I. Introduction

In Latin America, reality is undermining the out-dated schema of the nternational division of labour, which achieved great importance in the ineteenth century and, as a theoretical concept, continued to exert coniderable influence until very recently.

Under that schema, the specific task that fell to Latin America, as part of the periphery of the world economic system, was that of producing food and raw materials for the great industrial centres.

There was no place within it for the industrialization of the new countries. It is nevertheless being forced upon them by events. Two world wars in a single generation and a great economic crisis between them have shown the Latin-American countries their opportunities, clearly pointing the way to industrial activity.

The academic discussion, however, is far from ended. In economics, deologies usually tend either to lag behind events or to outlive them. It is true that the reasoning on the economic advantages of the international division of labour is theoretically sound, but it is usually forgotten that it is based upon an assumption which has been conclusively proved false by facts. According to this assumption, the benefits of technical progress tend to be distributed alike over the whole community, either by the lowering of prices or the corresponding raising of incomes. The countries producing raw materials obtain their share of these benefits through international exchange, and therefore have no need to industrialize. If they were to do so, their lesser efficiency would result in their losing the conventional advantages of such exchange.

The flaw in this assumption is that of generalizing from the particular. If by "the community" only the great industrial countries are meant, it is indeed true that the benefits of technical progress are gradually distributed among all social groups and classes. If, however, the concept of the community is extended to include the periphery of the world economy, a serious error is implicit in the generalization. The enormous benefits that derive from increased productivity have not reached the periphery in a measure comparable to that obtained by the peoples of the great industrial countries. Hence, the outstanding differences between the standards of living of the masses of the former and the latter and the manifest discrepancies between their respective abilities to accumulate capital, since the margin of saving depends primarily on increased productivity.

Thus there exists an obvious disequilibrium, a fact which, whatever its explanation or justification, destroys the basic premise underlying the schema of the international division of labour.

Hence, the fundamental significance of the industrialization of the new countries. Industrialization is not an end in itself, but the principal means at the disposal of those countries of obtaining a share of the benefits of technical progress and of progressively raising the standard of living of the masses.

The Latin-American countries are thus faced with an immense general problem, embracing a series of minor ones which must be defined before embarking on the long task of research and practical measures which will be necessary if there is a firm intention to solve the problems.

It would be premature, in this initial report, to draw conclusions that would have only the doubtful value of an improvization. Admittedly much remains to be done in the Latin-American countries, both in learning the facts and in their proper theoretical interpretation. Though many of the problems of these countries are similar, no common effort has ever been made even to examine and elucidate them. It is not surprising, therefore, that the studies published on the economy of Latin-American countries often reflect the points of view or the experience of the great centres of world economy. Those studies cannot be expected to solve problems of direct concern to Latin America. The case of the Latin-American countries must therefore be presented clearly, so that their interests, aspirations and opportunities, bearing in mind, of course the individual differences and characteristics, may be adequately integrated within the general framework of international economic co-operation.

The task ahead is thus considerable and the responsibility heavy. To deal with it methodically, it would be necessary to begin with a preliminary examination of the principal problems as a whole, at the same time bringing out certain general considerations suggested by direct contact with the economic life of Latin America. Such is the purpose of this report.

The industrialization of Latin America is not incompatible with the efficient development of primary production. On the contrary, the availability of the best capital equipment and the prompt adoption of new techniques are essential if the development of industry is to fulfil the social objective of raising the standard of living. The same is true of the mechanization of agriculture. Primary products must be exported to allow for the importation of the considerable quantity of capital goods needed.

The more active Latin America's foreign trade, the greater the possibility of increasing productivity by means of intensive capital formation. The solution does not lie in growth at the expense of foreign trade but in knowing how to extract, from continually growing foreign trade the elements that will promote economic development.

If reasoning does not suffice to convince us of the close tie between economic development and foreign trade, a few facts relating to the situation today will make it evident. The economic activity and level of employment in the majority of the Latin-American countries are considerably higher than before the war. This high level of employment entails increased imports of consumer goods, both non-durable and durable, besides those of raw materials and capital goods, and very often exports are insufficient to provide for them.

This is evident in the case of imports and other items payable in dollars. There are already well-known cases of scarcity of that currency in certain countries, despite the fact that the amount of dollars supplied by the United States to the rest of the world in payment of its own imports was considerable. In relation to its national income, however, the import coefficient of the United States has, after a persistent decline, arrived at a very low level (not over 3 per cent). It is, therefore, not surprising that, notwithstanding the high income level of the United States, the dollar resources thus made available to the Latin-American countries seem insufficient to pay for the imports needed for their intensive development.

It is true that as European economy recovers, trade with that continent can profitably be increased, but Europe will not supply Latin America with more dollars unless the United States increases its import coefficient for European goods.

