International Cooperation in the Economic Development of Latin America

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INTERNATIONAL COOPERATION IN THE ECONOMIC DEVELOPMENT OF LATIN AMERICA

by

Antonella Picchio

A thesis submitted in partial fulfillment of the requirements for the degree of

MASTER OF ARTS

in

Economics

Approved:

UTAH STATE UNIVERSITY
Logan, Utah
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I want also to thank officially Professor Leonard J. Arrington, Chairman of my graduate committee, for the assistance offered me in the course of my studies at Utah State University. His advice has been of the greatest help, and his work of reviewing my thesis has been an essential contribution to the final success of the research.

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- Antonella Picchio
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CHAPTER I

A PERSONAL INTRODUCTION

Apologia

As an Italian, with less than a year in the Western Hemisphere, I now find myself with a "mixed" personality. As someone else expressed it, "I am physically Italian, Latin American by adoption, and gaily American." This may well be a good combination for writing a thesis on Latin America. My "Latin blood" may help me in understanding the mentality of the people of Latin America, while my studies in Italy—a country with a long experience as an underdeveloped country—may contribute toward a personal understanding of the problems of poverty, social injustice, and political instability. Three months of experience in Mexico, at the Utah State University "branch" in Mexico City, permitted first-hand observation of the problems, and direct contact with some of the people who are trying to resolve them. Finally, having been a student at Utah State University has improved my understanding of the great tradition of freedom in the United States. It also stimulated personal reflections on democracy that add much to my philosophy of life. This opportunity, added to a very pleasant and serene life in a delightful region in the West, make me sincerely and profoundly grateful to the people of Utah.

In writing what follows, I have sought to be honest and straightforward. This has meant serious criticisms of United States policy in Latin America. These comments, I hope, will prove my love and concern for the United States and its people. Indeed, I feel sufficiently American...
to rebel when I realize that the face of the United States that is often seen abroad is not the real one, or at least only part of it.

Being an "outsider" I think that it has been easier for me than for many native Americans to approach certain problems without emotion. Obviously, on certain points the Italian experience is similar to the Latin American one and it has been difficult for me to avoid some emotional approaches that are, perhaps, part of my environment. In the course of the thesis I have often felt the necessity of keeping a "corner" for myself in which to express my personal feelings.

In any case, the reader should be encouraged to balance my analysis with his own experiences. In this reciprocal objectiveness, I think, is the main significance of a program of cultural exchange. Only in sharing the solutions found in different experiences is it possible to create a real international cooperation. Drawing a line between the "good" and the "bad" does not help. Only when we are ready to share opinions and accept different experiences have we built the first step to peace called "understanding." To build that step is the great responsibility of every one of us, both as individuals and as representatives of our respective countries.

A thesis on Latin America presents many problems. First of all, the subject is very broad. Internationally and domestically, Latin American countries reflect the play of many different social and economic forces. It is difficult to isolate these forces and propose a general solution to the problems they are related with.

Latin America at the moment offers a challenge, as do underdeveloped countries elsewhere in the world, to the economic system of the Western world. The Cold War is not, in fact, a political struggle alone, but
also a contest between two widely different types of economic organization. For this reason, it is important to analyze what the international cooperation of the Western countries can contribute toward Latin American economic development. Obviously, this thesis cannot hope to give a definite solution, but only to analyze certain aspects. For one thing, there is the unknown quantity of the impatience of the Latin American peoples. They want to see economic and social problems, which are rooted in history, to be resolved in the shortest time possible. Economics can not always resolve problems whose solution requires more time than money.

Some reforms are needed in the structure of the Latin republics that condition any program of development. Without these reforms, the expenditure of billions of dollars will have little effect, and may even be dangerous. Nevertheless, it is the contention of this thesis that international cooperation for the development of Latin America is indispensable and desirable. The thesis discusses the positive accomplishments of international cooperation, and also the problems that the present system of cooperation is facing, whether they are economic or political.

The principal goal of international assistance is to bring the underdeveloped countries to a stage where they can stand on their own and guarantee their peoples a decent standard of living. The successful accomplishment of this goal is a precondition for the victory of the West in the present split with the East. While this political result of international cooperation is desirable, it should not be the tactical objective, else the program would be based on political expediency rather than economic principle. The overriding objective must always be the improvement of the levels of living of people who are now literally starving. It is difficult to understand starvation when we face a choice between straw-
berries and apple pie, but the masses of Latin America know famine personally, through a daily acquaintance. To give them enough to eat and sufficient education must be the main goal of the international cooperation. The defense of democracy and defeat of Communism is also a worthy goal, but a program of structural reforms cannot be based on political matters alone. The situation is analogous to Italy, where there is a real difference to social reforms undertaken only because of the fear of the Communist Party as against reforms to meet the real needs of the people.

Western countries should cooperate in the economic development of Latin America on an economic basis, trying to leave out as much as possible political objectives. That it is very difficult to do this, because the fine line between economics and politics, is acknowledged. But it is clear that economists are more helpful in these difficult matters than the politicians in the Department of State.

Another keystone in development economics is that the Latin American countries must be the ones that put the biggest effort into development. Each country has the responsibility of getting out of the international effort as much as possible, but the receiving countries alone can make international cooperation effective. It is common for the Latin republics to negatively attribute their problems to the evils of United States "imperialism." The United States does have enormous responsibilities, and in general accepts them and in good faith tries to resolve them. This is not easy to do, but without the cooperation of the Latin American countries, it is impossible. It seems that in international relations, one bad thing destroys ten good ones.

Latin American countries recently seem to have been learning these lessons. Thus, the Latin American Free Trade Association (LAFTA) seems
to hold the greatest hopes for the development of Latin America. Latin Americans, after historical indifference toward each other, seem to have finally decided to share the effort to improve the levels of living of their peoples. This is the basic change that came into the Latin American picture in the 1960's. The new program, at the moment, is too young to determine whether it will succeed in winning the battle of economic development.

This movement toward regional cooperation in resolving common problems of development is part of a broader trend in the relations among underdeveloped countries. Among underdeveloped countries there is a tendency to unite into what might be called a third "bloc."

There is a strong need for all the international mechanisms, both bilateral and multilateral, to work together toward the goal of regional integration. Political considerations should not be allowed to induce a misallocation of economic resources; these must be utilized in the fullest and most efficient manner possible if "economic freedom," which is basic to political freedom, is to prevail. If the billions of dollars spent in Latin America are not effective in improving their levels of living, the masses may choose the way of Communism. If so, Communists would win the battle only because of the faults and blindness of the West.
The Thesis

It would seem desirable to explain the logic involved in the organization of the thesis. Three forms of international cooperation for the economic development of Latin America are examined: bilateral, multilateral, and regional. First are presented the characteristics of the economies of Latin America, with stress on the common characteristics. This prepares for the treatment of Latin America as a single bloc.

Second, I have discussed the role of private and public foreign investment in the development of the region. This bilateral cooperation is the classical form of economic relations among the countries. Particularly important is United States investment in Latin America.

Next is a chapter on the Alliance for Progress, a progressive program undertaken by an advanced country to help economic growth of an underdeveloped region. It is the contention of the writer that the Alliance for Progress is more a political than an economic program. This fact is responsible for some of the problems that the Alliance is facing at the moment.

The way to avoid the involvement of too much politics in economic cooperation programs is to "internationalize" the effort. This can be done by channeling assistance through international organizations, on a multilateral basis. The activities of these organizations in connection with the development of Latin America are described in Chapter V.

A final chapter deals with the possibilities of cooperation among the Latin American countries through the Latin American Free Trade Association.

In the development of the approach which is used in the thesis which follows, of outstanding importance were the writings of the Swedish economist, Gunnar Myrdal. His writings on the international economic situation (Economic Theory and Underdeveloped Regions and An International Economy)
have opened to young Europeans such as myself, a new world of cooperation for the equality of nations. The differences among nations are broad and profound, and it is impossible to close the gap without understanding the reasons for the existence of such a gap. This is not only necessary for humanitarian reasons but also to keep the peace. Myrdal has contributed a realistic and objective partisan picture of the structure of the international economy.

So far as Latin America is concerned, the point of view of the thesis has been influenced in a special manner by the writing of the Argentinian economist, Raul Prebisch. Indeed, the reading first interested me in writing on the role of international cooperation in the development of Latin America. Prebisch's writings, such as Neuva Politica Comercial Para el de Sarollo and Latin America and International Cooperation, provide an understanding of what "Latinos" think about their problems and what they expect from the cooperation of other countries. It would be impossible to resolve the problems of the region using economic policies imported from different experiences. These policies, even if basically sound, must be adapted to the different economic and social patterns of Latin America. Raul Prebisch has done part of this important work of adaptation. Unfortunately, the contributions of Latin American economists are not always recognized.

The recent book, Latin America; Today's Economic and Social Revolution, by the American economist, John P. Powelson, provides insight into the different sets of values on the two sides of the border. Powelson has had a wealth of experience with the people of Latin America, especially with students, since he taught for many years in various universities in the region. It is obvious that he has listened with consideration to the voices
of younger Latin Americans on various controversial issues, even when he did not share the same opinions. The result of his "hypothetical sympathy" and the love that the Latin American students have for the "gringo" professor, is an excellent book. I am particularly grateful to Dr. Powelson because, in a long conversation, he helped me to understand and love both Latin America and the United States.

My thought has also been influenced by Senator Wayne Morse, Chairman of the Senate Subcommittee on Latin America. His intelligent and humorous lectures at Utah State University showed me United States foreign policy from the "inside." His objective presentation of the problems of Latin America encouraged me. With such men as Senator Morse directing United States' foreign policy, the Western world is assured that the United States will handle with honor the impressive responsibilities of international relations.
CHAPTER II

CHARACTERISTICS OF THE LATIN AMERICAN ECONOMY

Historical Background

The present international situation is a clear indication that many important problems are involved with the economic development of Latin America. It is such an enormous and heterogeneous region that it is difficult to work out a coherent and logical approach to policy. Many different kinds of forces have interplayed in the historical development of this region: geographical position, topography, climate, natural resources, types of people, and economic characteristics. Every generalization about Latin America is destined to fail because of the widely-varying cultural and economic patterns. Nevertheless, despite their diversity, the Latin American countries do have some common characteristics.

Europeans migrated to Latin America at the beginning of the 16th century, tending to choose places where favorable conditions prevailed, such as along the seashore and on the sides of the navigable rivers. Because of the difficulty in communication between the various settlements, differences among social groups tended to heighten. Indeed, trade developed with North America and Europe, rather than among the Latin American countries. Moreover, the natural resources made it possible to easily produce the goods needed by the

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1 By Latin America is meant the region comprised of the following nineteen nations: Mexico, Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama, Haiti, Dominican Republic, Venezuela, Columbia, Equador, Peru, Bolivia, Brazil, Paraguay, Uruguay, Argentina, and Chile. Cuba is excluded not because it is not part of Latin America, but because it is not a party to the international system of cooperation examined in the thesis.
mother lands. This kept manufacturing for a long, long time in a stage of underdevelopment, the only exception consisting in the manufacturing of some local consumption goods.

Mediterranean peoples tended to dominate the trade with Latin America. After the Turks conquered Constantinople, Western peoples located on the coasts of the Mediterranean Sea—i.e., merchants and seamen, suffering from the interruption of their trade in precious goods with the Far East—sought to find another way to reach the Orient. "The trade winds, in a measure, determined that the Spanish colonial empire in the New World should begin in Middle America,"¹ and that is also how the Portuguese landed independently in Brazil. The fact that Latin America was occupied by the Spanish and Portuguese, and that the northern part of the Western Hemisphere was influenced by Anglo Saxon civilization, was one reason for the differences between North and South America.

The out-of-the-way location of Latin America also tended to retard the development of the continent, especially after the ties with European colonial empires had been cut. The continental isolation was increased by the difficult internal communications between the East Coast and the West Coast due to the distribution of the mountains, and to the Isthmus of Panama which was not cut until 1914.

These factors, and the effects of the climate upon their institutions and economic patterns, are important in understanding the differences between Latin America and the northern part of the hemisphere. While the American of the United States "loves activity; he must be doing; he must be accumulating; he must be winning at the great game of business;" the

educated Latin American "prefers leisure, enjoys spending money more than making it . . . ; the kind of life from which he gets more satisfaction is not the business life."¹

These differences, of course, are partly inherited from the different social groups of pioneers that reached both regions during and after the 16th century. Few of those who went to Latin America were agriculturists; most of them were soldiers and fortune-seeking adventurers. Neither Spain nor Portugal had a very advanced agricultural system at the time. On the other hand, in England and in the other European countries from which the northern pioneers came, the most respected and richest people were the landowners, "Farming was a genteel occupation and carried with it an air of respectability."²

Differences in climate contributed to diversities in the products and the social institutions, even among the Anglo Saxon people who created a social system based on slavery in the southern United States. In the same way, but with more extreme consequences, white colonialists of Latin America, finding the strenuous outdoor labor disagreeable for climatic reasons, occupied the chief offices and let the people of "an inferior race" do the work.³

Latin America is based on three different races: Native Indians, now relegated mainly to the Andean countries; Negroes, descendants of slaves brought from Africa; and white Europeans, who for a long time kept all the top positions in the country and who represent about 35 percent of the

¹ Ibid.
² Ibid., p. 408.
³ Ibid., p. 415,
population. Almost half of the people are the result of the mixture of these three races together. This racial factor has played a major role in the economic status of the Latin American countries. The colored and mixed races remained at a low stage of education. They have had little property, low purchasing power, and have lived at a "subsistence level." Nevertheless, the distinction between Indians and European descendants is not racial, but economic and social.

Natural Products

Most of the Latin American people are occupied in agriculture, even if the cultivated land is not more than 5 percent of the whole continent.\footnote{Ibid., p. 415.} Half of the cultivated land is devoted to the growth of such basic crops as corn, coffee, alfalfa, cotton, and sugar. Argentina and Brazil share the top position as agricultural countries, with Brazil dominating the coffee market and Argentina supplying European countries with foodstuffs. The tropical climate is not suited to the raising of animals, but the land of the River Plata and the Plateau of Brazil are used with great success for this activity. Argentina, for instance, is a large exporter of beef, especially to Europe.

During colonial times Latin America supported the mother land with precious metals, such as gold and silver. The cost of Indian labor being very low, these were extracted quite cheaply. At the present time, "black gold," as petroleum is called, is the most important mineral product. Latin America is blessed with great quantities of iron ore, but it is not mined in large quantities because of the lack of coal to smelt it. Tech-
nological progress will soon make it possible to use this resource. The continent is also rich in nitrate deposits.

The mining of these resources is mainly left to foreign enterprises, but recently there has been strong opposition to the use of Latin American mineral property by and for foreign capital. "The shortage of capital, of skilled labor, and of transportation, and, to a certain extent, the character of some South American governments, are reasons for slow development in this field,"¹

Latin America also possesses a large quantity of such valuable woods as mahogany, ebony, rosewood, and Spanish cedar in the tropical forests. Unfortunately, for the moment, it is too expensive to transport them where they can be manufactured. Transportation is, in fact, one of the big problems of this enormous region. Most areas are not well equipped with railways and the roads are not sufficient or adequate. It is interesting to note that many of the roads have been built and operated by foreign companies.

International Division of Labor

Latin America . . . is undermining the out-dated theme of international division of labor . . . To this region—a peripheral part of the world economic system—was left the production of food and raw material for the industrialized countries. International division of labor was based on an assumption that "the benefits of technical progress tend to be distributed alike over the whole community . . . ;"²

But in modern times it is clear that industrialization has proceeded with-

1 Ibid., p. 410.

out the benefits of technical progress reaching peripheral countries. They have stopped at the center of the world economic system. For instance, Latin American copper, nitrate, wool, and beef helped very much to support the enormous effort of the United States and Great Britain in the Second World War, but Latin American economic conditions were improved only enough to win the war.¹

It must be emphasized that foreign trade, for Latin America, is the main source of capital formation. And the strong need for capital is often submerged by the Latin American tendency to assimilate too quickly "ways of life which the technically more advanced countries adopted step by step as their productivity increased, ..."² Products and services appropriate for a high mass consumption economy have often been adopted in these poor industrializing nations.

