United States-Latin American Relations

The following comments have been prepared in connection with your request for suggestions on measures to improve United States-Latin American relations.

As you already know, it is my feeling that the United States ought to consider whether it could not make at this time a stronger effort to assist the Latin American countries in coping with their problem of poverty.

Various published reports show that while in many respects the countries of Latin America are not as badly off as other "underdeveloped" parts of the world, nevertheless, their problem of poverty is so acute as to be a matter of concern both to themselves and to their neighbors. In their large cities, which may be in many respects like large cities in Western Europe and North America, with similar modern commercial and residential districts, mass communication facilities, and cultural and social institutions, comparatively larger proportions of the people live below the poverty line, and the slums in which the poor live are less affected by enforcement of minimum standards of housing and sanitation.

In small communities and in the rural zones of each country, in which the majority of Latin Americans live, the problems of poverty are felt to a much greater extent. Unlike the situation in the great cities, there are few medical doctors and other trained technicians in most rural communities of Latin America. There are low standards of comfort, few opportunities for education, few sanitary facilities, poor communications and transportation, and inadequate methods of social welfare in most of the rural hinterland.

To put the picture into statistical terms, the average per capita gross product in Latin America was \$245 in 1952 (at 1950 prices), and represented slightly less than one eighth of the sum of $2,000 which was the per capita gross product of the United States in that year.

There are no simple and easy panaceas for overcoming these problems of poverty. They can only be overcome by a sustained effort to increase employment, income and production, and to achieve whatever social and institutional reforms are necessary to make economic progress possible and to assure the equitable distribution of its benefits. For reasons which need not be elaborated here, but which are familiar to those who have followed among other things, the proceedings of the many postwar Inter-American conferences, with their repeated and prolonged consideration of economic and social problems, and their constant reiteration of the need for and promise of mutual aid, this effort has increasingly since the war taken the form, in Latin America, as in other parts of the world, of development programs which seek to expand and direct capital investment with a view to stimulating and accelerating the growth of the economy. You yourself are fully aware of the intensive efforts we in Puerto Rico have been making in this regard, and how our hopes have been kindled by what measure of success we have had.

As elsewhere in the world, Latin American development programs involve setting goals for economic growth; determining at what rate a country must grow to reach a given level of output and consumption within a given number of years; determining the volume of investment required in practice to reach these goals; deciding how the desired investment funds may best be obtained -- to what extent from domestic savings, to what extent from external sources, or, to put the point differently, to what extent consumption shall be allowed to participate in increased production; deciding, to the extent that requirements for foreign capital are indicated, how much time will be required before local savings out of the increased production will be sufficient to cover subsequent investment needs and interest and amortization on the external debt; determining the extent and character of the growth in demand for different types of goods and services in order to calculate investment requirements in the different sectors of economic activity and in the different branches of each section; determining, given the probable increment of productivity which may be obtained in each, the distribution of the labor force by activities, the transfers which must be obtained, and the destination and method of absorbing the transferred labor force; determining the capacity to import, and the extent to which imports can be restructured -- i. e. to what extent domestic production can be sustituted for imports in order that import capacity be reserved for those goods and services which are essential to continued expansion of national production at the desired rate. To say that all Latin American countries have carefully laid development plans encompassing all of these aspects would be overstating the case. Nevertheless, extensive planning has taken place, both in the aggregative thinking of the international agencies, and in the thinking of a majority of the countries, particularly with the aid of international missions of one sort or another.

It would, perhaps, be an interesting topic for debate whether development planning of this sort can in fact bring about the accelerated rate of growth more effectively than a laissez faire economics relying principally on the free play of market forces. But the debate would be academic. For the fact is that the countries are convinced that their salvation lies in planning. Both planning and action machinery is in motion. To hope for a reversal of this thinking and action, for a return to the days of simpler economic relationships, is Quixotic. The problem is to work with the various countries to create, within the new framework, a mutually favorable environment, to enhance their ability to achieve their economic and social goals without falling into the pit of rigid state regulation of the economy. The problem, to put the point differently, is to walk face forward into the latter half of the Twentieth Century, with all of its profound challenges as well its deadly hazards, rather than, as someone has written, timidly walking backwards into the future.