This, then, is the core of the problem. It is obvious that if the above-mentioned coefficient is not raised, Latin America will be compelled to divert its purchases from the United States to those countries which provide the exchange to pay for them. Such a solution is certainly very dubious, since it often means the purchase of more expensive or unsuitable goods.

It would be deplorable to fall back on measures of that kind when a basic solution might be found. It is sometimes thought that, by reason of the enormous productive capacity of the United States, that country could not increase its import coefficient for the purpose of providing the basic solution to this world problem. Such a conclusion cannot be substantiated without a prior analysis of the factors that have caused the United States steadily to reduce its import coefficient. These factors are aggravated by unemployment, but can be overcome when it does not exist. One can understand that it is of vital importance, both to Latin America and the rest of the world, that the United States achieve its aim of maintaining a high level of employment.

It cannot be denied that the economic development of certain Latin-American countries and their rapid assimilation of modern technology, in so far as they can utilize it, depend to a very large extent upon foreign investment. The implications involved render the problem far from simple. The negative factors include the failure to meet foreign financial commitments during the great depression of the nineteen thirties, a failure which, it is generally agreed, must not be allowed to happen again. Fundamentally the problem is the same as that referred to in the preceding paragraph. The servicing of these foreign investments, unless new investments are made, must be paid for by means of exports in the same currency and, if these do not show a corresponding increase, in time the same difficulties will arise again. They will be the greater if exports fall violently. The question thus arises whether, pending that basic solution, it would not be wiser to direct investments toward such productive activities as would, through direct or indirect reduction of dollar imports, permit the regular servicing of foreign obligations.

Here one must beware of dogmatic generalizations. To assume that the meeting of foreign commitments and the proper functioning of the monetary system depend upon nothing more than a decision to obey certain rules of the game is to fall into an error involving serious consequences. Even when the gold standard was in operation in the great centres, the countries of the Latin-American periphery had great difficulty in maintaining it, and their monetary troubles frequently provoked condemnation from abroad. The more recent experiences of the large countries have brought a better understanding of some aspects of the situation. Great Britain, between the two wars, encountered difficulties somewhat similar to those which arose and continue to arise in the Latin-American countries, which have never taken kindly to the rigidity of the gold standard. That experience doubtless helps to bring about a better understanding of the phenomena of the periphery.

The gold standard has ceased to function, as in the past, and the management of currency has become even more complex in the periphery. Can all these complications be overcome by a strict application of sound rules of monetary behaviour? Sound rules for these countries are still in the making. Here there arises another vital problem; that of utilizing individual and collective experience to find a means of harmoniously fitting monetary action into a policy of regular and intensive economic development.

Let this not be interpreted as meaning that the classic teachings are of no value. If they do not provide positive rules, they at least show what cannot be done without impairing the stability of the currency. The extremes to which inflation has gone in Latin America show that monetary policy was not based upon these teachings, since some of the larger Latin-American countries increased circulation to a greater extent than did those countries which had to meet enormous war expenditure.

There is yet another aspect of the problem of dollar shortage. It is true that, as already stated, a high level of employment increases imports. But it is also a fact that an excessive monetary expansion has often unduly increased the pressure on the balance of payments, thus leading to the use of foreign exchange for purposes not always compatible with economic development.

These facts must be taken into account in an objective analysis of the effects of the inflationary increase on the process of capitalization. It must, however, be admitted that, in most of the Latin-American countries, voluntary savings are not sufficient to cover the most urgent capital needs. In any case, monetary expansion does not bring about an increase in the foreign exchange reserves necessary for the importation of capital goods; it merely redistributes income. It must now be determined whether it has led to a more active capital formation.

The point is a decisive one. The raising of the standard of living of the masses ultimately depends on the existence of a considerable amount of capital per man employed in industry, transport and primary production, and on the ability to use it well.

Consequently, the Latin-American countries need to accumulate an enormous amount of capital. Several have already shown their capacity to save to the extent of being able to finance a large part of their industrial investments through their own efforts. Even in this case, which is exceptional, capital formation has to overcome a strong tendency towards certain types of consumption which are often incompatible with intensive capitalization.

Nevertheless, it does not appear essential to restrict the individual consumption of the bulk of the population, which, on the whole, is too low, in order to accumulate the capital required for industrialization and for the technical improvement of agriculture. An immediate increase in productivity per man could be brought about by well-directed foreign investments added to present savings. Once this initial improvement has been accomplished, a considerable part of the increased production can be devoted to capital formation rather than to inopportune consumption.

How are sufficient increases in productivity to be achieved? The experience of recent years is instructive. With some exceptions, the rise in employment necessitated by industrial development was made possible by the use of men whom technical progress had displaced from primary production and other occupations, especially certain comparatively poorly paid types of personal services, and by the employment of women. The industrial employment of the unemployed, or ill-employed, has thus meant a considerable improvement in productivity and, consequently, where other factors have not brought about a general lowering of productive efficiency, a net increase in national income.