On the other hand, to anticipate a later conclusion, Latin American countries must be careful not to lose the advantages that come from international specialization in seeking to avoid the disadvantages. Industrialization must not be done at the expense of the exports that are still the main source of capital formation. One reason for the loss of some of the benefits of technical progress and some of the limitations on industrial expansion could be an excessive division of market. This might be avoided with a system of interindependent markets that could eventually develop into a common market.

Social Situation

For a long time the resolution of Latin American economic and political

¹Ibid., p. 6.
²Ibid.
problems was left entirely to the large landowners and to the military class; but now a new generation of young capable Latin Americans is emerging. Opposed to the bankers and "stupid governments," blaming them for the lack of water, schools, and transportation, the younger group seeks to establish a social and economic order suited to the needs of the modern world. A spirit of "social mobility is invading the most exclusive sanctuaries of the old order."¹ The new class is trying to change the semi-feudal landholding system, which existed in Latin America from the time of the first settlements, and which they believe must be broken if there is to be an increase in agricultural production. Until the social structure of the continent is basically changed, in the view of the new class, it is hopeless to try to reach a stable system at a higher level of life. "Social justice is not a matter of money but of will, . . . requiring leadership and community action rather than investment."²

The possession of large landed estates made a precise distinction among classes, not simply for reasons of wealth but also because the top civilian officials, army officers, and prominent church authorities came traditionally from the very same upperclass. In this structure one could hardly reach a position in the middle, between the landed classes which held on to their power, and the large lower class which was rigidly bounded by social barriers without any hope of moving upward on the scale.

The domination by the landowners in political, religious, and military affairs had been carried on from the colonial period to recent times without

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² Ibid., p. 32.
being disturbed. Speculation and corruption were normal, and few of the rich paid a substantial amount of taxes. The years of economic "boom" since World War II, however, have created a new middle class which is no longer "philosophically resigned" to the "old" society or their place in it. They fully realize their needs and rights and do not accept any delay in getting them satisfied. Moreover, the "growing imbalance between advanced industry and stagnant agriculture" has served to lure into the cities "masses of the poorest and less skilled peasants."¹ This new proletariat and the masses of Indians who have been for a long time forced to work and reduced into a status of lower level by the European population now present a new social problem. This unsatisfied and angry group of people is, in fact, "receptive to the serene song of the demagogue . . . that relies also on the secret police, guns, and support from 'big brother Moscow.' "²

As Peter Drucker points out, almost nothing can be successfully done to help this dangerous situation until "Latin Americans face up to the things that they alone can do: collect taxes, push through land reforms, create a new political class. . . ."³ In fact, even if some foreign country could succeed in building in Latin America a democratic society, based on outside physical support, it is doubtful that such an experiment would have a bright future. For example, until the quantitative and qualitative deficiencies of the educational system are eliminated, there is little hope of bettering the social situation. Table I illustrates these educa-

¹Ibid., p. 33.
²Ibid.
³Ibid.
tional deficiencies.

If there is anything in Latin America which is scarcer than money, it is educated and trained people. "Illiteracy in Latin America is not due so much to lack of school houses as to the lack of teachers." 1 Especially significant is the lack of native economists.

... it could hardly be expected that economists of the great countries, absorbed by serious problems of their own, should devote preferential attention to the study of those of Latin America ... the study of Latin American economic life is primarily the concern of its own economists. Only if this regional economy can be explained rationally and with objectivity, can effective proposals for practical action be achieved.2

The "modern" generation believes that it is essential that Latin America become capable of managing its own destiny. In their view, self-contained and independent Latin America has progressed too far to be kept "subservient"—politically, economically, culturally—to any foreign country or countries.

Income Distribution, Employment, and Unionism

One of the main problems that must be resolved in Latin America is the distribution of income. The secular rise in prices due to the general inflationary process has placed high profits in the hands of small groups, and these have been invested in non-essential articles of the kind usually related to high incomes. Although it is true that in some economies great disparities in the distribution of income have contributed toward the accumulation of capital and technical progress, in Latin America these opportunities have been too frequently lost,

1 Ibid.

2 Economic Commission for Latin America, op. cit., p. 7.
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<td>3.0</td>
<td>1.2</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>1950</td>
<td>89</td>
<td>10</td>
<td>0.4</td>
<td>0.2</td>
</tr>
<tr>
<td>Ecuador</td>
<td>1950</td>
<td>69</td>
<td>27</td>
<td>3.0</td>
<td>1.2</td>
</tr>
<tr>
<td>El Salvador</td>
<td>1950</td>
<td>85</td>
<td>10</td>
<td>3.3</td>
<td>0.8</td>
</tr>
<tr>
<td>Guatemala</td>
<td>1950</td>
<td>87</td>
<td>11</td>
<td>1.0</td>
<td>0.8</td>
</tr>
<tr>
<td>Haiti</td>
<td>1950</td>
<td>92</td>
<td>6</td>
<td>1.8</td>
<td>0.1</td>
</tr>
<tr>
<td>Honduras</td>
<td>1950</td>
<td>88</td>
<td>11</td>
<td>2.8</td>
<td>0.3</td>
</tr>
<tr>
<td>Mexico</td>
<td>1950</td>
<td>40</td>
<td>54</td>
<td>4.9</td>
<td>1.8</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>1950</td>
<td>84</td>
<td>14</td>
<td>1.4</td>
<td>0.9</td>
</tr>
<tr>
<td>Panama</td>
<td>1950</td>
<td>55</td>
<td>38</td>
<td>5.9</td>
<td>1.4</td>
</tr>
<tr>
<td>Paraguay</td>
<td>1950</td>
<td>75</td>
<td>23</td>
<td>2.1</td>
<td>0.7</td>
</tr>
<tr>
<td>Venezuela</td>
<td>1950</td>
<td>73</td>
<td>22</td>
<td>2.8</td>
<td>1.7</td>
</tr>
<tr>
<td>United States of America</td>
<td>1950</td>
<td>12</td>
<td>55</td>
<td>25.0</td>
<td>7.3</td>
</tr>
</tbody>
</table>


*The percentage report for men 25 years old.
Corrupt government, low economic development, explosive growth of population, and widespread unemployment perpetuate general poverty in the Latin American countries where the population has long existed at a starvation level. "Of every one thousand children born in Guatemala, about one hundred die before they are one year old. . . . There is one physician for every 10,000 inhabitants."¹ The enormous differences in the standard of living create a vast social gap between labor and management that will take a long time to be closed, and in countries that have recently had an economic boom this gap has been widened.

Raul Prebisch, former Executive Secretary of the United Nations Economic Commission for Latin America, estimated the rate of economic growth in Latin America was only 1 percent per year. He explained the low rate as follows:

One, the rate of saving is low; two, the land tenure system is a terrible handicap; three, the continent suffers for lack of trained manpower and insufficient use of manpower; four, everywhere there is a misuse of capital.²

The population of Latin America is unevenly distributed over the continent, there are some regions with very little population, some regions are still unexplored, and some overcrowded cities face the same urban problems as the big cities in the industrialized countries.

It is difficult to get statistics on the rate of employment in Latin American countries, but, in general, it can be said that there is a high percentage of unemployment and underemployment. One of the reasons is the production of undiversified goods that causes a large seasonal unemployment. The problem is even more difficult because the population is growing

²Cited in *ibid.*, p. 5.
more rapidly than new jobs are being created. A large number of Latin Americans fall within the complex category of "disguised unemployment." These are the masses of people going around the streets selling every kind of cheap merchandise, lottery tickets, pocket combs, and the keepers of innumerable stores with less than five dollars' worth of business. Moreover, the long and bitter heritage of forced labor not only wiped out "more than half of indigenous population during the first century of the Conquest," but was accompanied by cruelties which are still remembered.²

At the end of the 19th century some mutual benefit societies were created to help workers. These societies were composed primarily of artisans. After the starting of industrial development, these societies were replaced by "protest oriented" associations. Finally "in the early part of the 20th century, the combination of European immigration, increasing industrialization, and the passage of protective labor legislation . . . resulted in the gradual establishment of 'genuine' labor unions."³ But only in the 1940's and '50's could they succeed in openly organizing the labor movement. Their development has been bloody on a scale that is difficult to comprehend. "3,000 Chilean strikers were shot down by machine gun and artillery fire in a 1925 strike."⁴

Other factors which have hindered the development of the labor movement include: the late appearance and low development of industrialization, the undiversified economies, feudal relationships and traditions, autocratic and paternal-

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¹Ibid., p. 7.
²Ibid., p. 13.
⁴Ibid.
istic employers, a tendency for unions to attract and tolerate demagogic leadership, radical and conflicting ideologies, and the poverty and the ignorance of the workers.¹

Various political ideologies deeply influenced the Latin American unions from the beginning, such as Anarcho-Syndicalism and Socialism. Introduced in the continent mainly by European immigrants, these ideologies were particularly strong, and Socialism is still potent. When the Latin American labor organization split after World War I, Communism was introduced. This new force, different from the first ideologies, influenced Central America too. The rapid and extensive spread of the movement is probably due to the fact that the propaganda of Marxist ideas was not left to simple immigrants, but was carried on by professional Russian agitators. When the American stock market fell in 1929, the economies of the Latin American countries, being based mainly on international trade, suffered severely. The Communists took advantage of this by playing on the people's anger against the "capitalistic northern regions."

The peak of this influence was reached after World War II when the Communists got to the top positions in all the labor unions. Soon afterward, however, new forces started opposing this extreme Left tendency. The U. S. started to financially support these countries. There were various splits between the Socialists and the Communists, and the "Communist leaders' adherence to the party line forced them into such contradictory stands on local and international issues as to discredit them and their followers."² These recent factors helped to decrease the status of the

¹Ibid., p. 15.
²Ibid., p. 20.
Communists in many aspects of national life. The position of Marxism is still helped by the feeling of sympathy of many toward the Cuban Revolution. The Russians are training some of the young Latin American leaders, with the result that "Communism in the Latin American labor unions is indeed far greater than affiliations and appearance would indicate."\(^1\)

In talking about Communist influences, it is interesting to see what alternatives are offered by "Centrist" political groups—those in the middle between the established oligarchy and Castro-type Marxism. For example, the bishop of Rio de Janeiro once declared that "the Church's main fight in Latin America was not against Communism, but against the selfishness of the rich."\(^2\) For the first time, the church, according to the basic Christian principles of equality and justice, offers to the young and impatient generation a way different from the traditional conservatism and medieval institutions.

No one with any pretension to a social conscience nowadays supports the "status quo" in a continent where five percent of the population is responsible for one-third of all personal expenditures, or which supports fetid slums like the "ranchos" in Caracas, the "villa miseria" of Buenos Aires, etc.

\[\text{Industry}\]

To remove the old social institutions, it is necessary to create a middle class that will constitute the base for a truly democratic country. In recent years this need has become even more pressing, and is supported

\[^1\text{Ibid.}, \ p. \ 21.\]

\[^2\text{H. O. Shaughnessy, "South American Solutions," Spectator, CCXI (July, 1963), 75.}\]

\[^3\text{Ibid.}\]
by a general sentiment of "New Nationalism." This movement started as a protest against the fact that in Latin America the mines, forests, and many of the best lands have been exploited for centuries by foreigners, and nowadays even some of the public utility services are in the hands of foreign enterprises. Even in the transportation system they had financed the roads and railroads that were used to transfer the raw material that they needed to the border. This makes it even more difficult to resolve the institutional problems of the Latin American economies.

Recent economic plans of industrialization have been carried out in the different countries in order to resolve problems inherited from the colonial times that can be reassumed in large landed estates (latifundia), isolated and impoverished rural communities, and personalistic leadership in politics by the Men-on-horseback (caudillismo).  

But the second goal of these plans is to reduce financial and economic dependence on the industrialized countries. That is to diversify, for the risks of specialized raw-materials economies had been clearly demonstrated. In fact, "the high degree of economic specialization which characterized Latin American economies has brought periods of great prosperity . . . and produced periods of crisis."  

George Wythe, in his book *Industry in Latin America*, divides the industry of the continent into three types:  

1. Industries processing local raw materials to be exported as semi-manufactures,  
2. Industries that provide goods and services for immediate domestic use.

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2. Ibid., p. 7.  
3. Ibid., p. 11.
3. Factories that produce finished manufactures, primarily for domestic consumption.

The products of the first group are the ones used for export, and they are definitely the most important ones in the Latin American economies. They are successful in the international market because of the abundant supply of natural resources, and the low cost of labor, which permits a low selling price. Instead of exporting these products in crude forms, the local process of industrialization could be initiated by starting to manufacture them. But usually heavy investment and mechanized plants are needed. The second type includes enterprises which produce the goods and services used to meet the immediate needs of the community, such as machine shops for railways. They have such a direct application that they do not need to be protected by tariffs. The third group depends mainly on imports, and is the one that, at the infant industry stage, needs the biggest protection against foreign competition. The tendency to improve the manufacturing process and extend it to include all the operations from the raw material to the completed product must be supported.

Once the industrialization process is started, after a certain minimum stage, it will increase in an automatically widening circle, because every new business will create some external economies, such as roads, trained people, and general facilities, that will make it easier for other businesses to be developed. "The extension of Latin American industry is not usually accompanied by any great specialization as yet. One may find plants that produce an astonishing variety of articles."¹ Manpower must generally be better utilized to improve productivity and income, but this must be done without sacrificing exports that still remain the main source of capital.

¹Ibid., p. 16.
CHAPTER III

UNITED STATES CAPITAL FLOW TO LATIN AMERICA

During the nineteenth century, capital and labor moved to Latin America mainly from Europe. European capital was attracted to the temperate zones of the region from whence imports of primary products necessary for domestic industrial growth could be obtained.\footnote{Gunnar Myrdal, \textit{An International Economy} (New York, 1936), p. 38.} Capital was furnished usually through the purchase of bonds and equities, and was channelled mainly into agriculture and urban real estate.

In the normal case, these investments did not contribute much to the development of the region, for they created "enclaves" that were not integrated into the economy of the host country.\footnote{Benjamin Higgins, \textit{Economic Development: Principles, Problems and Policies} (New York, 1952), Chapter 12.} Consequently, the level of living of the local population was not improved by the presence of foreign capital. "The colonial native were extremely poor and were not employed very productively; to take them on low wages for unskilled work was for the enclave builders simply to exploit the natural resources."\footnote{Myrdal, \textit{loc. cit.}} A large share of European capital went into the region in the form of loans to the colonial governments for public utilities.

First the World War I, then the Great Depression of the 'thirties had an adverse influence in the international capital market. Private investments and loans from Europe decreased to a great extent, and the United
States officially assumed the role that England had previously held as the world's supplier of capital.

Capital Targets

In Latin America, as in all underdeveloped countries, capital is lacking. This is due to the fact that low per capita income does not permit a high percentage of saving. The few high income groups in Latin America prefer to spend money in luxurious living or in investments abroad rather than in productive activities at home. Proper tax reform could make available some of this capital for national economic growth, but could not resolve completely the problem of the lack of investment funds. Foreign capital is consequently very much needed.¹

There are two ways to estimate the capital requirements of a country. The use of both of them presents problems in the case of Latin American countries, where economic information is lacking or imperfect, and where very often the social and political variables, that are not measurable numerically, are determinant.

The first technique has been called the "capital-labor" approach. It is used on the conviction that industrialization is the key to economic development. It assumes that "for each person added to nonagricultural employment, a given amount of additional investment will be required."² Knowing the rate of increase of active population that cannot be employed in agriculture, and knowing the additional investment required to employ it in


other fields, we can determine how much capital is needed in the region.\(^1\)

The second technique consists in determining the ratio between net investment and the increase in production—a ratio which is usually quite stable. If we know how much the income should increase, we can determine the amount of capital needed for the development of the region.\(^2\) The following table, based on the first system, gives an approximate solution to the problem of capital requirements for the development of the Latin American countries.

**TABLE 2**

**CAPITAL REQUIRED BY THE LATIN AMERICAN AREA IN INDUSTRY AND AGRICULTURE TO RAISE ITS NATIONAL INCOME PER CAPITA BY 2 PERCENT ANNUALLY**

<table>
<thead>
<tr>
<th>Population mid-1943 (millions)</th>
<th>158,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exceeded rate of annual population increase 1950-1960 (percent)</td>
<td>2,250</td>
</tr>
<tr>
<td>*National income</td>
<td>24,000</td>
</tr>
<tr>
<td>Domestic savings</td>
<td>1,990</td>
</tr>
<tr>
<td>Needed for:</td>
<td></td>
</tr>
<tr>
<td>Industrialization</td>
<td>1,580</td>
</tr>
<tr>
<td>Agriculture</td>
<td>960,000</td>
</tr>
<tr>
<td>Total needed</td>
<td>2,540</td>
</tr>
<tr>
<td>Deficit</td>
<td>550,000</td>
</tr>
</tbody>
</table>

*The figures for the remaining entries are in millions of dollars.*


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\(^1\)Ibid.