Ultimately, the relative magnitude of the supplementary volume of foreign capital required to develop a satisfactory rate of growth in the Latin American economies as a whole can only be determined through a country by country study, made in the light of certain agreed upon premises, in the light of particular national needs, trends, and resources, and with uneconomic duplication of facilities removed to whatever extent possible through international negotiation.

Certain indicators as to the possible magnitude, purely for comparative purposes, may be obtained, however, in the exploratory thinking of the Economic Commission for Latin America.

During the period 1935-1951, according to one of its recent studies,[1] the average annual rate of expansion of aggregate output in Latin America was 4.7 per cent. Because of the concomitant growth of population, the average increase per capita, however, was only 2.5 per cent.

In some respects, this may be considered a good record. It is for example, ahead of the corresponding rate in the United States during many of its early economically formative years. But the study prepared for the Commission does not consider it to be satisfactory on various counts. The problem today is not one of a gradual process of technical discoveries and the accumulation of capital. Rather, it is the assimilation and

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1/ Preliminary Study of the Technique of Programming Economic Development. Economic Commission for Latin America. Fifth Session, Rio de Janeiro, Brazil. 9 April 1953.

adaptation of today's techniques, a process which does not have to cover the same phases nor take as long. Moreover, there are psychological and social factors of decisive importance in weighing the need for accelerating the rate of growth. In the process of assimilation and adaptation, the pattern of consumption in the more advanced countries tends to be extended more rapidly to the underdeveloped countries than the forms of production, a fact which gives rise to economic and social tensions that can only be eased by increasing the rate of economic development.

As has been pointed out previously, per capita production in the United States in 1952 was eight times that of Latin America. The study takes as a reasonable objective, therefore, the attainment as quickly as possible in Latin America of a level of production per capita one third that of the United States as of 1952. At present comparative rates of growth of production and population, it would take 42 years to achieve this objective. If, however, the rate of growth of production per capita could be increased from its present level of 2.5 per cent up to 4.1 per cent per year, the time required would be reduced to 24 years. In this connection, it should be noted that the rate of growth of per capita production in Puerto Rico since 1941 has been 4.1 per cent per year. Thus, what the study proposes is, in effect, to raise the rate of growth in Latin America as a whole only to that observed in Puerto Rico during the past decade and a half, a rate which we now know to be insufficiently rapid to reach our original employment and income goals.

During the postwar period, 1946-1952, investment in Latin America as a whole amounted to 16.5 per cent of gross production. In order to raise the rate of increase in per capita product to 4.1 per cent per year, the study believes it would be necessary to raise investment to 20 per cent of gross product, with the difference to be made up by foreign capital.

The volume of foreign capital, and the length of time during which such capital increments would be needed, would depend upon the balance to be struck between growth of consumption and growth of savings in the Latin American economy. For illustrative purposes, the study offers two alternatives: one in which more emphasis would be placed on stimulating domestic savings out of the increased product, in order to reduce dependence on external capital at an early date; and the other, in which there would be relatively more expansion of consumption with the termination of the dependence on external resources postponed to a later date.

Given to the Record.

Without going into the detail of the estimates, it may be pointed out that under the first alternative, net new foreign capital of $2.2 billion would be required annually for a period of seven years, or a total of $15.4 billion. Under the second alternative, an annual increment of $3.1 billion for a period of fourteen years, or a total of $44.0 billion, is the figure indicated. At the end of either period, it is believed that domestic savings could be high enough to provide the necessary investment to keep per capita gross product growing at an annual rate of 4.1 per cent, as well as to service the then higher external debt.

These figures are admittedly crude estimates, for illustrative purposes, and may fall wide of the mark in either direction. But they do serve to give some approximation of the possible foreign capital supplement required to make even an appreciable dent in Latin American poverty in the foreseeable future.

The relative magnitude of that supplement may be seen more clearly by comparing it to the net increase in foreign investment in Latin America during the seven year period 1946-1952. So far as I have been able to determine, the net increase in capital from United States, both private and public; and from the World Bank during that period (but not including any net increase from European and other sources) was about $3.0 billion, or an average of about $0.4 billion per year. Thus, under the first alternative of the Economic Commission' study, foreign capital requirements for the next seven years would be five to six times as much as the public and private United States investment, together with the World Bank investment, of the postwar period. Under the second alternative, the requirements would be ten times as great, for a period of fourteen years. In either event, it may be repeated, the objective is merely to raise gross product per capita in Latin America in the next quarter of a century to one third the level existing in the United States in 1952. Clearly, achieving even this modest objective is a formidable task, and one that could not be entered into lightly on either side.

