

SECOND INTERAMERICAN CONFERENCE

FOR DEMOCRACY AND FREEDOM

Caracas, April 1960

Question II, Item b) of the Agenda:

THE ECONOMIC RELATIONS BETWEEN  
THE UNITED STATES AND COUNTRIES EXPORTING PRIMARY PRODUCTS

José Figueres

Adolf A. Berle, Jr.

March 1960

The Economic Relations Between the United States and Countries Exporting Primary Products are only a part of a general problem of our time. It would be more comprehensive for purposes of study to speak of the relations between advanced and retarded countries, roughly dividing the world in two camps.

Indeed, Western Europe should now share with the United States the central position in the world economy, and the responsibility for the development of the poorer nations, to everybody's benefit.

Furthermore, should the Cold War end, industrialized Russia would be in the same camp with the U. S., Western Europe and other advanced countries, while all the less fortunate nations would be the "proletarian" section of mankind.

What is happening in the international economy today is an approximate repetition of the course followed by each of the present industrial countries, internally, during the last two hundred years. Minorities accumulated the scant wealth produced by whole societies. Minorities cultivated the arts and the incipient technology. More than social injustice there was, perhaps, lack of knowledge, and the work of the nation had a low yield. As the means to produce abundance were developed, there came, by coincidence or by necessity, the social forces that imposed a wider distribution of national income. This benefitted the majorities directly. And as a consequence internal markets were enlarged, bringing about the present inducement to an ever larger production.

The drama is now being re-enacted, not in the relations between

rich minorities and poor majorities within the advanced societies, but in the economic intercourse between the few enriched and the many "proletarian" peoples of today.

There are many similarities between the historic social movement, now nearly finished within the advanced countries, and the new international economic struggle, now beginning. It is hardly necessary to stress the parallel. Rather, to diminish errors, we should point at the differences between the two processes, born from changing circumstances and time.

For example, savings and capital accumulation were relatively easy in Europe and the United States at a time when social aspirations had not been awakened, and when the tendency to consume was held in check by the political power of the well-to-do minorities. Today, the retarded countries that are trying to adopt or maintain democracy, have to cope with modern social pressures, exerted by the growing power of the majorities. Consumers are also voters, and this makes the national sacrifices of capital formation difficult.

If the countries of the Soviet Bloc are saving a high proportion of their output, it is because their present rulers have as much political power to enforce capitalization as the rich minorities of the Western world had a century ago.

To such internal difficulties of capital formation in the underdeveloped democracies, one has to add the new international facts of economic life. Most of the poor countries (certainly all of the Latin American Republics) depend to a great extent on their primary exports, and experience a growing tendency to consume industrial imports. In this relatively intense external trade, they pay prices that represent the higher standards of

the advanced countries, and in exchange they receive prices that reflect their own modest living. Buying dear and selling cheap in the world market does not make savings and capitalization easy for the "proletarian" nations of today.

When outside capital is invested in these countries, the lack of knowledge of international economics (more than a deliberate "imperialism") allows investments to work as suction pumps, siphoning off most of the new capital created, into the investing countries.

This situation is maintained both by the ignorance or neglect of the ruling classes of Latin America, and by the power of the ruling classes of the richer nations. Government people assume that foreign investments are, per se, a substitute for local patrimony and the magic cure for all ills. Exporters in the poor countries, guided by the profit motive, are only interested in establishing a margin between local wages and export prices. They compete with one another, underselling, unmindful of the fact that they are exploiting their own peoples, to the short range benefit of the richer nations. On the other hand the businessmen of the advanced countries, checked at home by political and social forces, and taxed to pay for public services, find their power less fettered when they deal with the weaker peoples abroad. Laissez-faire has been bridled within advanced Western societies, but it is still rampant in international trade.

The prophecy of Karl Marx, whereby the proletariat of the industrial nations would become relatively poorer as time went on, has not been realized because of the countervailing power acquired by the majorities in our contemporary democracies. However, in the international field, the prophecy may yet hold true. The only way to avoid a relative worsening of conditions in the underdeveloped world is to establish political and ethical checks on the

power of the ruling classes, and to regulate international commerce. This requires economic knowledge and enlightened policies.

Internationally, the advanced societies have adopted minimum wage legislation and social security, out of an ethical criterion and out of economic necessity. The same reasoning should be applied to the commercial relations between the richer and the poorer countries. It is desirable to reduce the accumulation of the wealth of the world in a few nations, and also to widen the international markets for the products of modern technology.