\(^2\)Ibid.
There are various problems regarding the possibility of putting this technique into practice. First of all, it is difficult to determine what is the net domestic saving, since information on the economies of the Latin American countries, even if they are improving, is not very reliable. Secondly, it is difficult to decide how much is needed respectively for industrialization and agriculture, especially without national and regional planning. The data of the table are quite outdated because they are based on 1949 experience. The fifteen ensuing years have brought into the Latin American situation important changes, but at least the table above indicates some of the techniques that can be used to set the capital target for Latin America. Obviously, it is very important to know how much capital is needed to map out a good investment policy. The target will also help the Latin American countries create a favorable atmosphere in the coordination of their efforts toward economic development. 1

To decide how much capital is needed, it is also important to determine the absorptive capacity of capital introduced into the region. This capacity depends mainly on the existence of sufficient infrastructure, and the presence of skilled labor and a mature entrepreneurial class. Because of the lack of these basic elements, Latin America's capacity for absorbing capital is quite low. 2

It is not only a matter of deciding how much capital is needed, but also who is to provide it and how. Capital can be furnished to the under-developed countries by private investment, public investment, or by international agencies. In this chapter we shall be particularly interested

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in the help that the United States can give to Latin America bilaterally, through private and public investment.

Role of U. S. in Latin America

Private Investment. The role of private direct investment in the economies of underdeveloped countries is quite a controversial matter. This is particularly true in the case of the Latin American countries and their powerful neighbor. Unfortunately, too often the matter has been used as the subject of propaganda, with resultant lack of objectivity on both sides of the border. The spectrum of different opinions on the role of private foreign investment is so broad that it is quite difficult to present simple facts without getting involved in political philosophies. It seems, anyway, advisable to develop some kind of criteria to examine the role of United States private investment in Latin America. The following criteria are not expected to miraculously resolve the controversy, but they may assist in approaching it less emotionally.

Professor A. Y. C. Koo, in an article in the Review of Economics and Statistics, outlines four ratios which may be used. These ratios are:

1. The percentage of local payments per sales dollar;
2. The proportion of local sales to total sales;
3. The rate of plant replacement;
4. The ratio of inflow to outflow of funds.¹

The first ratio responds to one of the major objections in the fact that only part of the funds are spent in the host country. In this way

the one who profits from the investment is not the national economy, but
the investing country. This usually happens when the factors of production
and personnel are imported. In fact, if there is no positive increase of
wages, supply of local products, and local personal income, the advantages
of the investment are quite limited.

Of course, one may argue that the income generated by the local
payments depends not only upon the amount (multiplicand) but
also on the multiplier. For example, a dollar paid to a local
producer might have a negligible multiplier effect on the economy,
largely because he has to spend a high fraction of the dollar for
imports that go into the equipment which he sells. On the other
hand, a dollar paid to a worker might have a very large multiplier
effect on the economy because he consumes whatever he earns and
spends the dollar on local products.¹

Foreign investments differ, and it is difficult to generalize about them.
This is particularly true of the Latin American countries. By ranking the
different industries on the basis of determined ratios, it will be approx-
imately possible to see which are the most advantageous to the development
of the region.

The Latin American countries generally have difficulties in providing
the foreign exchange necessary for the imports. It is also evident that
foreign exchange is more and more needed to satisfy the increasing demand
for consumer's goods that for the moment have to be imported. In the light
of these facts, it is necessary to determine how much the direct foreign
investment can help in providing foreign exchange. This can be seen in
using the second ratio of Professor Koo: "proportion of local sales to
total sales."

Certain industries serve primarily to the domestic markets in
terms of their sales, yet they contribute to the provision of

¹Ibid.
foreign exchange through replacing import substitutes. . . . Furthermore, W. A. Lewis has shown that when foreign capital is confined to the industries or crops primarily for export when an unlimited supply of labor (and other resources relative to demand) is available at subsistence wage rate, the benefits of such investments accrue chiefly to the importer of the goods, and not to the host country.¹

When this ratio is very unfavorable to the host country, it does not mean that the foreign investment is completely negative, since the first ratio could still be positive. In fact, the investment could cause an increase in employment and taxes. Very likely there would also be an increase of knowledge of modern industrial techniques for the less skilled national personnel. Unfortunately, this effect of foreign private investment, which is one of the most valuable, is very difficult to measure and be ranked.

In the industrial growth of an underdeveloped region, such as Latin America, it is obvious that an expanding industry will contribute more than a stagnant one. It will be an active force in bettering the economic situation of the country. One way to check if a firm is growing, or if, on the contrary, it is in a crisis, is by examining how much is spent for depreciation and depletion, and how much is spent for new plant and equipment. This is the third ratio suggested by Dr. Koo.

For example, if a firm adds to its plant new equipment and facilities in an amount roughly equivalent to the depreciation charges, then it is a mature firm, to use the language of a financial analyst. On the other hand, a growing firm will add more to its physical assets than its depreciation charges, and vice versa for a declining firm.²

In the last case, as the author recognizes, it is not clear what depreciation

¹Ibid.
²Ibid.
is. If it is considered on the basis of the initial costs, it will not register the effects of inflation that in different degrees are always present in Latin America. Consequently, it could be that annual replacement is higher than depreciation without implying that the firm is expanding its capacity.

Because of the extreme lack of capital that the underdeveloped countries are facing, it is important to check what contribution a firm gives to the increase of inflow of capital in the host country. The ratio used in this case is between inflow and outflow, with the latter including payments of dividends and remitted profits.

These four criteria can be used to judge the industries in which United States investment brought the most advantage to the economies of Latin American countries. While the data presented in Table 3 present an outdated situation of private U. S. investments in Latin America, the tendencies of the various industries remain; and the ranking, generally speaking, is still valid.

Investment Revolution in Latin America

The pattern of foreign investments in Latin America in the nineteenth century and beginning of the twentieth caused a host of political problems. It was partly the root of the resentment that caused, in a way, the later nationalization of American big business, accused of exploiting natural resources. Upon the different economic experiences of the two American regions depends the different way in which the ethic of nationalization is accepted. In the United States, economic development was not based on the exploitation of people, but on the exploitation of natural resources by skillful entrepreneurs assisted by ingenious scientists. "True" capitalism
<table>
<thead>
<tr>
<th>Industry</th>
<th>Local payments Total sales</th>
<th>Local sales Total sales</th>
<th>Depreciation &amp; depletion Plant and equipment expenditures</th>
<th>Dividends and remitted profits Total fund</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% Rank</td>
<td>% Rank</td>
<td>% Rank</td>
<td>% Rank</td>
</tr>
<tr>
<td>Agriculture</td>
<td>87.59 2</td>
<td>19.91 4</td>
<td>82.14 4</td>
<td>44.30 3</td>
</tr>
<tr>
<td>Mining and smelting</td>
<td>75.79 4</td>
<td>14.29 5</td>
<td>16.00 5</td>
<td>53.79 4</td>
</tr>
<tr>
<td>Petroleum</td>
<td>68.75 5</td>
<td>48.18 3</td>
<td>57.58 3</td>
<td>58.19 5</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>77.97 3</td>
<td>94.09 2</td>
<td>46.43 2</td>
<td>14.98 1</td>
</tr>
<tr>
<td>Public utilities</td>
<td>116.86 1</td>
<td>99.67 1</td>
<td>30.77 1</td>
<td>20.41 2</td>
</tr>
</tbody>
</table>

is based not only on efficiency in production, but also on a sense of responsibility toward society on the part of businessmen. The basic goal is to produce the best product for the cheapest price in the consumer's interest. In this situation the United States Government did not need to control tightly the economic activities of the businessmen, because their activities contributed to the improvement of the public welfare. On the contrary, Latin American businessmen and landlords frequently do not, in their economic activities, present the same characteristics of "fair play."

It might not be incorrect to say that the United States has an individual approach to economic activities, while the Latin Americans have a more collective one. The United States considers nationalization as a terrible evil, while the Latin Americans generally consider it justifiable in some particular cases. Examples of such "particular cases" include the petroleum companies in Mexico and the tin industry in Bolivia.

It must be noticed that in some Latin American countries, the power of certain foreign enterprises was more potent than that of the government, with the result of a high degree of political interference. In reaction to this situation, there has been a long period of hostility to private foreign investments in Latin America. This has occasioned a great fear on the part of the U. S. investors, especially considering the "nationalization ethic" of the region.

A very important change is taking place now in the policies of the

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2 Ibid.
Latin American republics, in spite of what many seem to believe.\(^1\) The change is related to the industrialization programs undertaken in the region recently, in which private capital is playing an important role. In different degrees all the Latin American countries are trying to diversify their economies in order to be less dependent on foreign economic powers. In order to do this, however, they recognize the need of foreign capital. Yet, the Latin countries no longer are willing to accept such help if the cost is political interference and the exploitation of natural resources for external use.

These countries rightly think that if their economies are to be balanced, all sectors have to cooperate toward the same goal of national development. If foreign investors wish to enjoy the favorable conditions offered by an expanding economy, they will have to work in line with the national economy, even if they are more externally oriented.

Three principles to be followed by the foreign investor might be set:\(^2\)

1. Strict conformity with the legal structure of the host country;
2. Adjustments to the local social environment;
3. Effective contribution to the economic development of the country.

These conditions are not intended to restrict the entrance of foreign private capital in the area, but are simply some of the measures considered necessary to make the economic environment more favorable for profitable investments, both national and foreign.


Our viewpoint is that a healthy, stable, and dynamic economy is the best stimulus for generating investment and increasing the flow of foreign capital. The opposite condition, that is, an unstable economic system built on weak support or on a stage of stagnation, will be viewed with distrust as a good place for business, even though artificial measures are taken to attract foreign investments.¹

By adopting the three principles indicated by the young Mexican economist, domestic and foreign capital will cooperate with the highest reciprocal advantage. One way of doing this is through the combination in the same firm of the two kinds of capital. Public opinion would accept it more readily, and the effect on local entrepreneurs and workers will be greater.²

If Latin America succeeds in the programs of industrialization, the possibilities of productive investments will increase. Investments in public utilities and agriculture will be automatically outdated as other fields present higher productivity rates. Among these new possibilities is the production of manufactured goods—which are prerequisites for the substitution of imports that the Latin American countries are looking for. In this field, foreign capital and skill are sorely needed. If foreign investors are willing to accept the three conditions presented above, they will be welcome; they will use the same facilities and incentives as the national investors. This encourages cooperation for the growth and stability of the host economy; as a national middle class will be formed, decision and risk taking will be decentralized, and more efficiency will be guaranteed by a healthy private sector.³

¹Ibid., p. 3.
²A. Crespo, Notes from classes given for the course "Economic Problems of Latin America," Spring Quarter, 1964, Universidad de las Americas, Mexico, D. F.
Policies toward foreign investment differ among the Latin American countries. The investor must study the legal framework of the different republics in order to find out the possibilities offered to the private sector in each. On the other hand, the governments have the duty to make their policies clear so the investor will be able to know what to expect without fearing sudden nationalization and discrimination. Confidence must be re-established if the recent declines in private foreign investment in the Latin American region are to be reversed. At the same time, foreign investors should understand that there are some fields in which it would be dangerous to invest, both for economic and political reasons. Usually, these fields are specified and are related to public interest industries.\(^1\)

Foreign capital consequently will go:

1. Where there is no danger to foreign investment;

2. Where the marginal productivity of a dollar invested will be the highest.\(^2\)

Usually, the highest returns will be offered in the areas where there are markets sufficiently broad to absorb the production. Brazil, Mexico, Peru, and Venezuela are offering for the moment the best possibilities for private investments. If Latin American markets will abandon national boundaries and be enlarged on a regional scale, also the other republics will offer a favorable climate for foreign investment.

The foreign investor will have to use different production methods than the ones usually adopted in the United States. For instance, in Latin

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\(^1\)Teichert, *op. cit.*., p. 224.

America there is a great supply of cheap labor and shortage of capital; consequently, United States labor-saving techniques, with intensive use of capital, are not always advisable.\(^1\)

United States Public Investment in Latin America

Underdeveloped countries can be helped on the road toward development by providing them the capital inflow that normal market incentives are not able to furnish. This form of cooperation takes the name of "aid."\(^2\) In the last few years the United States has been one of the major sources of capital for the Latin American countries.

It is difficult to find a single motivation for foreign aid programs, but it is possible to list some of the most important motives. These are humanitarian, economic, and political.

Humanitarianism is a "natural" tendency of the American people. It is part of their cultural history, and is now present in United States foreign policy. Programs such as the Peace Corps show this clearly. American students with a very high degree of altruism go to give person-to-person aid to the people of the underdeveloped countries. Through this personal contact, they bring technical assistance and help to develop important social functions.\(^3\)

Obviously, the foreign aid program is not based only on humanitarian reasons; there are also very important economic considerations. The basic one is that if the Latin Americans will develop and reach high income levels,

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\(^1\)B. Delworth Gardner, interview at Utah State University, Logan, Utah, July 2, 1964.


\(^3\)Powelson, op. cit., p. 232.
they will become the best customers of United States products. Even when the development is not yet achieved, the United States will have an economic interest in foreign aid, as the funds will be used to buy mainly United States-manufactured goods.

A third motive is politically related to the Cold War. Foreign aid to the underdeveloped countries is becoming one of the most effective modern weapons in the confrontation between the two world giants. This problem will be examined later in the specific case of Alliance for Progress.

The goal of aid programs for underdeveloped countries is "to accelerate their economic development up to a point where a satisfactory rate of growth can be achieved on a self-sustained basis." It is a matter of increasing the speed of growth, not the substitution of the effort made by the countries themselves in national development. If the purpose is an increase of speed, the results should not be measured on the basis of the increase in per capita income, but on the basis of the capacity of "mobilizing additional national effort." Consequently, though the results of the funds given may be difficult to see, this should not undermine the effort, but only creates political problems of impatience. In underdeveloped regions, such as Latin America, foreign aid has the task of building the social overhead capital necessary to create the absorptive capacity of the region.

Aid can be given in the form of loans, grants, and sale of surplus products. The loans can be long-term loans or soft loans. The first usually

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1 Rosenstein-Rodan, op. cit., p. 107.
2 Ibid.
3 Ibid.
have to be paid back in more than ten years in "hard" currency, while the
ones can be paid back in local currency, usually in a longer period of time.
In spite of what people usually seem to think, there is a great difference
between loans and grants. Grants are simply donations, and do not require
payments of interest.

Since the absorptive capacity determines how much capital flow is
required in the region, "the capacity to repay" ought to help in deciding
which kind of aid to use. In fact, where the capacity to repay is below the
absorptive capacity, more grants than loans ought to be given.¹

The last kind of aid is the sale of surplus products--capital and con-
sumption goods--for local currency payments.² This kind of aid is particularly
advisable when the demand for these goods is higher than the local supply.
It will save precious foreign exchange. On the matter of sales of surpluses,
some underdeveloped countries have criticized this type of assistance, stating
that they consider it as an unfair form of competition. This criticism has
often been made with respect to sales of agricultural surpluses.³ Usually,
the local currency that the United States gets from the payments of these
sales is put into development programs. That is why the program of selling
agricultural surpluses is called "Food for Peace."

Export-Import Bank

The history of the United States foreign aid program is very much
related to the domestic situation. In fact, the first international econ-

¹Ibid.
²Powelson, op cit., pp. 239-43.
³Ibid.
omic assistance was given through the Export-Import Bank, which is primarily an agency created to finance United States international trade. It is now the main institution through which the United States has been giving aid to the Latin American countries on a bilateral basis.

