2.9%, a little less than 3% of all Latin-America sold abroad--that is in 1937, and sold about $1\frac{1}{2}\%$ or 1.6%, less than 2% of what Latin-America bought abroad. In other words, the trade of Latin-America with Japan is so small compared to the other larger nations that it is not very serious as yet. It is true that in 1936 her trade increased considerably, but it didn't increase much in 1937 and hasn't increased at all in 1938. Of course, Japan's total foreign trade dropped off very badly the latter half of 1937 and all through 1938 because of, shall we call it, the difficulty in China.

DISCUSSION FOLLOWING LECTURE BY
Dr. Alexander V. Dye

March 21, 1939

Q Dr. Dye, have you any information as to how much Germany might have invested in Latin America, as compared with two and a half billion the United States has?

A I don't remember that figure off-hand. We could give it to you over in the Bureau of Foreign and Domestic Commerce. It is less than we have invested I am quite sure. Great Britain has nearly the same, but Germany is much less.

Q Along that same line, if their investment is so much smaller down there won't that give them a little advantage on this Board proposition situation, that they can afford to come in on that basis, fly-by-night trade? In your opinion, would that give them a distinct advantage?

A It might give them an advantage, but I don't see that that is really very vital to the question because the Board's system, when you boil it down to the last analysis, is very simple. It consists in taking the general taxpayers' money and giving it to the exporter as a bonus so that he can export below the world market. As long as their foreign trade is not too big and as long as they have reasonable income, any nation can keep that up indefinitely, as long as the taxpayers will stand for it. And apparently the taxpayers in Germany are going to

stand for it for sometime. That is the situation, but it is not economical and it just depends on the relative proportions. If their export trade gets too big, on that basis it is going to bankrupt the nation, but that is not likely so far as the German export trade is really very small. I don't know that it is generally known, but Germany is importing more than she is exporting at the present time. We exported a little over twice to Germany as we imported last year, so that we sell much more than we buy. Therefore, her efforts to increase her export trade are not likely to be very serious, because one of two things in the long run is bound to happen, assuming, and I do think it is a fair assumption, that Germany could afford to keep up that bounty on export trade for an indefinite time. Nevertheless, some day the taxpayers are going to get tired of that and say that it isn't fair, to pay out of general taxes just to export a certain class of export.

Q To what do you attribute the losing export trade of the United Kingdom? Does that date back to their policy of protection or something more functional than that?

A I attribute it to the higher cost of production coming more directly into competition with Germany than we do and having a higher standard of living and a higher cost of production; and not giving an export subsidy they feel the direct competition more than we do. So far in the history of the world we have met all competition by one thing really, by inventive genius which has enabled us to invent and

produce such things as the automobile and the radio and the binder and other products which no other nation could have. We have invented certain oil well machinery which can't be gotten anywhere in the world and which they have to buy from us or do without.

Our inventive genius, combined with our mass production methods, has enabled us to keep ahead of the game up to the present time, both in the competition with Germany and the United Kingdom and other manufacturing countries.

The United Kingdom has had to turn a larger percentage of her factories to the production of armaments. The rearmament program, I think, has interfered to a larger extent than it has with us, so that she has not been able to devote as much of her manufacturing to the export trade. I think that accounts largely for the difference more than anything else.

Q Dr. Dye, a speaker from this platform not long ago made a statement regarding ^{the} system South America and Germany are using that indicated that there was a possibility of their reaching a saturation point down there on German manufactured products where it would be no longer profitable for them to trade their wheat, for instance, in Argentina, and cattle, for German goods. Do you think that such a possibility might exist in the future?

A Yes, in this sense, that all of the nations that export manufactured goods to Latin America are always what we might call

struggling with the saturation point. By that I mean this: that the consuming power of Latin America is very low per capita. I can illustrate that no better than by saying that in 1936 we exported/(I choose to Canada that date because I happen to have made the compilation for that year) nearly as much as we exported to Latin America, and Canada has a population of ten million as compared to Latin America of one hundred and thirty million. In that particular, I will put it another way. Every man, woman and child, on the average in Canada per capita annual consumption of imported goods was about thirty-one dollars. In Latin America it was a little less than three dollars. Therefore, per capita Canada consumption of imported goods is nearly eleven times as much as Latin America. That is due to the fact that the population doesn't consume. For instance, I was at the Lima, ^{Peru} conference. They have a population of six million people, but for purposes of the importation of goods into that country we call it a population of two hundred and fifty thousand. Out of that population-they have a social security system, and I was told that they had enrolled in that social security system of workers one hundred and ninety-five thousand out of a population of six million. That gives you an idea of just what I mean by low consuming power.

Brazil has a population of somewhere between thirty and forty million people, but out of those thirty or forty million people there are not more than four or five million who could import any kind of imported goods.