Less obvious, but of even greater significance to United States-Latin American understanding and rapport is the changing structure of economic relationships implied by the logic of an accelerated rate of growth to be achieved through sizeable injections of foreign capital. For, were the people of the United States to extend further assistance to the people of Latin America even beginning to approach the magnitudes discussed above, they would be bewildered and in many cases angry to see their effort followed by further Latin American programs to develop competitive industries, to substitute one type of import for another, perhaps even to reduce the total volume of imports.

For businessmen who obtained new orders, the change would be agreeable. But to those who saw their markets reduced or eliminated, the change would be difficult to explain. American farmers, for example, who are already closing down much of their productive capacity because of mounting surpluses and falling prices, might take a dim view of Latin American efforts to treble agricultural production, and to cut down on imports of foodstuffs.

But these changes are implied, chiefly because there is no reason to believe that Latin American exports could expand at the same rate as their total volume of production would expand at the accelerated growth rate. The propensity of the United States to import is limited, and there are no indications that past relationships (e.g. an increase of 0.66 per cent in imports for each 1 per cent increase in industrial output) will change notably in the foreseeable future. Furthermore, for the past quarter of a century, the elasticity of demand for Latin American imports was higher in the United States than in Europe. For these reasons, the study assumes that Latin American exports would not tend to increase at an annual rate of more than 2.2 per cent.

At the same time, the needs for remittances of profits and interest would be growing with the growth of the external debt, and would take up a correspondingly larger proportion of the capacity for external payments. Depending on the relative amounts of private and public capital, and the yield needed on each, remittances would, it is estimated, under the first alternative, rise to anywhere from 20 to 28 per cent of the capacity for external payments, as against 12.3 per cent for the period 1946 to 1952. Under the second alternative, remittances would require 31 to 50 per cent of payment capacity.

Correspondingly, the capacity to import (i.e. external payment capacity less remittances of profits and interest and other balance of payments outflows) would decline. Thus, says the study, if exports grow at around 2.2 per cent annually, and the terms of trade remain at the 1952 level, Latin American imports would have to decline to 5.5 per cent of gross product by 1977, as against 21.3 per cent from 1925-29 and 15 per cent in 1946-52. "It is evident" conclude the authors "that this low import coeffient...would call for a very intense effort of import substitution..."a task that will not be easy because "...the economically more advanced countries of Latin America have already completed the stage of easy substitution."

I am not trying to develop here the many ramifications and complications introduced by development planning and action to accelerate rates of economic growth. Rather, I am simply trying to drive home the general point made earlier, namely, that the situation is a highly dynamic one, in which the whole logic of events is to make inter-American economic relationships more complicated, more touchy, more difficult, and we must face this fact in our thinking about the problem.

Given some twenty countries, of various sizes, shapes, descriptions and cultural patterns -- to say nothing of a miscellany of minor dependencies of European countries -- all trying to plan for their economic and social development, to direct the flow of capital and labor, to utilize their import capacities to achieve planned objectives, it stands to reason that international or inter-American economic relationships will inevitably become and will continue to be more complicated than heretofore, even under the best of circumstances. When to this basic fact is added the further disturbing element of fluctuations in markets and the terms of trade, which throw development plans awry, a situation which is difficult at best can become a seedbed of misunderstanding and ill feeling. It is not without significance that the President's Special Ambassador to Latin America, Dr. Milton S. Eisenhower, reported after his visit in 1953, an excellent rapport between the United States and the Latin American republics, except in the field of economic relationships.

It is against this background that we must observe the present outlook for economic and social development Latin America. Quite frankly, that outlook is not good. In the words of a recent study by the Inter-American Economic and Social Council,

> "...the flow of public and private capital for economic development purposes since the close of World War II must be regarded as low relative to the requirements of underdeveloped countries. The explanation for this is not to be found in a lack of savings in the United States, the major postwar capital exporter, or in other highly developed countries, but rather in the presently prevailing political, economic, and institutional characteristics of the developed and underdeveloped countries as well as the international political situation. It is these basic and not easily remediable factors which make it doubtful that Latin America will enjoy a greatly increased flow of foreign capital for some years to come. Accordingly, some of the Latin American countries may be compelled to reduce or modify their industrialization goals."2/

The implication of this outlook should be weighed most carefully. For as students of social phenomena have pointed out, it is not the people without hope, but rather, the people who have caught a vision of a world better than the one they know who are the most prone to rebel at obstacles that may stand in their way.