The Export-Import Bank came into being when the United States exporters were facing problems created by the Great Depression. The Export-Import Bank was created on February 12, 1934, as a government financing agency. United States sellers were at that time facing the problem of the impossibility of selling capital and other goods, without providing credits to the foreign buyers. The same difficulties of trade were present after the end of World War II, when United States industry faced excess capacity, and the buyers in foreign countries did not have enough foreign exchange to buy the goods. "Post-war grants and loans generally provided the funds so that the United States trade continued at a high level." The first loan of the Bank was given to Cuba to purchase $4 million of silver bullion from the Philadelphia mint. At the beginning, the Bank was intended only for trading with Cuba and Russia, but it was soon enlarged to trade with all the other countries. The activities of the Bank were not only to provide facilities for the purchase of consumer's goods; a very important project was financed in Brazil in 1939, consisting of a loan of 45 million to buy the capital goods necessary for the construction of a steel mill at Volta Rodonda. This investment induced others in the region, which became one of the most industrialized areas of Brazil.

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2 Ibid.
3 Ibid.
4 Powelson, op. cit., p. 224.
After the end of World War II, loans were given by the Export-Import Bank to Latin American countries for the construction of roads, the purchase of heavy transportation equipment, and other capital goods necessary for economic development. From 1934 until 1961, the Bank had given to the Latin American countries credits to an amount of $3,461,170,000.
CHAPTER IV

ALLIANCE FOR PROGRESS

The Alliance for Progress will be examined principally in its political aspect, as the political problems involved with the new program for Latin America are a determinant part of it. It would be difficult to understand the difficulties that the Alliance is now facing without finding their roots in the international political situation.

As it shall be proved, for the Alliance for Progress, the solution of economic problems very often depends upon political realities. These sometimes undermine the possibility of efficient solutions. An economic approach to development based upon scientific methods could be very useful in setting the necessary priorities for sound growth. Unfortunately, this is only a marginal goal of the Alliance for Progress. The main one is to fight Communist infiltration in the region. To understand the problems involved with this situation, it is necessary to examine the political relations between the United States and Latin America.

United States and Latin America

It is impossible to fully understand the meaning of the Alliance for Progress without examining the relationship between the United States and the Latin American countries. A combination of historic and geographic factors joined the destiny of these two big regions of the world.

All the countries that played a role in the economic history of Latin America have tried at different times to introduce a new way of life and new sets of values. This has been particularly true in the case of the
United States, whose influence is not always accepted because of the strong nationalism of the Latin American people. Moreover, many Latin Americans feel that they are often treated by their northern Anglo-Saxon neighbors as inferior. Professor F. Tannenbaum reports:

Our difficulties in Latin America are not merely economic and political. They are moral. We treat them as lesser people. We can not really help ourselves, and we can not conceal it. Latin Americans sense it in every gesture and attitude. That is why the United States is watched with an unhappy sense of inferiority.¹

The problem is that on both sides of the border, the people tend to take fixed images for granted. For the North Americans, it is sometimes difficult to accept that some "democratic" values that are natural in the United States can be found with difficulty in the countries of the southern hemisphere. On the other side of the border, many think "that it is tragic that the nation that first repudiated colonialism ... should in Latin America be looked upon as a friend of tyranny and a support of dictatorship."² It is important to remember that the kind of democratic institutions that the United States enjoyed for a long time are still at an infant stage in Latin America and still need to be protected against traditional reactionary forces.

Thus, for example, the fight of the Latin American republics against the impact of international prices fluctuations on their economies, by protectionism and industrialization, represents only a drastic attempt to rid themselves of the leftovers of a colonial economy. It is not, as many people might think, an experiment of new economic systems of objectionable socialist tendencies.³

¹Frank Tannenbaum, "The United States and Latin America," Political Science Quarterly, LXXVI (June, 1962), 161.
²Ibid.
³Pedro C. M. Teichert, op. cit., p. 189.
Latin America is now at a point where many of its institutions have to be changed to meet the needs of the people. For this reason, Latin Americans appear to resent the position of supporter of the status quo that the United States, in appearance, has often taken.

The inconsistency between the great traditions of freedom in the United States and their policies toward Latin America is one of the main difficulties in inter-American relations. Necessary reforms in the economic and social system in Latin America have sometimes been slowed down by the very people supported by the United States.

... conservative currents, which often regard the United States politically as an ally, are most often based upon social groups hostile to modernization and industrialization, tendencies which the United States business represents, while the younger and more modern Latin American business groups, though accepting many ideas of the United States business, are in sharp competition with it.¹

This national force of modernization must be reckoned with, and this will be done only if the United States shifts from the present alliance with groups interested in maintaining the status quo to groups representing the progressive forces of the region. This "revolution of alliances" is difficult because of the "explosive rhetoric of Latin American radicalism," but it seems to be the only way left to isolate the traditional conservative groups of power.²

The present situation is perhaps to be expected, since the United States is represented in Latin America mainly by "big business."

Nearly all the United States' direct investment in Latin America has come from 300 large corporations. ... The political consequence, ... is that not only business, but the largest corporate business becomes the face of the United States.³

²Ibid.
³Ibid.
United States investments are too tied with the present order to accept the
danger of a social change. If we add to this economic danger the traditional
fear of "radicalism" in the United States, we can better understand the
reason why the nation, even if it is strongly against dictatorships, often
supported them because they were anti-Communist.

We were opposed to communism, but Trujillo, Perez, Jimenez, Batista, Rojas Pinilla, Peron, and others were opposed to democracy. And we to our—what would be the right word?—bewilderment, confusion, perplexity, shame, found ourselves supporting governments violating the Bill of Rights and imposing on their citizens every devil and doing it in the name of defense of the free world and in opposition to communism.¹

Many Latinos who are friendly to the United States believe that the American policy involves a too simple classification between democrats and communists, between dictatorship and free government. Dictators' enemies are not necessarily enemies of the free world; they might very well be real democrats—America's best allies in the struggle for a free world. If it is right to be against Communism, it is also important to make very clear one's love for democracy.

Because it is a period of rapid social change, our doctrinaire opposition to communism tended to identify us with the supporters of the status quo; ... the identification of fixed anticomunist ideology with tyranny became so clear in Latin America, that professional anticommunists came to be looked upon as agents of tyranny.²

The United States' struggle against Communism would have much more enthusiastic followers if, in Latin America, it would be accompanied by a clear and definite support of democracy. This would also avoid the risk of being

²Ibid., p. 168.
accused of supporting dictators because they favored North American business. It would elicit the support of the only forces that can effectively help in the development of the Latin American democracies.

The economic and political situation in Latin America cannot be stable until new social structures are created. In the whole region there is, in fact, what President Alberto Lleras Camargo of Colombia called "a rebellion against poverty." The solution is not necessarily found in the system of one of the two great powers.

... the cold war in Latin America is the struggle of the two different powers to satisfy the demand for social justice or to provide the hope of satisfying it. Either we shall do it with our democratic, capitalistic, free-enterprise, evolutionary methods, or the Russians and Chinese will successfully encourage non-democratic, radical, revolutionary movements based on their techniques. We, in the United States, can no longer delude ourselves about the apparently demonstrable virtues of our system compared with the supposed inefficiencies and the moral evils (by our standards) of the communist system. ¹

The struggle is not only between ideologies, but also on the base of material results. U. S. S. R. has the advantage of showing an example of recent economic development pursued without the help of foreign support. It is very difficult to balance these successes with words only. The poor peasant who is living in a hovel with barely enough food to keep his family alive, will not understand the value of democracy. He cannot taste it.

Propaganda is becoming a very important weapon in the Cold War. The two contestants use it differently.

While the United States tries to use the favor of Latin American businessmen, Army officers, and conservative politicians, Soviet efforts are directed at students, reform and labor groups ... many of our diplomats in Latin America, if they are informed at all about students' opinions, brush

it off as harmless campus radicalism; one cultural attache dismissed the attacks on Vice President Nixon in Lima in 1958 as "just like one of those panty-raids we used to have back home." But Latin American students, like those in Korea, Turkey, and Japan, are older than their American counterparts, more mature politically, and often faced with a bitter struggle to exist. . . . Seven years ago, when our government began to send tanks, airplanes and military advisors to the Batista regime, Fidel Castro was only an impressionable student of law at the University of Havana.¹

In Latin America it is necessary to stress the political structures as much as the specific problems of economic growth. The improvements in the two fields must go together. The United States in Latin America did not have this equilibrate action: the spreading effect of the American presence in Latin America is necessarily cause of pressure for change. First, because it furnishes an example of a people who are not associated with a stratified social structure; second, because of the American stress on consumer's goods. This is what Adlai Stevenson very effectively called the "revolution of rising expectations." But this inevitable force for progress is often opposed by Americans for political reasons.

We do our best to stir the appetite for the ease, comfort, luxury, and material possessions which are unattainable by the mass of the people of Latin America without a profound change. At the same time, we help the present governments sit on the lid, and when the explosion occurs we blame it upon the communists, who take the credit for being the "friends" of the people.²

To hold Communism as the only cause of social instability is too easy. The anti-Communist campaign, with the consequent alliance with "bad" dictators in the defense of the Free World, has been one of the main causes of disillusion in Western democracy in many of the younger generation.

² F. Tannenbaum, op. cit., p. 171.
This anti-Communism campaign has such deep emotional roots in the people of the United States that sometimes it is difficult to deal with the problem in a rational way.

So rigid, so overcommitted has our attitude been, and so sensitive has American opinion been upon the issue of communism, that any folly which could be classed as anti-communist could become what journalists like to call a "sacred cow," something that could not be critically mentioned.\(^1\)

The United States must "understand," must "sympathize" with the efforts of Latin American countries to resolve the problems of economic independence--must understand "the emotional tone with which such questions as industrialization, the exports of raw materials, and foreign investment are discussed, even if they are so far from the economic system of the United States as to sound unreal."\(^2\) On the other side, the Latin Americans have a lot to learn about the North American civilization--about the equalitarian society which has preserved civil liberties--about the broad system of economic security coupled with political freedom.

**Alliance for Progress: A Peaceful Revolution**

A complete change in the relations between the United States and the nineteen Latin American republics has been brought about by the Alliance for Progress. This new program for the development of Latin America was presented officially by the Kennedy administration in 1961, but was prepared a long time before by the circumstances occurring both in the United States and in Latin America.

It is very important to examine carefully the motivations that deter-

\[^1\text{Ibid.}, \ p. \ 173.\]

\[^2\text{Ibid.}, \ p. \ 179.\]
mined such a change in United States policy. In order to do this, it is necessary to examine the lines on which the Alliance for Progress is acting to see if they are consistent with the economic and political situation, both in the United States and in Latin America.

It seems clear that the United States has accepted the fact that the different economic and political experiences of the Latin American countries require different solutions than the ones generally accepted at home. This could have an important political meaning to the program, considering the Latin American preference for finding their own solutions to the problems of their region. Programs of land reform, national planning, redistribution of income, and improving of the international trade structure are now the base of the Alliance for Progress. What the Latin American countries wanted was not aid, but cooperation, and the administration seemed willing to do this. This explains the enthusiasm with which the program was first accepted; "for the first time in our relations, an American president was able to gather wide emotional support among the large masses of the Latin American population."¹

In the enthusiasm of the first days, somebody compared the Alliance for Progress with the Marshall plan for Europe.² It is not right to draw any parallelism among the two regional experiences. One concerns a developing area that has to build up structures and recover from a colonial status; the other was an industrialized region destroyed by World War II. In the latter, the main lack was capital necessary to rebuild the factories.

In the other, some of the elements lacking are education, technology, and advanced social institutions. Of course, there is this similarity: The United States undertook both under a fear of Communist infiltration in the Western world.

Agrarian Reforms

As previously indicated, a program of economic development must be based not only on industrialization, but also on a sound agricultural system, which Latin America does not have.

However, the system of land tenure that still prevails in most of the Latin American countries is one of the most serious obstacles to economic development. . . . Efficient use of soil depends not only upon the reform of the land tenure system, but also upon the rate of economic growth itself.¹

For historical reasons, Latin American countries present a land tenure system based on a few large "latifundia" with many small holdings. Besides being a cause of unequal income distribution, this presents problems of efficiency. The United States, on the contrary, whose agricultural system is universally recognized as the most efficient one, was able to avoid the creation of such an unfavorable structure. Partly from these two different experiences can be derived two different ways of judging the problems of land tenure. While, traditionally, the United States never looked with sympathy on any program of expropriation and land redistribution, Latin American countries have demonstrated the need of such basic reforms in their economies.

The Department of State, with the Alliance for Progress, seems to have come to grips with this problem. But, if the United States compels the

¹Prebisch, op. cit., p. 38.
various countries to carry out the necessary reforms, it will be accused of "interference"—to which Latin American nationalists are particularly sensitive. If the United States does not compel such reform, the effort for more social justice and economic development risks failure.

There must be leaders in power who believe in reform legislation, not because it opens the doors of United States treasury, but because it may lead to independence from foreign assistance of any kind.¹

Unfortunately, the position of the United States in this regard has not been made clear. The case of Paraguay is an example. On the tenth anniversary of the military coup that put General Stroessener into power, the Economist reports:

There is no political freedom in the meaningful sense of the term; . . . anybody actively opposing General Stroessener has to fear physical violence. . . . 25 families still own an area equivalent to Denmark, Belgium and Holland combined. Some foreign aid has gone into education, but it has also allowed the general to maintain an army and police force whose budget is a good deal higher than the joint budgets of public health, education, agriculture, and industry.²

The immediate United States recognition of the recent Brazilian military government is another case in point. If the Alliance for Progress fails to bring into the Latin American region substantial reforms in the land tenure system, it will have failed in a principal objective.

The necessity of basic transformation in the land tenure system has been included in the Charter of Punta del Este, which, in Section 6, Title I, says:

To encourage, in accordance with the characteristics of each country, programs of comprehensive agrarian reform leading to

¹Simon G. Hanson, "The Alliance for Progress, the First Year," Inter-American Economic Affairs, XVI (Summer, 1962), 10.

the effective transformation, where required, of unjust structures and system of land tenure.¹

In signing these words, the American government changed its traditional position toward agrarian reforms. This new orientation was the product of three factors:

1. American leaders were convinced that agrarian reform was a necessary measure.

2. American leaders made the switch for political strategy in response of the Cuban revolution.

3. The Latin American countries were, for the first time, able to convince the United States to do what they thought was best.

It is not enough to pour money into the region to resolve the problems of the agricultural system; the money has to be complemented with technical assistance. Action in this regard has been undertaken, in the framework of the Alliance for Progress, by international agencies and private institutions.

At the present time, in a dozen projects throughout the hemisphere, private North American foundations are making a marked contribution, especially in the fields of health, education, and agriculture.²

This complementary program is called "Partners of the Alliance." At the moment, 18 new projects are being carried on and some others are under study, among them: "A mission of the state of Utah, that has just returned from Bolivia, prepared a program of development of 23 points, that will be launched by state and private institutions."³

¹ Dreier, op. cit., p. 121.


³ Ibid.
These projects are particularly useful because, besides their high technical level, they help the people from both sides of the border to better understand each other. The North Americans will get directly in contact with different experiences and problems which they will have to face with realism. The Latin Americans, at the same time, will see that not all the "gringos" are representatives of large combines, and will start to see the real face of the United States and to experience the advantages of highly efficient agricultural methods.

Industrial Activities

The problems of the industrialization of Latin America will be examined later. In their solution the Alliance for Progress can play an important role. It can furnish some of the capital that, for the moment, is lacking in the region, and what is more important, help the structural reforms that are necessary to develop industrialization and to make the region less dependent on foreign economies. The funds that are made available under the Alliance for Progress program could help in bringing in a shorter time into the region the technology and the education required. This would increase the speed of the industrial revolution in Latin American countries. It is impossible to industrialize a country without having the trained people able to do it, and at the same time, it is also useless to have an intensive educational program if there are no employment possibilities.

The Alliance for Progress has to cooperate with the efforts of the other programs that are pushing industrial development in the emerging countries, such as the Free Trade Association. It is generally known that the relations between the Department of State and the Economic
Commission for Latin America have not been very good for a long time, especially on the matter of regional economic integration.

The pact of interest was also related to a negotiated attitude predominant in the U. S. toward ECLA. This organization was considered for many years by many North Americans, both in and out of the government, as an intrusion in the problems of the area, as a defender of dangerous nationalism and competitor of the organization of the American States.¹

The not always fortunate experience of the first years of the Alliance seems to have brought many lessons. Not only did the United States government solicit $550 million for Alliance for Progress for the fiscal year 1965, but also a more realistic approach was taken.²

The General Secretary of the Organization of the American States said in the third world conference held in Florida:

> We have to be realistic on the Alliance, not emotional. In between the illusionary dreams of yesterday and the disillusionments of today we can find the truth, and the proper approach to the Alliance. If we are not ready to see the truth and adapt our thought to it, we shall relegate the Alliance and our free system to oblivion.³

The main effort for the economic development of Latin America must necessarily be based on industrial activities. For the moment, industrial growth is the most dynamic factor, with the highest rate of productivity.