There is a saturation point, but as the standard of living develops in Latin America that will be constantly rising, and of course the saturation point of any goods means the place where the price of the goods isn't low enough for the man to buy. You can cure that by two ways, raising his income or dropping the price. Those two factors are at work in Germany as in all other countries. So that is more or less one of those theoretical things that is true but no very definite place fixed for any of it.

Q Brazil has increased her cotton production extensively in the last few years. What effect, if any, has that had on our own export trade?

A It isn't so much the increase in the production of Brazil as it is the increase in the production of all other countries that have increased their production of cotton. For instance, Brazil produces about 1,250,000 bales, and I believe our production in this country is about 11,000,000 bales. In other words, they produce about 10 percent as much as we do. It is obvious that if we were considering Brazil along, any increase in their production wouldn't be serious, but the increase of production of cotton in a great many other countries, combined with the increase in Brazil and Argentina and all of them together, had an influence on the world market for cotton. There was a tremendous increase year before last. We produced nearly 18,000,000 bales, which was a tremendous cotton crop.

Q Approximately what percent of the United States exports go to Latin America?

A I am glad you brought that point out because I didn't bring it out very clearly. We export from 16 to 25 percent of our total production to Latin America, and we buy from 20 to 25 percent of all the things we buy abroad from Latin America. Of course it varies by years. Last year it was probably very low. I haven't seen the figure yet, but that is the general picture.

The proportion of our sales to Latin America had been for a number of years increasing more than it was to either the Orient or to Europe, but our sales to Europe varied from 42 percent in 1937 to as high as 55 percent. Our proportion was low in 1937. Roughly, let us say that the current of exports which flows to Europe is about three times the size of the current that flows to Latin America, but the smaller stream is rising more rapidly than the bigger stream. However, it is obvious that as it rises only one and a half to one percent a year it will be a good many years before we can ever talk about Latin America market replacing our other markets, because the other one is three times as big and the little increase that comes about each year is not going to be very important. So it is not really very sound when we talk about replacing our other markets with markets in Latin America. If we look over the next two hundred years, yes, but over the next five years it is not going to be important.

Q Doesn't this question about the saturation of the South American market really work the other way around, the saturation of the United States about what they could use out of South America? We couldn't drink much more coffee or eat many more bananas. Goods always have to be paid for ultimately, sales have to be paid for in goods or -- I don't see how the South American market could be expanded very greatly.

A This is true, that we consumed a third more in 1937 than we did in 1938,^{so} that there is quite a difference in the power of consumption. But I see your point and you are quite right. One of the best ways to increase our trade to Latin America is to have a waive of prosperity in the United States so that we can increase our consumption of Latin American goods one-third so that they will have the exchange to buy our goods and the money. Generally speaking, that is perfectly correct. Every time we have a waive of prosperity, a rise in the general consuming level in this country, we increase our imports, and when we have corresponding depression the first thing we do is stop buying and we try to increase our exports. That is what happened last year. Our exports held up much better than our imports and that is perfectly true. It is not a saturation exactly, but it is due to any depression or any recession. We just don't buy as much.

Q Isn't there a limitation on that? We usually try to export more and they can't pay us and we loan money, then they welch on the debt very often.

A That has happened. That happened particularly in the years from 1925 to 1929. We were increasing our exports but they were floating bond issues, and a certain part of those bond issues did go into the purchase of American goods. We were subsidizing exports in the sense that those loans which were never paid, and haven't been paid yet,--what percentage of them was used to purchase imported goods I don't know. But to a certain extent that was true, and that is true in this case. If they can develop their natural resources and develop things that we and the world want to buy, those loans will be good, and it is all right and sound financing to lend your customer money to buy your goods if you are pretty sure that in the succeeding years they are going to be able to make enough money to pay you back with interest and keep on buying. That is the answer.

Q From your experience, would you say that the tendency was towards a democratic form of government in Latin America?

A Yes, I should say definitely that the tendency was toward a democratic form of government. What a democratic form of government is, of course you can answer as well as I can. It is theoretical. We haven't a pure democracy in this country. There isn't such a thing existing. We are only relative.

The same thing holds in Latin America, and the difference between the varying degrees toward which they have advanced toward democracy varies with each individual country. Some of them have not advanced very far towards democracy, some of them a little farther. But I

should say by and large that the tendency is "yes." They are all walking along that path toward democracy, some of them much farther behind than others, perhaps none of us as far as along as we would like to be, but still moving along that line.

Colonel Miles: Doctor Dye has consented to say a few words to us about his experiences as the American representative for the War Trade Board in Norway.