2/ Some Problems of Economic Development in Latin America. Pan American Union, Washington, D. C. 28 December 1953.

In common with people elsewhere, the people of Latin America have seen the startling juxtaposition in historical time of the unemployment and misery of the 1930's on the one hand with the miracles of production of the Second World War on the other; and it has driven too deeply into their consciousness the belief that poverty can be overcome, that every man can live, if not in luxury, at least in simple comfort and dignity, for the idea to be easily abandoned.

In the absence of at least partial fulfillment in reality, the well justified visions and hopes and plans of the past decade can all too easily become engines of further frustration and bitterness. Should such an eventuality occur, the possibility of social manifestations even more deeply distressing to the people of Latin America than to their friends is always present. Nor can we overlook the potential cumulative impact of such manifestations on the larger world scene.

In this general situation, I would venture the suggestion that it would be extremely well received in Latin America if, in whatever manner, and at whatever time and place it deems appropriate (preferably at the Rio Conference in November) the United States would reassure the Latin American republics of its continuing awareness of their problems, as well as of its deep interest in their economic and social development and welfare; and furthermore, that as an earnest of its desire to help them to achieve their own goals, as well as to implement the many resolutions jointly agreed upon at Inter-American conferences in recent years, it would make a concrete proposal. Specifically, it would invite them, through the Inter-American Economic and Social Council and with the assistance of the Economic Commission for Latin America, jointly to prepare a set of concurrent and coordinated economic and social development plans, using the planning techniques which have been developed in response to the Caracas resolutions of February, 1953, establishing certain mutually acceptable premises as to rates of development to be achieved in their national incomes, (say, a ten year program designed to accelerate the rate of growth of per capita product in Latin America by 50 to 75 per cent) and determining the corresponding amount and character of external capital required, and the implied pattern of trade relationships among themselves and with the United States and the rest of the world. These plans would be prepared with the understanding that once agreement is reached (the United States having exercised its rights as a member of the Council to participate in the planning process), the United States would undertake to assist them, both through its own resources, and in cooperation with existing or new international agencies, to obtain the required assistance, including both private investment, and public loans, and, where necessary to the orderly development of the plans, grants-in-aid, etc. Should such a proposal be made, it should also be made clear that its acceptance would not be construed as implying postponement of consideration of requests for immediate assistance for well conceived and worthy projects which are already in the blueprint stage.

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Having said this much, I hasten to add that I do not regard this proposal either as a "crash program" to ward off a threatened deterioration of United States-Latin American relations, nor as a "giveaway" program. For, in the first place, it would contemplate a calm, reasoned, balanced, orderly expansion of activities and developments already underway in a continued joint effort to achieve broad goals mutually agreed upon and specifically spelled out on numerous occasions. In the second place, while grants-in-aid would not be ruled out, it would continue to place major emphasis, as it has been placed in the past, on the flow of private investment, supplemented by public loans as necessary.

For Latin America, such a proposal would give not only an immeasurable lift to morale; it would also be of very considerable assistance in the technical problems of planning and programming economic development.

Despite shortages of statistical data and trained personnel, as well as the somewhat primitive state of analytical techniques, there has been more actual and careful development thinking and planning than is generally known, in Latin America as elsewhere, both in general and in specific terms. You are, of course, aware of the high quality of the work being carried out by the major regional organizations - the Inter-American Economic and Social Council of the Organization of American States, and the United Nations Economic Commission for Latin America. But mention should be made also of the work being done in the individual countries.

In getting together our thoughts for this paper, we made a brief survey of recent planning activity in the various republics and dependent territories. As hasty and incomplete as it was, the survey revealed at least twenty-one specific country studies made for the purpose of analyzing economic and social development potentialities and problems. While they have been made under varying auspices, have lacked any common body of premises and techniques, and doubtless are not comparable in many other aspects, nevertheless, they have made substantial beginnings in analyzing to a greater or lesser degree as the case may be the trends and needs in agriculture, manufacturing, mining, utilities and transportation, housing, health and welfare; they have looked at availabilities of labor, capital, natural resources; at money and banking policies, fiscal policies; at available and needed administrative setups; at external trade potentialities, external capital requirements.