In the period 1956 to 1961, the rate of growth in industry in Latin America was 8 percent—twice as much as the GNP. This tendency is still a characteristic of the economy of the region and will be increased by economic integration. Nevertheless, this rate of growth is not sufficient to

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³Ibid.
guarantee to the region the increase of 2.5 percent in per capita income required by the Charter of Punta del Este.

Almost two-fifths of the funds given under the Alliance for Progress programs has gone to solve the problems of deficitary balances of payments. The balance of payments of the Latin American countries, in fact, can be used to "explain the influence of foreign transactions on the national economy." On this complex problem lies a great part of the uncertainty of the programs of industrialization and integration of the region. The Latin American countries are, in fact, particularly dependent on foreign relations with the outside world. Consequently, it could happen that a country presents an increase of domestic products without having any increase in the national income. The risk of having a negative balance of payments is particularly high in the Latin American countries that have to borrow a great part of the capital needed for their development. Very easily, in fact, interests, dividends, and paid-out profits can unbalance the already-delicate equilibrium. Almost all the Latin American countries are facing quite seriously the danger of inflation, as the extreme cases of Brazil and Chile show. Also, the deterioration of the terms of trade--later examined--is increasing the difficulties of balance of payments of the Latin American countries.

Social Activities

The Alliance for Progress is developing important activities in the field of agrarian reforms. As we have seen, one of the main obstacles


of the region is the concentration of land in a few privileged hands. Until three years ago, only three countries had undertaken the necessary policies to break down the medieval structure. But since the Charter of Punta del Este, the number of countries willing to face realistically the problem of land distribution has increased. Farming programs to increase the agricultural productivity and the living conditions of the peasants are becoming one of the goals of the Latin American governments.¹ The pressure put by the Alliance for Progress program on this matter is very definite.

The same effort toward social reforms is to be found in the programs to increase the level of education in the Latin American countries. The Alliance for Progress is very active in this field, to the extent that it has been recognized as extremely important to the development of the region. A conference on education was held in 1962. With the help of the Alliance, the Latin American governments are supposed to increase the expenditures for education from the present average of 2% to 4% of the national product.² The Alliance for Progress is also very much concerned with the improvement of the health and housing situation in the Latin American countries. It is, in fact, considered impossible to reach the goal of economic development if the population of the Latin American countries is still living in poor, unsanitary conditions. Many of the funds of the Alliance for Progress have been directed toward improving the existing state of affairs.

A $130 million emergency program has been launched in northeast Brazil to alleviate the misery of 23 million inhabitants of that area, and assistance has been made available for low-cost

²Ibid.
housing in Río de Janeiro. ¹

All these social programs are the necessary tools for the social reforms that the Alliance for Progress is trying to take into the Latin American countries.

Numerous projects have been undertaken by the Alliance for Progress, such as the long-run development plans in Bolivia, Colombia, and Uruguay. ² The Bolivian plan, prepared in cooperation with ECLA and FAO, is a "ten years plan of economic and social development." The plan has the purpose of increasing the per capita income from $80 to $165 with a total of investments of $1300 million. ³ In the period of time going from 1962-1971, an international group of experts sponsored by Inter-American Development Bank and ECLA worked for the formulation of a development plan for Uruguay.

Table 4 shows the total of economic assistance given to the Latin American countries under the Alliance for Progress.

Political Aspects

A substantial part of the funds of the Alliance for Progress go for military assistance to the governments of the Latin American republics. The main goal of this kind of assistance is to maintain the internal stability that is recognized as an essential prerequisite of economic development. In this sense, the Alliance for Progress represents another change in United States policy. It was traditional to give military

¹ Tad Szulc, "The First Years of the Alliance for Progress," World Today, XVIII (October, 1962), 414.

² Allenza per il Progresso, Studie Informazioni sull'America Latina, III (December, 1962), 67.

³ Ibid.
TABLE 4
U. S. ECONOMIC ASSISTANCE UNDER THE ALLIANCE
FISCAL YEAR 1963
(millions of dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>Total</th>
<th>A.I.D.</th>
<th>Social Progress Trust Fund</th>
<th>Food for Peace</th>
<th>Exim Bank</th>
<th>Other</th>
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<td>Latin America</td>
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<td>$125</td>
<td>$185</td>
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<td>3</td>
<td>2</td>
<td>7</td>
<td>11</td>
<td>2</td>
</tr>
<tr>
<td>Trinidad</td>
<td>4</td>
<td>4</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Uruguay</td>
<td>22</td>
<td>8</td>
<td>8</td>
<td>1</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Venezuela</td>
<td>46</td>
<td>33</td>
<td>11</td>
<td>1</td>
<td>--</td>
<td>1</td>
</tr>
<tr>
<td>Regional</td>
<td>79</td>
<td>17</td>
<td>1</td>
<td>--</td>
<td>--</td>
<td>61</td>
</tr>
</tbody>
</table>

Source: Agency for International Development, Preliminary Data

Note: Items under $1 million omitted. Note that "Regional" includes $60 million subscription to Inter-American Development Bank, $15.2 for Peace Corps, $2.4 million Rama Road.
assistance to the underdeveloped countries only for external security—that is, for the defense of the hemisphere from attacks coming from outside. The old policy principle was officially recognized by the United States Congress, in the Morse amendment to the 1954 act: "Internal Security requirements shall not, unless the President determines otherwise, be the basis for military assistance to the Latin American Republics."¹

The experience of the early 'fifties was that the military equipment provided through the assistance program had been often used for military coups. Recently, it would appear, United States officials felt that this danger was no longer serious. Thus, the military assistance program has been radically changed. "The military assistance program, that was designed at the time of the Korean crisis to prepare military units for hemisphere defense missions, has been recast to concentrate in developing mobile forces for internal security."²

The factors that determined the change would seem to have been: (a) The decreased danger of an external attack to the hemisphere; (b) the Cuban revolution. It was generally felt by the American politicians that if the United States would have changed before their military policy, giving more aid for internal security, Batista would not have been overthrown.³

The danger that the military groups will use the equipment furnished by the Alliance for Progress to seize the government is still existing in many of the Latin American countries. Actually, the better trained the

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² Quoted by Secretary of Defense McNamara, Hearings before Senate Foreign Relations Committee on S. 1276, June 13, 1963, p. 175.

army, the more the danger of a military coup. This was proved in the Peruvian experience when the generals of the military coup declared that they had enough tanks (built in the United States) to "blow down the entire palace."\(^1\) Usually, not only the tanks but also the military training of the restless generals is "made in USA." A survey of six recent overthrows of legally constituted authority revealed that most of the men responsible for the military and political achievements were graduates of United States military schools.\(^2\)

In 1962-63, as shown in Table 5, military aid for internal security was given to almost all Latin American countries. Among them, there are the most criticized dictators of the region.

This policy, obviously dangerous, involves a great deal of interference in the internal affairs of the Latin American nations. In fact, they can decide when the government is socially "secure," and when they should help to overthrow a government. In any case, the device has increased the amount of aid given to military groups.

United States officials recognize that this is not an easy policy to administer. Secretary of State Dean Rusk stated: "I recognize that the line between internal security of democratic and constitutional governments on one side and the abuse of military power on the other is a very difficult line to draw."\(^3\) They also realize that internal stability is not guaranteed by a police force but by the support of the people. As

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\(^1\) Simon G. Hanson, "Alliance for Progress," *Inter-American Economic Affairs*, XVII (Winter, 1963), 14.

\(^2\) Ibid., p. 16.

\(^3\) Hearing before the Senate Appropriation Committee on Foreign Operations on H. R. 13175, p. 310.
TABLE 5
U.S. MILITARY ASSISTANCE UNDER THE ALLIANCE,
FISCAL YEARS 1962-1963
(millions of dollars)

<table>
<thead>
<tr>
<th>Latin America</th>
<th>Fiscal year 1962</th>
<th>Fiscal year 1963</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>$132</td>
<td>$75</td>
</tr>
<tr>
<td>Bolivia</td>
<td>32</td>
<td>2</td>
</tr>
<tr>
<td>Brazil</td>
<td>42</td>
<td>17</td>
</tr>
<tr>
<td>Chile</td>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td>Colombia</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>--&lt;sup&gt;a&lt;/sup&gt;</td>
<td>1</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>--</td>
<td>2</td>
</tr>
<tr>
<td>Ecuador</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>El Salvador</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Guatemala</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Haiti</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Honduras</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Mexico</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Panama</td>
<td>--</td>
<td>1</td>
</tr>
<tr>
<td>Paraguay</td>
<td>--</td>
<td>1</td>
</tr>
<tr>
<td>Peru</td>
<td>14</td>
<td>7</td>
</tr>
<tr>
<td>Uruguay</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Venezuela</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Regional</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

<sup>a</sup>Dashes indicate less than $1,0 million

Source: Agency for International Development, reported by Simon G. Hanson, "The Alliance for Progress: The Second Year," Inter-American Economic Affairs, XVII (Winter, 1963), 89.
Senator Church stated:

... to buy the loyalty of a government with arms assistance it is either unnecessary or futile if that government rests on popular support, and if it does not, the attempted purchase is both illusory and dangerous.¹

It would seem that the $32 million given to all Latin American countries in 1962 could be used in much more fruitful ways: building schools, providing food, and financing the necessary infrastructure for industrialization. This kind of social investment would also call for additional investment within the area. Investments in tanks do not have a very high spread effect, nor do they contribute to the creation of the social overhead capital that is still lacking in the region. The suggested use of military forces for so-called "civic" services would not resolve the problem.² A school will be built better by a properly trained worker than by a soldier ready to use his gun under the command of a restless general.

Of course, the reason the United States is underwriting such a policy is to be found once again in its fear of Communism in the hemisphere. The Department of State thinks that it is better to run the risk of a policy of intervention than to risk another Cuba in Latin America. In this way, even under the "peaceful revolution" program, the United States becomes a supporter of the status quo. But most observers believe that it is impossible to prevent progressive changes. As we have already seen, it is too easy to label every revolutionary movement as "Communist."

¹Hearing before the House Appropriation Committee on Foreign Operations for 1964, p. 119.

²Simon G. Hanson, "The Alliance for Progress the Second Year," Inter-American Economic Affairs, XVII (Winter, 1963), 18.
Senator Fulbright, Chairman of the Foreign Relations Committee, presented very clearly the problem:

I think we often give the communists a lot more credit than they are entitled to, and conversely blame them for these upheavals. It seems to me that we tend to resist this revolution and give no real leadership because of conflicting interests. I have a feeling that we are led into a false analysis by our emphasizing the communist aspect. Very often all the communists do is to sympathize with the revolutionary movement and the first thing we know is that the movement is all communist, which it was not originally. We tend to make them communists by our allegations.\textsuperscript{1}

If being progressive and rebelling against dictatorships means to be Communist, the Latin Americans who love democracy will prefer to be called Communists rather than reactionaries. As revolutions in Latin American countries seem inevitable, and even desirable, the United States may find itself on the side of those who have lost the battle and are hated by the people. On the contrary, proper policies would be useful in avoiding revolution and giving the people confidence in the possibility of evolutionary changes.

Most of the money of the Alliance is administered by the Inter-American Development Bank. The activities of this bank will be examined in the next chapter. The remaining funds are distributed either through the Export-Import Bank, or the Inter-American Development Bank. The panel of 'wise men' provided under Chapter V, Point 2 of the Charter of Punta del Este, does not have much influence on the policy of the Alliance. The greater influence of the United States is inherent in the Alliance, as its economic power is more potent than all the others put together.

Many suggestions have been made to vitalize the Alliance. After the

\textsuperscript{1}\textsuperscript{ Hearings on S 1983, p. 778, quoted by Hanson, op. cit., p. 28.}
recommendations presented by ex-President Juscelino Kubitscheck of Brazil, and the Colombian ex-President Alberto Llras Camargo, the Inter-American Economic and Social Council decided to make the Alliance more "multi-lateral." The Latin American countries should have an area for the exercise of their own initiative. The newly created "Inter-American Committee for Alliance for Progress," in which there is a majority of Latin American men, will be able to guarantee a broader cooperation among the members of the Alliance for Progress.

Conclusions

Even if some of the problems of the Alliance for Progress can be resolved, there remain others that are inherent in its structure. The Alliance for Progress has been oversold in the United States, in Latin America, and on the international scene. To convince the Congress to use the money of the American taxpayers, the Administration had to assure prompt and effective results. The United States Congress agreed to undertake a revolutionary program because it thought the new initiative would miraculously resolve the aged and bitter--especially after the Cuban revolution--problems of Latin America. The Administration could not satisfy the Congress reporting only on the slow, for their nature, invisible results of social reform. It had to present sensational results, and, what is perhaps more difficult, an improved attitude toward the United States, while "the United States today, and in spite of all that it is doing that it never did before, is remarkably friendless in Latin America." The problem for the Administration became even more delicate


when some ultra-conservative groups in the United States started to talk about "socialist programs financed with United States money."

The Latin Americans were also disillusioned. They enthusiastically accepted the hand that the United States was offering. It was bringing cooperation, not only aid. The United States was finally assisting with the reforms that some Latin American "democrats" had long desired. They soon discovered that United States interference, through the Alliance for Progress, had increased. Their hurt nationalism responded with resentment. The masses of poor peasants who were supposed to get the main advantage out of the new program very often did not even see the effect of the tremendous amount of money spent.

The Alliance for Progress, of course, is not a complete failure. Every such program that is capable of improving the social situation, even if less than people expected, is desirable. But certainly the final solution has not yet been found. Latin American nations are still in different degrees at a "boiling" stage. The forces of the revolution against poverty could perhaps be canalized, but they could also explode. The Alliance for Progress demonstrated that it is not enough to put a label of "revolution" on a bottle with an old medicine to cure the disease. A revolution cannot be accomplished by the same groups that will suffer the consequences of it. But these groups, both in the case of Latin American governments and the United States, can, if they are forced to it and have the will, resolve some of the problems that make people rebel.
CHAPTER V

INTERNATIONAL AGENCIES FOR THE DEVELOPMENT
OF LATIN AMERICA

The case of Alliance for Progress demonstrates that, in spite of the best intentions, it is difficult to divide the solutions of the economic problems of Latin America from political considerations and trends. This risk is inherent in any kind of bilateral cooperation. Countries, as individuals, expect a return for every help given. And for this reason, the underdeveloped countries are suspicious that the political return required for foreign aid will be more than they can afford to promise. As Heilbroner writes, they have a right to be careful after their historical experience of colonialism with the Western countries. "Hence, the task confronting the Western World is not to maintain but to regain their historical identification with freedom."¹

Jealousy or envy is another reason for the frustration relationships between advanced and underdeveloped countries. The United States is so "disproportionally big,"² that it is difficult to do something about this unfortunate but natural feeling which is a definite aspect of Latin American resentment. "A rich and privileged nation in a poor and unprivileged world can not avoid becoming the target of hostilities and frustration."³

There is no justification for the fact that the United States has to

face the whole responsibility of defending the traditions of the Western world by itself. It is very easy to criticize the foreign policy of the United States toward development when nobody else is trying to put the same effort in trying to resolve the problems. A fair share of the responsibility could be achieved if other advanced Western countries would contribute through international organization to the economic growth of the underdeveloped countries.¹

The internationalization of the distribution of economic aid would have many advantages. It would permit an economic development policy much less influenced by national political necessities. Feelings of suspicion and jealousy would be less, because an international organization is approached less emotionally. If all the Western countries could contribute to the effort for economic development in proportion to their wealth, a higher sense of solidarity would be achieved.²

There are really no grounds at all why other countries such as the Scandinavian group, should not accept a fuller share of the responsibility for international aid. Neither is there any justification for certain countries, and in particular the United States, to shoulder such a disproportionately large part of the burden. . . . Only if we reach an international and equitable participation by governments on international aid can we hope successfully to strive for the elimination of political considerations.³

Multilateralization would also be a means of diminishing the dependence of foreign aid programs on the sympathies of particular administrations. With a broader basis of support, more money could be collected, and on a more stable basis.