Doctor Dye: As you are aware, the War Trade Board was organized to take care of, as the name implies, trade of the United States during war and under war conditions. In order to not go too long into a description of how the War Trade Board operates, I can confine it to the part that I was most intimately connected with in Scandinavia. Early in the autumn of 1917 I went to Scandinavia as a representative of the War Trade Board. The position at that time was that the blockage extended to every country in the world, including ours, Germany and the Baltic.

Prior to our entry into the war, we assumed the right of a neutral nation to trade with both belligerents. When we entered the war, we said to the three northern neutrals, Norway, Sweden and Scandinavia, in simple language, essentially that, "You must now stop trading with the enemy or Germany or you can't trade with us." They said, "Well, but haven't we a right to trade with both neutrals?" We said, "You have a perfect right, but we also have a right to trade or not with you, and we don't like to trade with you if you are going to trade with the other

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fellow. It isn't a question of rights. We are just not going to sell to you." They said, "Go over and see what you can do as adviser to the three legations in the northern neutrals." The upshot of it was that we made an agreement with the War Trade Board and the Norwegian government. The War Trade Board had no power to make treaties. That is stated in the first paragraph of the agreement, but nevertheless the agreement was between the War Trade Board and the Norwegian government, that during the course of the war they would not sell to Germany in excess of a certain quantity, a number of tons of certain commodities which were specified if they would make that agreement not to sell in excess of these quantities the War Trade Board would agree to furnish them up to a certain number, I believe it was 330,000 tons, of material which they needed for their economic life. In order to carry out that agreement, the Norwegian government divided its importers and exporters into commodity lines. There was an import organization of foodstuffs, fish, drugs, metals, and minerals, all sorts of import and export associations. In addition to the undertaking which the Norwegian government made to abide by the agreement, each one of these associations made a separate agreement with the War Trade Board and with the representatives of the War Trade Board that they would watch their members, that they would fine each of them with amounts varying, I believe, from 10,000 to 50,000 crowns if they were caught violating their agreements. They themselves would watch over their members to see that they kept the agreement, and so the agreement was pretty water

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tight. There was the general agreement with the Norwegian government, there was in addition a separate agreement with each export organization, who knew each other, and the question arose as to who could belong to those export and import organizations and they settled that among themselves by generally taking those men who had been in that particular business for some time during the previous three years and said that they could belong to this and they were the only people who could either import or export. Therefore, the matter was pretty thoroughly controlled in that way, and what I have said with regard to Norway pertains also to Sweden and Denmark. In each one of them there was an agreement, controlling exports and imports. The control was possible only because, generally speaking, the United States was about the only source of supply for what they needed that was left. The allied fleets controlled the seas. There was no way to get in and out of Germany except through the northern neutrals.

The War Trade Board operated in this way. When I went over they had very large trade of importing and re-selling to Germany. We said, in essence, "If you don't stop it, we will stop your vital supplies, without which you cannot live." Germany said, in essence, "If you do stop it we will declare you an enemy. We are close. We will come over and blow you off the face of the earth." It was a pretty hard situation. On the one hand, we were threatening them with starvation. On the other hand, Germany was threatening them with war/^{and}extinction. As a matter of fact,

we didn't want to force them into war on our side, Germany didn't want to force them into war on her side. It was really a give and take matter. Eventually we reduced it. We let go through to Germany from 12 to 25 percent of what they had hitherto been supplying, and in return for that we supplied them with what they needed to live on and get along through the war, and we controlled the exports to Germany. I myself had to inspect and sign every export shipment to Germany, which was permissible under the agreement. In addition, we okayed and approved every import into Norway so that their entire economic life was controlled in an iron grip by the Allies.

That is the general way in which the War Trade Board worked. It did stop the import and I believe was one of the factors that broke the war and was possible to cause the collapse of Germany.

Colonel Miles: That is certainly very interesting to hear that description. I think it is the first time we have had a first-hand description of that particular method.

Q Of whom did the personnel on the War Trade Board consist? Were most of them in the Department of Commerce at the time? Were you yourself in the Department of Commerce when the war started?

A No. I was the Assistant General Manager of the Phelps Dodge Copper Company in Douglas, Arizona. Having been American Consul in Mexico for four years, having passed the consul examination, and particularly having studied abroad German, French and Spanish, I assumed that my services might be acceptable. At that time I was forty-one

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years of age. I thought I wasn't admissible into the Army and so I volunteered for service, was accepted and came to Washington and went over as War Trade representative. My colleague in Denmark was a lawyer in the city of Providence, Rhode Island. They were mostly business men, I think, who came in. Some of them were from the Department of Commerce, but the Department of Commerce wasn't organized in 1916 with commodity divisions. At the present time I think our personnel, both abroad and elsewhere, is much more along the line of the men who at that time went into it. We were mostly business men who were drafted into service to handle it on a practical business basis.