The following suggestions might help in devising economic policies based on international solidarity, with a view to a harmonious development of the world:

1) Establish buffer stocks of the important primary commodities, and stabilize the international market. This should be done by the O. A. S. in our Hemisphere, or by the U. N. in the world. In the absence of such stabilization reserves, encourage quota systems to avoid severe fluctuations. A stable income is the first requisite for development.

2) Encourage a gradual transfer of property of foreign investments to local ownership. Permanent outside ownership, when carried on in a large proportion with respect to local wealth, is a new unintended version of colonialism, with all its economic and political consequences. The retarded countries cannot acquire technology and managerial skill without ownership.

3) In trying to inject capital from abroad, give preference to loans whenever possible. Amortizing well invested credit is probably the best means of capital formation today. "Invest now and save later" seems to express the degree of restraint that modern consumers accept.

4) Do not oppose, doctrinarily, the concept that economic activi-

ties are social functions, or that businessmen are really public servants. This concept is the best reconciliation for modern conflicting ideas on enterprise and ownership.

5) Do not be dogmatic on the issue of private-versus-public ownership. Most countries want, and probably need, a higher proportion of public enterprise than the United States has. Institutions should be expected to vary in different societies. Autonomous entities or authorities are the Latin American counterpart of U. S. corporations.

Devices such as the Corporación de Fomento in Chile, the National Banking System in Costa Rica, or, where appropriate, mixed companies like Volta Redonda Steel Corporation in Brasil, should be encouraged.

Foreign investments should be channeled towards the debt securities of such corporations.

6) Modern enterprises should be considered, among its other functions, as an instrument for the accumulation of capital.

Whenever possible, the economy should be so organized that the capital accumulated by enterprises, coming from profits made within each country, shall be added to its national patrimony, and therefore, shall remain available for the continuous development of that nation.

Where foreign corporations operate, arrangements should be made so that their profits (over and above a reasonable rate of interest distributed as dividends) should be capitalized locally, for the further growth of the country.

Due distinction should be made with profits made by such corporations outside the country in question.

Holdings of equity interest in such foreign companies by local in-

dividuals or institutions like pension funds and social security should be encouraged.

Foreign companies should pay their taxes to the nation where they operate, rather than to the country where they are incorporated.

7) Planning for the greatest attainable growth of the Hemisphere should be carried on, either by the O. A. S. or by E. C. L. A.

Priorities should be established for the use of available credit.

Investments in educational, health, and social facilities should be considered as highly reproductive.

8) In planning, the Latin American continent should be sub-divided into regions, as a step to an eventual overall economic integration. Among such sub-regions might be:

Mexico and Cuba

Central America, including Panama

The Bolivarian group

Argentina, Chile, Uruguay, Paraguay

Brazil

9) To accelerate economic integration, appropriate credit should be made available to industries that cannot compete with their neighbors, so that they will transform themselves into other activities.

Thought should be given to a joint Latin American Reserve Bank, leading to a common currency.

The foreign exchange reserves of Latin America, if properly handled by a single Reserve Bank, could be an important source of development funds.

Some sacrifice should be demanded in nominal sovereignty, to obtain the greater advantages of economic integration for Latin America.

10) The industrial countries of today should reduce in their own territory the activities that can be easily carried on by the less developed peoples, import the corresponding products from them, and so make it possible for them to buy the products of advanced technology or heavy industry.

This would lead such nations as the United States to a higher concentration of industry, a further reduction of agriculture, and a continued diminution of the working hours.

The financial cost of displacing anachronistic activities should be carried by society at large, on the principle of insurance, and not only by the individuals or firms affected.

There would be, of course, a series of implications in adopting such a policy of international division of labor.

11) In dealing with governments, show disapproval of corrupt, dictatorial, or dynastic regimes. Encourage honest, legitimate government by delegation. It is inconsistent and illusory to try to match supposed economic efficiency with recognized political vices.

12) Enunciate some moral aspirations for the economic affairs of the world. For example:

"International economic relations should be ruled by knowledge, justice and solidarity. They should follow the principle of equal compensation for equal effort. They should be a means to world development. They should help all nations to attain high levels of living, education, health, and social well-being. They should foster civilization and peace".