¹Myrdal, op cit., p. 128.
²Ibid.
³Ibid.
Many are the problems involved in the institutionalization of the international distribution of aid to the underdeveloped countries. No country is really ready to think in terms of the interest of the world community. This is the trouble in all the international organizations existing at the moment. Foreign aid is voluntary and the various countries need to face a real necessity to accept placing the control of their external development activities in the hands of international agencies.

Before examining further the problems involved in the institutionalization of aid, it would be useful to review the activities of the international organizations that are at the moment working in connection with the development of Latin America.

United Nations Agencies

Within the framework of the United Nations, an important group of financial institutions have been created to promote the economic growth of the underdeveloped countries. All of them have to report on their activities to the United Nations Economic and Social Council. The international banks included in this group are: International Bank for Reconstruction and Development, the International Finance Corporation, and the International Development Association, all of which are separate institutions.¹

International Bank for Reconstruction and Development (IBRD). The most important multilateral financial institution, the International Bank for Reconstruction and Development (IBRD), was created along with the International Monetary Fund, at the Bretton Woods, New Hampshire, monetary

and financial conference in July, 1944. The first activities of the bank were related mainly to the reconstruction of the countries destroyed by World War II. Later, it became more concerned with development programs.

The primary source of capital for the bank is the capital subscribed by member countries, of which there are 74. All 19 of the Latin American republics are included in the roster of members. The initial capital subscribed was $10 billion, but it has been raised to approximately $30 billion in 1964. Only 2 percent of the dues are paid in gold or United States dollars; another 18 percent is paid in national currency. The remaining 80 percent is "on call," to be paid if needed, in local currency. This guarantee-fund, for the moment, has never been used.

More emphasis is put by the Bank in acting as safeguard for the international private capital used in development programs than in the loans of the government-subscribed capital. The greater part of these private investments comes from countries other than the United States, while about one-third of the total subscription is contributed by the United States.

The Bank is governed pretty much by the usual policies of private investment banks. The two conditions under which loans are granted are: (1) that the project is for productive activities, and (2) that the projects have the guarantee of the national government. Before giving the loan, the Bank must verify that the plans of the project are sound, that the borrower will be able to pay the interest, and that he is not able to find the needed capital in the normal international markets. It is the objective of the Bank to finance the projects that, because of high costs

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and low returns—i.e., projects concerning basic services, do not attract private capital. A second purpose is to develop a sound private industry in the underdeveloped countries. Loans are occasionally granted to private enterprises, as happened in the case of the manufacture of paper in Chile. The support of private enterprise is made difficult by the requirement of government guarantee. Governments, both for economic and political reasons, do not like to get involved in the private sector; and private entrepreneurs fear that the guarantee will increase the risk of government interference in their activities.

The first development loans were given by IBRD to the Latin American countries, and since its establishment, Latin America has received about one-fifth of the Bank's lending. The figures of the loans given in Latin America until the end of March, 1963 are reported in Table 6.

International Finance Corporation (IFC). Almost all the countries which are members of the IBRD are also members of the International Finance Corporation. The two banks have the same president and also the same executive director. The IFC was established in 1956 as an independent institution complementary to the IBRD. Its purpose was to support direct investment in productive private sectors of the developing countries that did not need the guarantee of the government. The capital of the IFC is now around $96 million. It makes investments in equities and in loans with a fixed interest rate. Often it has followed the practice of participating in the profits of the borrowing firm. The Latin American countries received almost 70 percent of the 45 loans and investments made by the IFC up to now.¹

<table>
<thead>
<tr>
<th>Country</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>$143,500,000</td>
</tr>
<tr>
<td>Brazil</td>
<td>267,071,000</td>
</tr>
<tr>
<td>British Guiana</td>
<td>1,250,000</td>
</tr>
<tr>
<td>Chile</td>
<td>112,154,000</td>
</tr>
<tr>
<td>Colombia</td>
<td>270,105,000</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>25,800,000</td>
</tr>
<tr>
<td>Equador</td>
<td>45,000,000</td>
</tr>
<tr>
<td>El Salvador</td>
<td>35,188,000</td>
</tr>
<tr>
<td>Guatemala</td>
<td>18,200,000</td>
</tr>
<tr>
<td>Haiti</td>
<td>2,600,000</td>
</tr>
<tr>
<td>Honduras</td>
<td>19,950,000</td>
</tr>
<tr>
<td>Mexico</td>
<td>386,827,000</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>38,100,000</td>
</tr>
<tr>
<td>Panama</td>
<td>18,047,000</td>
</tr>
<tr>
<td>Paraguay</td>
<td>4,483,000</td>
</tr>
<tr>
<td>Peru</td>
<td>105,227,000</td>
</tr>
<tr>
<td>Uruguay</td>
<td>89,500,000</td>
</tr>
<tr>
<td>Venezuela</td>
<td>45,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,651,508,000</strong></td>
</tr>
</tbody>
</table>

*Bank loans net of cancellations and refundings.*

The International Finance Corporation not only promotes the industrial development of the underdeveloped countries by investing in productive private enterprises, but also tries to improve the facilities of the local capital market. In fact, the IFC can buy blocks of shares if part or all of them have not been purchased by other investors. Both local and foreign investors can use the facilities granted by the institution. However, the IFC gives the necessary credits only when the capital required is not available on the normal capital market at reasonable terms. IFC has the duty to make sure that the investments are made by firms that will make a productive contribution to the national economy and are mature enough to fulfill their duties. For this purpose, when the firm is just starting, the participation of the IFC must be less than 50 percent, while after a certain time of expansion the Bank can make more than half of the new investments.

The IFC cannot invest in government-owned firms, but the government can express its objections to the investments of the Bank. In order to make it sure that the local government does not have any opposition, IFC informs such governments of all the proposed investments in its territory. The investments of the Bank are under the same legal regulations set for the other investors. In some of its commitments, mainly in construction materials, fertilizers, petrochemicals, and food processing, IFC was joined by other financial institutions of the United States, Germany, Italy, France, Belgium, and Switzerland. The following table (Table 7) reports the Bank activities in the Latin American countries until the

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2 Ibid.
end of March, 1963.

<table>
<thead>
<tr>
<th>Country</th>
<th>Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>$8,210,000</td>
</tr>
<tr>
<td>Brazil</td>
<td>11,300,000</td>
</tr>
<tr>
<td>Chile</td>
<td>8,800,000</td>
</tr>
<tr>
<td>Colombia</td>
<td>8,893,730</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>269,529</td>
</tr>
<tr>
<td>El Salvador</td>
<td>140,000</td>
</tr>
<tr>
<td>Guatemala</td>
<td>200,000</td>
</tr>
<tr>
<td>Jamaica</td>
<td>224,000</td>
</tr>
<tr>
<td>Mexico</td>
<td>7,422,158</td>
</tr>
<tr>
<td>Peru</td>
<td>7,313,290</td>
</tr>
<tr>
<td>Venezuela</td>
<td>3,500,000</td>
</tr>
<tr>
<td>. Total</td>
<td>$56,272,707</td>
</tr>
</tbody>
</table>

**Source:** United Nations, The World Bank Group in the Americas, complete p, 83.

Another activity undertaken by IFC to help economic development is financing the operations of privately owned development corporations existing in the Latin American countries. These institutions are coming into existence in many Latin American countries; their activities can be very important in coordinating the investments of private enterprises and do not present the risks involved in highly bureaucratic mechanisms.

In spite of the small scale on which it is operating, the International Finance Corporation is developing an important role in the support of the private sector in Latin America.
International Development Association (IDA). As previously noted, the demand for capital in Latin America has been increasing more rapidly than the supply of capital in the international market. The strict policies of the IBRD are not sufficient to provide the development countries with the necessary funds for development projects. For this reason, it was considered necessary to establish a new international financial institution in September of 1960. The new bank is an affiliate of IBRD, and shares members and staff. The International Development Bank has a capital of around $100 million, with the initial subscription made on the basis of the subscription to IBRD. Consequently, the United States shares the greatest part of the financial burden. The voting power in the Association is proportioned to the subscriptions. Almost all the members of IBRD are members of IDA, amounting to a total of 71 countries in December, 1962.1

The member countries are divided into two groups: (1) advanced countries, and (2) developing countries. The countries of the first group make an initial payment of 23 percent and the rest in four annual installments. All of them are convertible funds, while the countries of the second group make their contributions on the same basis; but only 10 percent of their payments is convertible. The rest is paid in national currency and cannot be used without the consent of the contributing country for development projects.2 In this framework, the countries contribute to the economic growth of the underdeveloped countries that are eligible for credit. All of the Latin American countries are part of Group II of IDA.

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1 Ibid.
2 Enke, op. cit., p. 494.
The purpose of IDA is to provide loans on a more liberal basis, but still using the experience of the IBRD and its staff. Several times, as in the operations undertaken by the Bank in Chile, Colombia, and Costa Rica, IDA worked jointly with IBRD. The development credits were given for 50 years without interest, and payments for amortization are required only after a period of ten years. The countries will have to pay back 1 percent of the loan in ten years annually, and 3 percent of the total in 30 years. IDA is as careful as IBRD on the soundness of the projects that are assisted. The following table, Table 8, presents the amount of the IDA credits given to the Latin American countries to the middle of 1963.

**TABLE 8**

**IDA CREDITS IN THE LATIN AMERICAN COUNTRIES TO THE END OF MARCH 1963**

<table>
<thead>
<tr>
<th>Country</th>
<th>Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>---</td>
</tr>
<tr>
<td>Brazil</td>
<td>---</td>
</tr>
<tr>
<td>Chile</td>
<td>$19,000,000</td>
</tr>
<tr>
<td>Colombia</td>
<td>19,500,000</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>5,500,000</td>
</tr>
<tr>
<td>Ecuador</td>
<td>---</td>
</tr>
<tr>
<td>El Salvador</td>
<td>8,000,000</td>
</tr>
<tr>
<td>Guatemala</td>
<td>---</td>
</tr>
<tr>
<td>Haiti</td>
<td>350,000</td>
</tr>
<tr>
<td>Honduras</td>
<td>9,000,000</td>
</tr>
<tr>
<td>Mexico</td>
<td>---</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>3,000,000</td>
</tr>
<tr>
<td>Panama</td>
<td>---</td>
</tr>
<tr>
<td>Paraguay</td>
<td>6,000,000</td>
</tr>
<tr>
<td>Peru</td>
<td>---</td>
</tr>
<tr>
<td>Uruguay</td>
<td>---</td>
</tr>
<tr>
<td>Venezuela</td>
<td>---</td>
</tr>
</tbody>
</table>


---

Almost all of the IDA credits (around 90 percent) are devoted to electric power and transportation facilities. In fact, it is rightly believed that these services will provide a powerful stimulus to commerce, industrialization, and agricultural development. Highway programs and the construction and modernization of railroads has been one of the main activities of IDA, as the credits to Brazil, Colombia, Mexico, and Peru show. In September of 1962, the International Development Bank made a loan of $3 million to Nicaragua to supply the capital city with water.¹

**Specialized Agencies of the United Nations.** It is also important to mention the activities of the United Nations specialized agencies in Latin America. These agencies, along with the ones already discussed, are assuming an important role in the United Nations Development Decade Program. The goal of this program is to achieve, by the end of 1970, a 5 percent annual increase in the national income of the underdeveloped countries. Among the United Nations agencies that will contribute to this goal are: the Special United Nations Fund for Economic Development (SUNFED), Food and Agriculture Organization (FAO), World Health Organization (WHO), and the International Labor Organization (ILO).

The Special Fund was established in 1959 with the purpose of increasing the productive capacity of the underdeveloped countries by demonstrating where investments were advisable and of creating new, favorable conditions for it.²

and to establish and strengthen national training, educational and applied research programs."\(1\) Between 1959 and January 1963, the Special Fund had approved 77 projects for the Latin American area.\(2\) The activities of this institution are essential to develop human resources and create the pre-
conditions for self-sustained growth.

The particular concern of the Food and Agriculture Organization is to help in finding a proper balance between agricultural and industrial growth. As indicated elsewhere in the thesis, this is one of the most delicate problems in economic development. FAO also assists with the stabilization of the economies of the underdeveloped countries by dealing with the problems arising from the excessive fluctuations of prices of agricultural products, the control over consumption, and surplus disposal.\(3\)

Very important also is the role of the organization in the field of technical assistance for agricultural activities.

In Latin America, the Food and Agriculture Organization has undertaken many projects, of which Table 9 gives examples. FAO is cooperating closely with the World Health Organization to improve the health conditions of the people of the underdeveloped countries. Committees of experts in nutrition are studying food needs to determine if the food supply of the country is sufficient.\(4\)

\[\text{The main goal of WHO is the development of public}\]

\(1\) Ibid., p. 7.
\(2\) Ibid., p. 8.


\(4\) Ibid., p. 323.
### TABLE 9

**PROJECTS UNDERTAKEN BY THE FOOD AND AGRICULTURE ORGANIZATION IN ARGENTINA, BOLIVIA, AND BRAZIL FROM MAY 1959 TO JANUARY 1963**

<table>
<thead>
<tr>
<th>Country</th>
<th>Project</th>
<th>Date approved</th>
<th>Cost of project*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>A study on nutritional diseases and deficiencies in cattle</td>
<td>1960</td>
<td>$1,009,800</td>
</tr>
<tr>
<td></td>
<td>Forestry and watershed management training institute--Buenos Aires</td>
<td>1961</td>
<td>1,155,100</td>
</tr>
<tr>
<td></td>
<td>Study of land reclamation of the Viedma Valley</td>
<td>1962</td>
<td>1,385,600</td>
</tr>
<tr>
<td>Bolivia</td>
<td>Agricultural Training, Faculty of Agriculture, Cochabamba</td>
<td>1959</td>
<td>489,000</td>
</tr>
<tr>
<td>Brazil</td>
<td>Survey of the San Francisco River Basin</td>
<td>1959</td>
<td>1,117,880</td>
</tr>
<tr>
<td></td>
<td>National Forestry School Vicosa</td>
<td>1961</td>
<td>2,241,100</td>
</tr>
</tbody>
</table>

*In U. S. dollars

**Source:** United Nations, *Target: An Expanding World Economy*, op. cit., p. 32,

health services. The organization tries to accomplish its purpose through various activities: (1) assisting the governments in preparing long-term national plans for health; (2) establishing demonstration areas in which international and national personnel work together; and (3) educating the people on health problems.¹

¹Ibid., p. 321.
Among the projects undertaken by WHO in Latin America, one of particular interest is the Institute of Occupational Health and Air Pollution Research in Santiago, Chile, established in May, 1962.¹

One of the oldest international agencies, the International Labor Organization was founded in 1919. The main purpose of ILO is the prevention of unemployment. As we have seen, the problem of unemployment is acute in all the Latin American countries and is one of the main causes of social instability. ILO is far from being able to resolve the problems, but it has developed such useful subsidiary activities as: Organization of the labor market, vocational training, and migration guidance. Through international conventions and conferences, ILO has been able to spread some successful techniques, used in the advanced countries, to the underdeveloped world. This activity is particularly important in Latin America where the labor problems are quite bitter. Instructor training centers have been established in Chile, Argentina, Colombia, and many other countries in the region.²

**Inter-American Development Bank (IDB)**

The Inter-American Development Bank was legally created on January 1, 1960 to furnish Latin America with a regional financial institution. It works within the framework of the Organization of American States. Member countries are the 19 Latin American countries and the United States.