Q In a future war, who should make up the War Trade Board?

A I should say that it should be composed mostly of the Department of Commerce representatives. I am pulling for my own team. That would, of course, depend on circumstances, but it is true that we do have now in the Department of Commerce a Commodities Division and the general set-up is very much like the old War Trade Board. I have just described how it was set up and how it had to be set up, in my opinion, for the various countries for control because it is quite obvious that a man who imports petroleum in Norway doesn't know very much about the import of cocoa or of coffee or meat or other things. It has to be organized by men who know their particular commodities. I don't believe that you will ever organize for war purposes on any safe lines except the commodity lines, that you will have to get some organization that knows the commodity

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particularly, and know what they are talking about, know the business and how business is organized, who belongs to what import-export organizations, and so forth. I think it must be organized along the commodity lines in any war.

Q Do you think it is more difficult for the War Trade Board to control the Americans involved than it is to control the foreigners?

A It is always more difficult to control Americans than anyway. Perhaps that is sidestepping it, but that is a fair sidestep.

Q Would you care to discuss the organization of the Department of Commerce today with regard to possible use of that organization during a transition period, how quickly it could get into operation, and control of war trade, how much they would have to expand, etc.

A When we speak of the Department of Commerce we mean principally the Bureau of Foreign and Domestic Commerce. The Department of Commerce is organized into 8 bureaus. Of those 8 bureaus, there are 7 that deal with the public generally along a functional line, such as the Bureau of Patents, the Bureau of Census, the Bureau of Fisheries, Coast and Geodetic Survey, Navigation, and so on. There is one bureau, however, that deals with the occupational line, and that is the Bureau of Foreign and Domestic Commerce, which deals only with commerce.

I might go back a little farther and say that those of you who studied the organization of our government know that there are ten executive departments. Of those ten executive departments, the first

seven that were set up, War, State, Treasury, Navy, Post Office, etc., on functional lines, that is, they perform for all classes of our population without regard to any distinction. The last three departments that were set up, Commerce, Agriculture, and Labor, were set up on occupational lines. The Department of Agriculture deals with the farming class, the Department of Labor with the employee and the laboring class, and the Department of Commerce with those who are engaged in the buying and selling of goods from occupational lines.

Of those three the Department of Commerce has these eight bureaus, and of the eight bureaus there is only one that deals 100 percent and strictly with commerce and that is the Bureau of Foreign and Domestic Commerce. Within that bureau there are set up for the purpose of handling the commodity divisions. We have a Foodstuff Division, a Textile, Metals and Minerals Division, Rubber Division, Hides and Leather, and so on, and then we have a Service Division, a division that deals with commercial laws, with credits, etc., so that we have twenty divisions that are established along commodity and functional lines. That is why I say that that could be particularly valuable as a nucleus and as a liaison in time of war because our commodity divisions are in touch with the manufacturers, the exporters and importers, and the distribution in this country. Those divisions in turn are subdivided into sections. It is their business to keep closely in touch with manufacturers and exporters and importers, to keep an eye on the domestic trade and particularly with reference to foreign trade. That is why I believe that it would function well.

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Q Doctor, you don't believe then that the State Department would be capable of forming or being the nucleus of the War Trade Board?

A No, I wouldn't say that. Of course the State Department deals entirely with foreign affairs. They don't have any commodity divisions in this country. There would have to be a cooperation and a coordination of the work because the State Department does not have any organization in this country which deals with those. The State Department deals with our foreign relations and of course our foreign relations become vitally important in time of war, both from the economic side, so that it isn't a question of that. It is a question of the proper coordination of the two functions of commerce and foreign relations.

Q To what extent do you tie in with representatives to foreign countries of the Consulate and Consulate General? Do you have such coordination there in time of peace?

A Yes, we have a very close coordination. We receive in the Bureau of Foreign and Domestic Commerce all the commercial reports of the three hundred odd embassies and consulates which are abroad. In our foreign work we coordinate our work very closely with the consulates. The Bureau of Foreign and Domestic Commerce is the distributing agency for all of the commercial information which flows in from the three hundred odd consulates, embassies and legations abroad and the thirty-five officers of the Bureau of Foreign and Domestic Commerce abroad. The general distinction between the work abroad is that the work of the Bureau representatives, the Commerce attaches, is that they devote themselves

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entirely to matters of commerce. The consular service devotes itself in part to commerce. There are many places where we have no representatives of the Bureau of Foreign and Domestic Commerce, and in those cases the consul furnishes the commercial information. We coordinate our work abroad in such a way that there is practically no overlapping, and we deal only in information. That information is supplied by both.

Colonel Miles: We are certainly very greatly indebted to you, Doctor Dye, for giving us this time, and we hope that your work abroad will be pleasant and satisfactory to you. Thank you.

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