Certainly much more needs to be done in establishing or strengthening planning organizations, in improving statistical data and analytical techniques, in reviewing plans vis a vis their practicability and their compatibility with each other. That is the logical direction of movement, and one in which the countries themselves desire to proceed. The work of the Committee for Economic Cooperation of the Ministers of Economy of the Central American Isthmus, looking not only toward coordination but even integration of their economies, is a case in point. One of the major purposes of the above proposal, therefore, would be to provide further impetus to the movement in this direction, and to create premises and conditions under which there could be constantly improved individual and joint analysis of economic and social problems and requirements, for the purpose of formulating consistent and viable action programs.

But specific benefits would accrue to the United States as well as to Latin America, I believe, from the proposal I have suggested above. I have noted, for example, the significant comment made by the Office of International Trade of the United States Department of Commerce in its recent study of factors limiting United States investment abroad. "Most of the barriers to foreign investment," it wrote, after reviewing the situation in Latin America, "arise out of national policy designed (1) to protect or favor national ownership and employment, or (2) to regulate financial and other activities for specific national or social objectives. ...it is fairly clearly recognized throughout Latin America that foreign capital and technology are still required, unless development is to slow down appreciably. The practical problem, therefore, becomes one of bridging the gap between the legitimate claims of the foreign investor and the legitimate national aspirations of the capital-receiving countries. <u>The problem of working out an adjustment would doubtless be much less difficult if it were possible to remove the subject for a time from the public forum and put it on a more realistic negotiating basis with full recognition of mutual interests.</u>" 3/

3/ Factors Limiting U. S. Investment Abroad. Part I, Survey of Factors in Foreign Countries. U. S. Department of Commerce, Office of Foreign Trade. 1953. p. 6

Granting the point of the Department of Commerce, and it is certainly consistent with the general point of view of this memorandum, the major question is, what constitutes a "realistic negotiating basis"? A piecemeal approach to individual problems as they arise? Or the joint preparation of a matrix within which individual questions can be mutually conceived and mutually resolved? If development planning is to be properly implemented and translated into development action, the implications must be fully understood and accepted on both sides. The needs of Latin America to treble agricultural output, to quadruple (at least) industrial production, to shift imports from foodstuff and consumption items to capital equipment, fuel, and raw materials, and the requirements for public as well as private capital, must receive full recognition. Conversely, the needs of United States investors for safety of and a reasonable return on their capital, for currency convertibility and the right to take profits out of a country if they desire must receive equal recognition. A coordinated development plan, prepared along the lines suggested above would, I believe, provide the foundation for a realistic negotiating basis.

It may also be observed that the approach suggested offers a framework within which immediate as well as long range problems of adjustment might be negotiated and resolved. As the ECLA study referred to above points out, there is a considerable instability in investment arising from the influence of irregular movements of the external terms of trade; and this in turn influences the degree to which existing capital can be utilized, with corresponding impacts on productivity and the capital-output ratio on which the long range plans depend. Development programs should, therefore, not only aim at the general goal of as high a rate of economic development as may be practicable, but also ensure that such development shall be regular and orderly with a minimum of fluctuations. The consequences of external instability on domestic demand and, therefore, on the degree of capital utilization, it is held, may be checked by a compensatory fiscal policy in which investment must play a very active role, with emphasis shifted as necessary from high to low import type investments and back again, to counteract fluctuations in external payment capacity. In the words of the study, "...A development programme is a concrete means for evolving such a policy and its forsightedness must necessarily be based on analysis of past events and a projection of the future. Consequently, instability is one of the principal justifications for a programme. The need to accelerate economic growth is another."

"International action can facilitate greatly the implementation of a programme, either by methods which will attenuate the sources of fluctuations or by methods which will tend to compensate for their consequences in countries undergoing a process of development."

I hope that these remarks may prove helpful to you in your own thinking on this large and difficult problem, and that, on further reflection, you may find merit in the suggestion offered. Needless to say, the people of Puerto Rico will be eager to do everything in their power to further any such joint effort, partly because of their desire, born of their own experience, to help others who are engaged in the grim struggle to overcome poverty, and partly because of their hope that they will be able to serve increasingly as a bridge of understanding between the peoples of Latin America and of the United States.