The capital of the Bank consists of $850 million, of which $400 million are deposited and $450 million are "callable."³ Table 10 presents

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²Ibid.
the sums paid by some Latin American countries to this Bank. The various contributions are fixed on the basis of the respective country's Gross National Product. The funds are paid 50 percent in dollars or gold, and

**TABLE 10**

**CONTRIBUTIONS OF CERTAIN MEMBER COUNTRIES TO THE INTER-AMERICAN DEVELOPMENT BANK**

<table>
<thead>
<tr>
<th>Country</th>
<th>Amount to IDB (in millions)</th>
<th>Percent</th>
<th>Fund for special operations(mil.)</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>$350</td>
<td>41.2</td>
<td>100.0</td>
<td>66.6</td>
</tr>
<tr>
<td>Argentina</td>
<td>103</td>
<td>12.1</td>
<td>10.3</td>
<td>6.9</td>
</tr>
<tr>
<td>Brazil</td>
<td>103</td>
<td>12.1</td>
<td>10.3</td>
<td>6.9</td>
</tr>
<tr>
<td>Mexico</td>
<td>66</td>
<td>7.8</td>
<td>6.6</td>
<td>4.3</td>
</tr>
<tr>
<td>Venezuela</td>
<td>55</td>
<td>6.5</td>
<td>5.5</td>
<td>3.6</td>
</tr>
<tr>
<td>Chile</td>
<td>28</td>
<td>3.3</td>
<td>2.8</td>
<td>1.9</td>
</tr>
<tr>
<td>Colombia</td>
<td>28</td>
<td>3.3</td>
<td>2.8</td>
<td>1.9</td>
</tr>
<tr>
<td>Peru</td>
<td>14</td>
<td>1.6</td>
<td>1.3</td>
<td>0.9</td>
</tr>
</tbody>
</table>

**Source:** Mimeographed notes from a class in International Economic Organizations, University of Padua, 1962-63, p. 27.

the rest in local currency. Acting very much like the International Bank for Reconstruction and Development, the IDB grants loans to the governments and private enterprises in Latin America for specific projects that have to be examined first by the Board of Directors. The projects must be of a "productive" nature; the Bank cannot give loans for the solution of financial problems deriving from balance of payments problems.

With the Bank was created the Fund for Special Operations. The capital of the Fund is $150 million, which must be used for operations
that, because of low returns, cannot be undertaken by the Bank itself. It works especially for the countries that, due to a particularly difficult monetary situation, find it difficult to get sufficient credits on the usual capital market.

One of the most important aspects of IDB is the technical assistance program, which it provides to governments and private enterprises. Assistance is given in preparing the projects and in training the necessary number of people. From its origin to the beginning of 1961, the Bank had already given loans amounting to $65 million.

The fact that it is the only regional bank in Latin America makes the activities of IDB particularly important for the development of the area. The staff of the Bank is well acquainted with the problems of the different countries, and it is easier for the governments and local entrepreneurs to get the necessary loans from a regional institution than from broader organizations. The importance of the Inter-American Development Bank has grown after the Charter of Punta del Este. It is used by the Alliance for Progress as one of the main mechanisms in reaching the goals of the program.

\[1\text{Ibid.}\]
 CHAPTER VI

THE LATIN AMERICAN FREE TRADE ASSOCIATION

Origin of Latin American Economic Integration

For historical reasons, the Latin American countries have always tended to unite in various kinds of associations. But for some characteristics of the region, such as lack of communications and political stability, none of these attempts has been successful. Usually the push toward unification was not represented by common economic needs. Very often the Latin American countries did not know enough about each other to realize the extent of their common problems. In general, the economies of the nineteen nations depended on foreign powers, both before and after independence.

Among the various things produced by World War II, the most notable was the formation of the United Nations. Within the framework of that institution, an organization was created for the purpose of studying the particular problems of Latin America. This was the Economic Commission for Latin America (ECLA).

Never before had there been felt the necessity of systematic research to help with the understanding of the problems of the continent. For the first time, statistics on the national economies

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of the Latin American countries were presented.

The idea of regional economic integration was concretely presented for the first time at the Sixth Conference of ECLA in 1955. On that occasion, a trade committee was created that asked the Commission to appoint two groups of experts: one to work in the central banks of the Latin American countries, and the other "to project the possible structure of a regional market." The two agreements were passed at the Seventh Conference of ECLA (May, 1957); and since then, the idea of economic integration became more and more popular in public opinion.

Of course, before these official steps, there had been numerous studies (by ECLA) on the possibilities of integration. The first was the Economic Study for 1949, which pointed out the necessity of economic cooperation at the regional level, among the Latin American countries. The reasons in favor of integration became ever stronger and more insistent. Even if it is difficult to abstract some of them from the complex situation of the Latin American countries, it is possible to indicate the most important ones—all of which, of course, are inter-related.

1. "Natural" desire for development
2. The economic integration of Europe
3. Deterioration of the terms of trade
4. Necessity of industrialization
5. Necessary expansion of the market

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Natural Desire for Development. The present world now refuses to accept the idea that some people must live in conditions that are below the level of "decency." Sometimes, people lack freedom, education, and an adequate per capita income. The recent Geneva Conference (started in the spring of 1964) on development and trade demonstrated that most countries are determined to find the way for moving from the stage of "under-developed." The Latin American countries are sharing this effort.

For our purposes, it is important to recognize that these countries have come to realize that they must approach this common task in concert. For the first time, the Latin republics have begun to look at each other for mutual assistance. Victor Urquidi said: "If the idea of a common market would have been named 'Common Development of Latin America,' it would have been more understood."¹ In Latin America, Dr. Urquidi also says, there are traditional obstacles to integration.

The tragic truth is that, in spite of the modern ways of communication and the necessity of political unity, the inhabitants of this region almost do not know each other. Each Latin American people develops with little understanding of the characteristics and problems of the others... the countries compete with each other to show their superiority in this or that matter... A Latin American country fears more the competition of a product coming from another Latin American country than from the United States, Japan, or Europe. If it were not for this, the proposals for a regional liberation of trade would not be accepted with so many reservations.²

The effort toward economic integration represents an important change in the policies for national development in Latin America. In this new


²Urquidi, "Progresera el Mercado Comun Latinoamericano?" Integracion Economica Latino Americana, p. 90.
itinerary, every country must take into consideration the effect that the
development will have on the others, in order to progress. In doing so,
they will get some reciprocal benefits that will be of special importance
for the smaller countries. Without a broader cooperation among them-
selves, the Latin American countries will not be able to share the social
and economic evolution that is taking place in our times.

The per capita income of Latin America, the most important measure
of economic development, has tended to decline in recent years. This is
because the raise in Gross National Product is not keeping pace with the
growth of population. One of the solutions to the problem is industriali-
ization. It would, in fact, allow a higher rate of productivity and, at
the same time, a reduction of imports of manufactured goods. Of course,
it is related to the solution of some important structural problems, as
in the case of manufactured agricultural products.

This means to resolve at the same time the problems of land
tenure, rural education, extension of credit to agriculture, experimenta-
tion with modern technology, as well as production problems alone.¹

These reforms are not only preconditions of industrialization, but also
among the most important effects of it. If economic integration is to
be successful in bringing into the region economic development, it may
provide the basis for a "take-off" into self-sustaining growth.²

The Economic Integration of Europe. The economic integration of
Europe had some negative effects on the economies of Latin American coun-

¹Urquidi, El Mercado Comun y el Desarrollo Economico Nacional, op. cit.,
p. 2.
²Walt Whitman Rostow, The Stages of Economic Growth: A Non-Communist
tries. The imports from Latin America to Europe decreased substantially in favor of the African countries. In fact, the Treaty of Rome in 1958 created a special condition of "associate territories" for the African countries that have colonial ties with the members of the European Community (OEEC). For these territories a special development fund is created, financed by the six member countries.¹

Latin American goods which are victims of discrimination are coffee, cotton, and sugar. It has been noticed that for every decrease of exports of these goods from Latin America, there has been a corresponding increase of exports from the African countries to Europe. Also, European capital started to flow to the African countries instead of to Latin America. Latin America reacted to these adverse facts by increasing the effort toward regional economic integration.

The project of the Latin American common market, ... is by no means a copy or an imitation of the European Common Market. Our first ideas on the matter were truly originated by the evolution of the Latin American situation before the realization of a common market in Europe was thought possible.²

Nevertheless, it is certain that the fear of the economic repercussions of the European integration pushed the Latin American countries to study their common problems and to try to resolve them by a common effort.

After the signing of the Treaty of Rome, the General Secretary of the Organization of the American States (OAS) published a report on the possible consequences of European integration on the economies of Latin America. In 1959, notes of protest were sent to the member countries of

¹The EEC member countries are: Belgium, France, Italy, Luxembourg, Netherlands, and the Federal Republic of Germany.

EEC by Argentina, and later by Brazil, Chile, Costa Rica, Cuba, Ecuador, El Salvador, Honduras, Paraguay, and Venezuela. Each of them protested against the discriminatory European tariffs.¹

In addition to tariff discrimination on their products, Latin American economies have suffered other negative effects from European Common Market activities:

(1) The economic development of the African countries, backed by the "Six," improves the African ability to compete in the international market with Latin American goods.

(2) The rise in the output of European agriculture, due to the use of improved technology, negatively influences the demand for products from the temperate areas of Latin America.

(3) The technological progress of European industry makes it possible to substitute European-produced synthetic products for Latin American primary products.

The few positive effects of European integration on Latin America cannot compensate for the negative ones. In fact, the benefits of the higher efficiency of European industry will be enjoyed in Europe and spread only through marginal reduction on the prices of manufactured goods in Latin America. In this situation, Latin American countries have a greater chance of reaching compensating agreements with EEC if they act as a solid block. The bargaining power of all acting together will be greater than that of a single country. Indeed, the same necessity of neutralizing the negative influences of EEC discrimination pushed the other European

countries to form a free trade area--"the outer Seven."

Deterioration of the Terms of Trade. The need to change the traditional pattern of the Latin American international trade has become more evident in the past few years. All the countries of the region find it increasingly difficult to finance their necessary imports of manufactured goods with exports of primary products. The rate between the prices of the two is, in fact, "deteriorating." In the last years, there has been, in the international market, a strong tendency for prices of manufactured goods to raise while the price of primary goods tends to decrease.\(^1\) As traditionally the manufactured goods are produced in the developed countries and the raw materials in the underdeveloped ones, this tendency has widened the gap between the two.

The United Nations recently sponsored in Geneva a World Conference on Trade and Development to examine the situation and try to guarantee the necessary mechanisms to resolve the problems involved in it.\(^2\) The conference is part of the activities undertaken by the United Nations


for the so-called "development decade." At the conference it was confirmed that the international trade system, as it is now structured, is a cause of inequality among the countries of the world. The distribution of the benefits deriving from trade is not proportionally equal for all the participants in the market.

Indeed, trade has been the bulk of the economic international cooperation from ancient times, and trade has to become one of the main tools for the economic development of the less developed countries, instead of continuing to be one of the means to make the rich countries richer.\footnote{Quoted by the General Secretary of the United Nations, U. Thant, in his speech at the Geneva Conference, "El Comercio como instrumento real de progreso," Comercio Exterior, Mexico, D. F., April, 1964, p. 5.}

This negative tendency of the international market has been particularly damaging for the economies of the underdeveloped countries, because it affected them at the very time they were starting their way to development.

The causes are various of the deterioration of the terms of trade. One of them is that the rate of growth of the world demand of manufactured goods has been higher than the one for primary goods. Some of the reasons for this phenomenon are:

1. The restrictive trade measures taken by some developed countries.
2. The increase in competition for some primary products, due to special commercial policies regarding surpluses coming from more developed countries.
3. The production of synthetics that can be used as substitutes for some of the primary products coming from the underdeveloped countries.

According to the General Secretary of the Geneva Conference, the "trade gap" produced by these tendencies reduced almost to zero the
results of the international cooperation for the economic development of Latin America.

We have to recognize that a serious effort has been made to try to increase the possibilities of the underdeveloped countries in the framework of some initiatives taken by the United Nations, . . . but this ought not to be a reason for satisfaction, for, at the same time, the deterioration of the terms of trade was dissipating the beneficial effects of the financial aid received by the developing countries in 1962.¹

The negative effect of international trade on the Latin American countries during the past few years has amounted to about $10 million.² This realization has strengthened the moves toward regional cooperation. In the preparatory meeting of the Geneva Conference, the representatives of the nineteen republics showed a fairly united block:

For the first time the idea has been fully accepted to make a common Latin American front as a necessary preliminary to the resolution of the external obstacles that are slowing down the development of the region.³

Necessity of Industrialization. As previously indicated, Latin America has one of the highest rates of population growth. Thus, the supply of labor is steadily increasing. This would permit a high rate of economic growth if it were possible to employ all of this expanding labor force. But this is a difficult matter, since these countries still have, basically, agricultural economies.

The population of Latin America was in 1955, 175 million people, and it is expected to increase more than 100 million by 1975. Of this growth, there will be an increase of the

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³ Ibid.
active population of almost 18 million people. If the tendencies of the past years continue, only 5 million of this considerable increase in potential workers will be absorbed in agricultural activities. Thirty-three million people will be left over who will have to find jobs in other activities.¹

Until it is possible to employ the growing employable population, it will be difficult to increase per capita incomes.

Basic reforms are needed in the agricultural systems of many of the Latin American countries. Traditional and unproductive methods are still used. But the necessary reforms have to be supported by industrialization.

Only in industry and the other activities connected will they be able to absorb gradually and with increasing productivity the labor force that agriculture does not need. The problem of agrarian reform cannot be resolved apart from the problem of general development. The more agricultural technology is improved, the more industry will have to increase in order to demand the agricultural products without deteriorating prices, and to absorb the surplus labor.²

The modernization of agriculture is obviously very closely related to the growth of industrialization. If there are not sufficient employment possibilities in industry, and the supply of labor is consequently excessive, then it is not productive to substitute men with machinery. In fact, there are only very few tasks in agriculture which are better done by a machine than by a man.³ Even in the few Latin American countries where there has been a high rate of growth in industry, it has not been possible to absorb the surplus labor in agriculture. When unemployment is accompanied by urbanization, the masses of chronically poor in the


cities will be the prime target of political agitators.

The high rate of industrial growth necessary to absorb the increase in the active population will be very difficult with the traditional production of raw materials. For an increase in industrial activities will make possible a reduction in imports, as well as an increase in exports. By substituting locally-produced manufactured goods for imports (by gradually starting from the ones that do not require a very elaborate technology), the Latin American countries can save precious foreign exchange that can be used for importing the capital goods necessary for a more modern industry. This is a necessity felt by all the 19 republics. "Information received from various Latin American countries indicates that all of them, although at different rates, are struggling toward import substitution,"¹

Necessary Expansion of the Market. The process of industrialization will be particularly difficult if the Latin American countries insist on keeping their traditional structure of close compartments. It will be impossible to produce goods subject to economies of scale. Problems in this sense are already felt by countries that have already reached a more sophisticated level of industrialization, such as Mexico, Argentina, and Brazil. The demand for manufactured goods is increasing rapidly, but the expansion of industrial plants is strangulated by the size of national markets.

The limit to import substitution is determined by the size of the individual market in each country. Mexico, for example, has nearly completed the development of its industrial plant

¹A. Crespo, op. cit., p. 3.
and equipment and has considerable problems of unused capacity in some industries.\(^1\)

The goal of Latin American integration is not limited to an improvement of the present trade. It is the potential trade that will permit the revolution of the present traditional economies. The trade of goods produced by a more advanced industry is the real opportunity offered by regional economic integration.\(^2\) When Latin American countries are able to reach the level of technology required by a more advanced industry, they will not only save capital by reducing imports, but they will also recover some of the national capital that has "flown" abroad to more stable countries. Thus will confidence in the possibilities of the new industrialization expand. Moreover, there will also be important changes in the capital market:

Not the least of the problems of industrialization in Latin American countries is the reluctance of the owners of private savings to go into untried industrial activities. . . . The risk-premium in manufacturing, in spite of protection, is judged to be high, so that a substantial return on capital is expected. . . . Market issues of stock to raise capital are rare, and most industrial enterprises are tightly held among friends and relatives. But all of this is changing as alternative investments in real estate, for instance, become less profitable.\(^3\)

In this way, Latin America will become less economically dependent on the more developed countries that have been for too long a time the primary source of capital. This situation made the region always vulnerable to movements of the international capital market. It is not

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\(^1\) Ibid.


\(^3\) Urquidi, "Two Years of Alliance for Progress," Inter-American Economic Affairs, XVIII (Spring, 1964), 33,
true that the problem of the industrialization of the area can be resolved only by foreign investment. As Raul Prebisch writes: "Foreign capital would be useful to cooperate in the production of goods, but it will not dismiss us from the necessity of sharing the effort."¹

This brings additional force to bear on the request on the part of the underdeveloped countries for cooperation rather than for aid. Even if the industrialized countries could give to Latin America all the financial aid necessary for its development, after ten years the balance of payments of the 19 republics will have enormous problems to resolve in order to pay it back.² They have to resolve their problems mainly by themselves, and clearly LAFTA is one way to do it.