⇒ there is much room for ↑ productivity in primary prod.

The great scope for technical progress in the field of primary production, even in those countries where it has already been considerable, together with the perfecting of existing industries, could contribute, to national income, a net increase that would provide an ever-increasing margin of saving.

All this, however, especially in so far as it is desired to reduce the need for foreign investments, presupposes a far greater initial capitalization than is usually possible with the type of consumption of certain sectors of the community, or the high proportion of national income absorbed, in some countries, by fiscal expenditure, which makes no direct or indirect contribution to national productivity.

It is, in fact, a demonstration of the latent conflict existing in these countries between the desire to assimilate, quickly, ways of life which the technically more advanced countries adopted step by step as their productivity increased, and the need for capitalization without which this increase in productivity could not be achieved.

For the very reason that capital is scarce, and the need for it great, its use should be subjected to a strict standard of efficacy which has not been easy to maintain, especially where industries have developed to meet an emergency. There is, however, still time to correct certain deviations and, above all, to avoid them in the future.

In order to achieve this, the purpose of industrialization must be clearly defined. If industrialization is considered to be the means of attaining an autarchic ideal in which economic considerations are of secondary importance, any industry that can produce substitutes for imports is justifiable. If, however, the aim is to increase the measurable well-being of the masses, the limits beyond which more intensive industrialization might mean a decrease in productivity must be borne in mind.

Formerly, before the great depression, development in the Latin-American countries was stimulated from abroad by the constant increase of exports. There is no reason to suppose, at least at present, that this will again occur to the same extent, except under very exceptional circumstances. These countries no longer have an alternative between vigorous growth along those lines and internal expansion through industrialization. Industrialization has become the most important means of expansion.

This does not mean, however, that primary exports must be sacrificed to further industrial development. Exports not only provide the foreign exchange with which to buy the imports necessary for economic development, but their value usually includes a high proportion of land rent, which does not involve any collective cost. If productivity in agriculture can be increased by technical progress and if, at the same time, real wages can be raised by industrialization and adequate social legislation, the disequilibrium between incomes at the centres and the periphery can gradually be corrected without detriment to that essential economic activity.

This is one of the limits of industrialization which must be carefully considered in plans of development. Another concerns the optimum size of industrial enterprises. It is generally found in Latin-American countries that the same industries are being attempted on both sides of the same frontier. This tends to diminish productive efficiency and so militates against fulfilling the social task to be accomplished. The defect is a serious one, which the nineteenth century was able to attenuate considerably. When Great Britain proved, with facts, the advantages of industry, other countries followed suit. Industrial development, however, spurred by active competition, tended towards certain characteristic types of specialization which encouraged profitable trade between the various countries. Specialization furthered technical progress and the latter made possible higher incomes. Here, unlike the case of industrial countries by comparison with those producing primary products, the classic advantages of the division of labour between countries that are equal, or nearly so, followed.

The possibility of losing a considerable proportion of the benefits of technical progress through an excessive division of markets thus constitutes another factor limiting the industrial expansion of these countries. Far from being unsurmountable, however, it is a factor which could be removed with mutual benefit by a wise policy of economic interdependence.

Anti-cyclical policies must be included in any programmes of economic development if there is to be an attempt, from a social point of view, to raise real income. The spread of the cyclical fluctuations of the large centres to the Latin-American periphery means a considerable loss of income to these countries. If this could be avoided, it would simplify the problem of capital formation. Attempts have been made to evolve an anti-cyclical policy, but it must be admitted that, as yet, but little light has been thrown on this subject. Furthermore, the present dwindling of metallic reserves of several countries means that, in the event of a recession originating abroad, they would not only be without a plan of defense but would lack means of their own to carry out the measures demanded by the circumstances.

The principal problems having been set forth in this first part of the report, the following sections will be devoted to some of their outstanding aspects, which must be discussed both on account of their intrinsic importance and of the need for carrying out systematic research on them.[1]

[1] The obstacles in the way of carrying out such a task in Latin America are well known. The greatest difficulty is perhaps the small number of economists capable of an original approach to the specific problems of these countries. For various reasons, it has not been possible to supply the lack by training an adequate number of young men of high intellectual calibre. Considerable progress has been made by sending them to the great European and American universities, but this is not sufficient. One of the most conspicuous deficiencies of general economic theory, from the point of view of the periphery, is its false sense of universality.

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

It must not be thought, however, that this desire springs from an exclusive individualism. On the contrary, Latin-American economists can only accomplish it on the basis of a sound knowledge of the theories expounded in the great countries with their wealth of universal truths. An intelligent knowledge of the ideas of others must not be confused with that mental subjection to them from which we are slowly learning to free ourselves.