The Treaty of Montevideo

Antecedents. In Montevideo, Republic of Uruguay, February 18, 1960, a treaty was signed by government representatives which established a free trade area and instituted a free trade association among some of the Latin American countries. The term "area" refers to the combined territories of the signing countries: Argentina, Brazil, Colombia, Chile, Ecuador, Mexico, Paraguay, Peru, and Uruguay.

The treaty is the final step of numerous negotiations among the economic experts of the countries as promoted by ECLA. It was not easy to reach an agreement among the delegates on what exactly they wanted in the treaty and the best legal structure to make it effective. The main problem was that some of the economists wanted to create a broader


economic integration in the form of a common market. On the contrary, others were interested only in the enlargement of the trade already existing among the participating countries.

It should be noted that, in spite of the common opinion to the contrary, there exists a profound difference between a free trade area and a common market. The first kind of association means only that the contracting parties will eliminate the obstacles to intra-regional trade. A common market, besides establishing a free trade area, also institutes a common tariff for the third countries and a gradual coordination of the economic policies of the participants. A free trade area leaves untouched the economic sovereignty of the participating countries.

In the various conferences preceding the final one at Montevideo, there existed this split among the delegates. Some of them, particularly the republics to the south, considered that the expansion of the market would be sufficient means of resolving the problems of the region, considering trade to be the principal instrument for the welfare of the national economies. Others considered a more integrated economic union desirable. The treaty of Montevideo is the compromise on which the two different currents of opinion met.\(^1\)

Now, a free trade area is not necessarily the first step toward the creation of a common market. This was not true, for instance, of the European Free Trade Association, which was created by countries that opposed the idea of a common market in Europe. In the same way, the Treaty of Montevideo, which set some formulas that will help the formation of a broader "economic complementarity," will not automatically

\(^1\)Miguel S. Wionczeck, "La zona de libre Comercio no es un Mercado Comun," \textit{La Integracion Economica}, p. 191.
bring into being a Latin American common market. The difficulties of reaching more advanced integration have been demonstrated by the European Common Market which, after having resolved the initial economic problems, is now struggling to integrate the economic policies of the members. For the Latin American countries, it would be even more difficult to create this more sophisticated integration.

Before the Treaty of Montevideo was signed, other attempts had been made to reach an agreement among the government representatives. The first project was presented by Argentina, Brazil, Chile, and Uruguay. These southern republics wanted only an enlargement of the market. On the contrary, a conference had been held in Mexico in 1958 which outlined the possible structure of a Latin American common market. Due to the general good will and cooperation among the two groups of economists and government officials, the two opposed projects were amalgamated and a new project was presented in Lima, Peru, in July of 1959. In this project participated the four mentioned countries, plus Bolivia, Paraguay, and Peru. The last step before the signature of the final treaty was the conference held in Montevideo on September 30, 1959. The project was almost complete, but some countries asked for more time to decide. On that occasion, Mexico and Venezuela were only observers. However, Mexico is among the contracting countries of the final treaty.

**Purposes.** The introduction to the treaty clearly points out that LAFTA is considered a necessary tool for the development of the region.

Persuaded that the expansion of her present national markets through the gradual elimination of barriers of intraregional trade is a prerequisite if the Latin American countries are to accelerate their economic development process in such a way as to insure a higher level of living for their peoples.¹

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¹Treaty of Montevideo, Introduction, second paragraph.
It is important to examine the tools forged by the Treaty to achieve this fundamental goal. They constitute the legal framework within which the economic forces acting in the region will play.

The purpose of the gradual elimination of duties and restrictions of trade prescribed under Article 3, is to be reached through the presentation of national lists of products that the countries will provide each year. The governments commit themselves to a reduction of 8 percent in the duties on the products of the list. The lists for the first three years must include 25 percent of the country's trade, 50 percent after six years, and "substantially all of such trade during the fourth three-year period." (Articles 4, 5, 6, 7) In this way the Treaty leaves to the country the freedom to choose the products convenient for them, but at the same time guarantees that the final purpose of the association, the liberation of trade, is achieved.

One of the keystones of the treaty is the principle of reciprocity—all concessions must be made with reciprocal advantage to all the countries. No discrimination of any sort can exist within the area—only toward third countries. Of course, some exceptions are included, in order not to make the Treaty mechanism too rigid. The most important exception to the principle of reciprocity is the one regarding the less developed countries of the area. Article 32, Chapter VIII, provides more favorable conditions for the reduction of duties, charges, and other restrictions, but they have to be "especially agreed upon." This exception is necessary if the Treaty is to be a tool of balanced development. It is important that the new structure of trade avoid the risk of widening the differences already existing among the most industrialized countries and the less developed ones. This will be one of the most difficult tests of LAFTA since, as
Myrdal has pointed out, there is a natural tendency in the underdeveloped countries toward regional differences. The Montevideo Treaty dedicates the whole of Chapter VIII to the "measures in favor of the countries at a relatively less advanced stage of economic development." These measures are even more necessary, considering that one of the main goals of LAFTA is to include all the Latin American republics.

Central American Economic Integration

The Central American Common Market is the second market agreement existing at the moment in Latin America. Both LAFTA and the Central American Common Market are long-run measures for the development of the region,

Neither is the kind of stop-gap, hurried measure so often used in the underdeveloped countries for the correction of a temporary but recurrent crisis. Instead, the two trading arrangements constitute an integral part of Latin America's long-run efforts to further development on the basis, to the greatest extent possible, of self-help.

The small size of the republics in Central America (from Mexico to Panama) has been always given impetus to the push for unification. The most recent agreement is the four-year-old economic cooperation program. The contracting parties are Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua; these formed the old Federal Republic of Central America of 1824. The treaty of the Central American Economic Integration was signed in December 1960, with Costa Rica joining a little later,

Because of the small size of the countries, the market resulting from the unification is still smaller than that of Colombia. As else-

1Gunnar Myrdal, Economic Theory and Underdeveloped Regions (London, 1957), Chapter III.
where in Latin America, there is also in the region a population growth among the highest in the Western Hemisphere. Moreover, the trade among the countries is very small. It was estimated at only 37 million in 1961, which was only 5 percent of the total trade.\(^1\) Finally, industrialization was very retarded, as the size of the market did not allow the use of modern technology and the installation of large power plants.

The final treaty is the result of many negotiations, and could be called the "baby" of ECLA. The economists of the United Nations Commission worked very hard after 1951 to draw its structure. The projects were not a copy of the economic union of Benelux, or of the European Common Market. Indeed, the main effort of ECLA was not to coordinate already-existing markets, but to create a new potential one.

This is not simply a common market arrangement. The integration program is concerned with a special type of industrialization, agricultural problems, the provision of a regional infrastructure including transport and electric power systems, social aspects such as low cost houses, and various fiscal aspects.\(^2\)

The integration program has been backed by concrete realizations, such as the Superior Institute of Central America of Public Administration, founded in 1953; the Central American Institute of Research and Industrial Technology; and the creation of a Bank of Economic Integration.

The very accurate studies done by ECLA in this occasion and the experience of the Central American economic integration have been very useful for the establishment of LAFTA. The two programs of integration do not have any competitive character; on the contrary, they share the same goal—that is, the development of the Latin American countries.

\(^1\)Ibid.

\(^2\)J. C. Mill, op. cit., p. 9,
There does not seem to exist the risk that the two will constitute different economic blocs. The governments of the Central American republics declared that as soon as possible, they will join LAFTA as a single contracting party.

Obstacles and Perspectives

The road toward economic integration is not free of obstacles for the Latin American countries. Some of them that have been already examined are based upon the fact that industrialization is conditioned by some structural reforms in the area. If the national economies are not diversified and the trade is not increased, the provisions of the Montevideo Treaty would not have very much meaning.

Another obstacle is the general lack of interest, found at various levels, in economic integration. It is not enough to have the support of some intellectual groups and of a few mature businessmen. Personal observation would lead one to conclude that the interest in LAFTA is proportional to the stage of development of the country. People must realize that they have a real necessity for the project before they will give their support to it. Government officials fear every kind of external control tied with nationalistic boundaries. It is interesting to note that in Europe, the idea of economic integration originated with statisticians and businessmen.\(^1\) In this respect ECLA is doing a very good, informative service through publications, meetings with businessmen, bankers, and government officials of the various republics.

Nevertheless, business groups do not show the expected interest. This is serious because private enterprise will provide the bulk of the indus-

\(^1\)Placido García Reynoso, "Papel del Impresario y Aerea de Libre Comercio," La Integracion Economica, p. 862.
trialization. There has been, since the beginning, a certain perplexity in businessmen changing traditional trends of production, moving from old channels of trade such as in the United States, Europe, and Japan.¹ "Vested interests in Peru, Uruguay, Chile, and Paraguay fear the change that economic integration will create."² The support of the businessmen is particularly important because, naturally, they will have to collaborate with the governments to draw the national list of products to which the treaty regulations apply. Their indifference to economic integration is due to the fact that for the moment the losses from integration are more visible than the potential gains.

The United States and Integration

It is well known that one of the major forces that made possible the integration of Europe was the United States. After the end of World War II, the United States provided financial help to the war-ravaged western European countries to integrate the region. The United States rightly thought that closer political and economic ties among the European countries would decrease the danger of Communist infiltration.

It cannot be said that the United States shows the same enthusiasm in the case of Latin American integration. A long period of silence characterized the action of the State Department in regard to ECLA efforts toward economic integration. It would be too easy to say that this meant a tacit assent. "The attitude of the United States in regard to Latin American integration in the years that preceded the Kennedy administra-


tion had been ambivalent, not to use other terms.¹

Until 1960 the United States officials at the various inter-American conferences revealed a mixture of theoretical disapproval and lack of confidence in projects for regional integration.² Many Latin American sources naturally attributed this apathetic attitude of the Department of State to the action of interest groups in the United States, which would suffer severely from the new preferential treatment accorded under intraregional trade agreements. Actually, the United States feared for a long time that the only effect of the integration would be a deviation of trade, not the creation of a new trade.³ There may have been a legitimate doubt that this would occur during the initial period, but LAFTA officials have made it clear that one of the purposes of integration is to create new lines of trade, keeping unchanged the one of raw materials.

During the Kennedy administration, the attitude of the United States seemed to have become more favorable to integration. The change took place during the same period that the political importance of Latin America became more clear. The European experience suddenly seemed to apply to the Latin American countries as well.

We supported the organization for European Economic Cooperation and the European Payments Union, because we considered Europe strategically important. Considerations were far more political than economic. Latin America was not considered to be a bulwark

¹Miguel S. Wionesczecck, "ECA ante la Integracion Economica de America Latina," La Integracion Economica, p, 409.

²Ibid.

against the imperialism of the Soviet Union and therefore not important.\(^1\)

Cuba sufficiently demonstrated the truth of this statement.\(^2\)

It should be added that the international financial institutions have not been very helpful toward Latin American integration, "The International Monetary Fund, the International Bank for Reconstruction and Development, and the Export-Import Bank, . . . have been hostile or indifferent to close cooperation among the Latin American countries."\(^3\)

Fiscal Policies

Another important problem that the Free Trade Association has to face is the coordination of the fiscal policies of the Latin American countries. When a country decides to gradually abolish tariffs and other trade barriers, the monetary policies and exchange rates become of fundamental importance.\(^4\)

It is obvious that if some monetary difficulties to foreign trade exist, the treaty disposition to free the trade in the area would not be meaningful; especially in the Latin American countries that have very delicate problems in their balance of payments, and, in different degrees, present strong tendencies to inflation. Some countries such as Mexico present a free convertibility system. Others do not; some have fictional exchange rates that have been deteriorated by a progressive inflation, as in the case of Brazil. Unfortunately, the Treaty of Montevideo does not give a solution to the payment problems involved in such a complex situation. In Resolution I the Treaty refers to "informal meetings of govern-

\(^1\)Keith B. Griffin, *Inter-American Economic Affairs*, op. cit., p. 3.

\(^2\)Ibid.

\(^3\)Carlos Massard and John Strasma, "Coordinacion de la Politica Economica Dentro de la Zona," *La Integracion Economica*, p. 233.
mental experts of the central banks of Argentina, Bolivia, Brazil, Chile, Mexico, Paraguay, Peru, and Uruguay, which shall be organized by the Secretariat for the Economic Commission for Latin America.\(^1\)

**Perspectives**

Despite the obstacles involved in the creation of a Free Trade area in Latin America, the potential advantages of the program are definitely worth the effort.

In the first place, it is the first project undertaken by Latin Americans, and in this lies part of its political meaning, considering the strong Latin American nationalism. The Latin American economists, government officials, and businessmen have started to roll up their sleeves and look realistically at their problems. They no longer confine their action to the negative approach—to check the faults of the "imperialist" United States. If it is important to assume the responsibility for one's own problems, it is much more important to start doing something about them. Latinos now ask a genuine cooperation with the "big neighbor." "This does not necessarily mean that the influence of the United States will decline, but it implies less dependence on United States financial support."\(^2\) LAFTA is one of the means of reaching this goal. Even if not all the republics are for the moment in the Association, the member countries represent the largest geographical area and the most important economic powers of Latin America.

LAFTA, by creating discriminatory tariffs toward third countries, is reacting to the principle of comparative advantages. At the same time, however, it is setting lists of products that can be produced with

\(^2\)Crespo, *op. cit.*, p. 17.
the highest advantage by the member countries, even if only regionally.

It is very important that the countries coordinate their investment policies. A new project not only has to present a high productivity rate, but also a high degree of external economies that will allow the fastest development of the region. Hence, the crucial planning decision is not so much the evaluation of individual projects, but the selecting of groups of interdependent projects which, when taken as a whole, are mutually reinforcing.  

Planning is particularly necessary in the underdeveloped countries where a successful investment, for lack of other alternatives, will attract other capital in the production of substitute goods so that the field will soon be overcrowded. There is a tendency for immature entrepreneurs, not to create new investment possibilities, but to exploit obvious profit opportunities.  

That is why one of the goals of the Free Trade Association is to create new investment possibilities through industrial diversification and incentives. The positive results of this policy have already been shown in the most industrialized countries of the area. The investors are realizing that the productivity in some of the new fields is much higher than in the traditional ones. The "first actor" of the new program will be the private investor, even if he will need to be guided by national and regional planning. The economists of ECLA believe that in "efficiency" lies the solution to economic problems, and this can be guaranteed only by a reactive and progressive entrepreneurial class. Even if adapted to the Latin American experience, the economic integration of the region is

1Griffin, op. cit., p. 9.

2Ibid.
based on the classical principles of economics. Raul Prebisch, Secretary of ECLA, one of the economists who put a lot of effort in the realization of the project, has stated:

We talk a lot about free enterprise in Latin America, but not always have we stressed the fact that free enterprise and free competition are inseparable terms. Besides stimulating technical progress and better allocation of resources, competition will correct one of the most important causes of the unequal income distribution that characterizes in general the Latin American countries.¹

Conclusions

The international effort for the development of Latin American countries, expressed in the various forms of cooperation presented in the thesis, should be used to support the economic integration of the region. At the moment, it seems the most realistic project, but it is still a very young one and needs a lot of help. For instance, it is impossible to develop industrial activities without the necessary social overhead capital. This is for the moment quite scarce in Latin America, especially in the form of education, energy, and transportation facilities. The Alliance for Progress could be of the greatest help to integration if it could coordinate its action not only in principle, but also in practice.

It is also obvious that the industrialization of the region requires enormous amounts of capital. The international capital market and the various international institutions could help in raising at least part of the necessary funds.

... in regard to the latter, it is recommended that the public foreign aid that now is given to the member countries individually be given to a regional investment coordinating agency which would be responsible for allocating these funds on the basis of the needs of LAFTA as a whole.²

¹Prebisch, Los Obstaculos Exteructurale, op. cit., p. 312.
²Griffin, op. cit., p. 20,
The task of the development of Latin America is such a difficult one that there is work to do for every agency and instrumentality: foreign investment, Alliance for Progress, international agencies, and the Free Trade Association. Every agency must coordinate its action with the others without losing needed resources for futile political reasons. The final goal is not to fight Communism, but to guarantee to the peoples of Latin America a decent level of life. Of course, there are also some political reasons that make it necessary to reach this goal as soon as possible. In fact, if international cooperation does not succeed in using the mechanisms we have examined, hostile influences may do it, bringing to the Western Hemisphere new systems based on different theories. Also, in international affairs, as in domestic relations, "efficiency" is the key to every problem,
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