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Latin America from a Pacific Perspective

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Latin America from a Pacific Perspective 1/

On a recent flying trip that took me to eight Latin American countries in less than a month, I found myself looking at this great area, which was for me virgin territory, through eyes that had become slanted from long years of looking at Asia.

Contrasts

Even though warned not to make the mistake of regarding Latin America as a homogeneous unit, one is struck by the similarities in the various Latin countries. Only one of the eight countries I visited has not had a devaluation of its currency in the past nine years.^{2/} In four of them the exchange rate was undergoing some dramatic movements at the time of my visit and was one of the main topics of conversation in business and financial circles. By way of contrast, in a swing around Asia last year, I visited only two countries that had devalued since 1949. One was Thailand, which devalued in 1954, and the other was Pakistan, which has refused to devalue in 1949 but was finally forced to do so in 1955.

This comparison suggests the existence of greater financial stability in Asia than is warranted. There are Asian countries that have suffered from frequent devaluations, and overvaluation of the currency is a problem in several of those that have clung to their official rates over the past decade. Asia, however, has nothing to compare with the pervasiveness of exchange rate problems in South America.

As one would expect, the financial instability in Latin America is reflected in interest rates. In comparison with most Asian countries the Latin American rates are very high. In general bank lending rates range between 10 per cent and 20 per cent per annum, and these high rates are inadequate to really bring the demand and supply of funds into balance. Legal limitations on lending rates are common, but they are being circumvented by a variety of devices, one of the most important of which is the establishment of finance companies (financieras) which are free to lend at much higher rates than are banks. The going rates for such companies range from 15 to 20 per cent in Mexico, which is a relatively stable country, to as high as 40 per cent in Brazil and Argentina. These rates apply to secured loans to businesses of substantial size. Comparable loans in most Asian countries would bear rates of interest in the 6 to 12 per cent range.

Another striking feature of the Latin countries is the failure of any one of them to emerge at this late date as a significant exporter of manufactured goods. Not only has there been no Japan, there has not even been a Hong Kong, Taiwan, or an India in terms of development of a manufacturing industry with the capability of competing to a significant degree in foreign markets. For India and Taiwan, the least industrialized of the countries mentioned, manufactures account for 40 per cent and 30 per

Remarks delivered at a section seminar on December 12, 1962, following a trip to Venezuela, Brazil, Argentina, Chile, Peru, Colombia, Panama and Mexico.

2/ The exception was Panama, which uses the U. S. dollar as its currency.

cent, respectively, of total exports. For Mexico, the Latin American country with the highest proportion of manufactures in her exports, the ratio is only about 10 per cent.^{3/}

A third common characteristic that contrasts with Asia is the sparseness of the population in relation to resources. In the countries visited, population density per square mile ranged from 19 in Venezuela to 46 in Mexico. This contrasts with 653 in Japan and 237 in the Philippines, which is considered one of Asia's underpopulated countries. Generally speaking the Latin American countries give the impression of being genuinely underdeveloped in the sense that the potentialities for greater use of available resources are obvious. This is much less true in Asia, where there is far less empty land that might be put to economic use, and where the land is much more intensively cultivated.

Finally, ignoring GNP statistics, which are very unreliable for international comparisons anyway, appearances suggest that the Latin American countries have attained higher levels of living than most of Asia. Even Tokyo, which is now the biggest city in the world, gives the impression of being less wealthy in relation to its size, than the great metropolises of Rio de Janeiro, Buenos Aires, and Mexico City. This is a superficial impression, based partly on the more solid and enduring construction in these cities. It may be misleading since they have not suffered as Tokyo has from war and earthquakes. However, there is nothing that I saw in South America that compares with the cities of Pakistan and India, where draft animals are still extensively used for transport in the large cities, and where, in some cases, large numbers of people sleep in the streets or in public buildings. One does not find in Latin America the human-powered vehicles that are so common in Southeast Asia--the pedicabs, and in Hong Kong and Taiwan, rickshaws. As for automobiles, even though the traffic jams in Tokyo are monumental, Japan does not have as many autos per capita as Peru, to say nothing of Argentina. Argentina has nearly six times as many automobiles per capita as Japan and nearly 50 times as many as Pakistan.

Statistics on per capita consumption of food indicate that the Latin Americans eat more than the Asians, and they generally have a higher proportion of protein in their diets. This is quite apparent to the visitor, the relative cheapness of meat being an indication. In Argentina, Brazil, Chile and Peru a worker receiving the minimum wage would have to work between 110 and 160 minutes to earn enough to purchase one pound of the best beef. In Japan there is no legal minimum wage, but official reports indicate that the lowest paid workers there would have to work ten hours to earn enough to buy a pound of good beef.^{4/}

If we look at recreational facilities as represented by moving picture theaters, the situation is somewhat similar. Japan has considerably fewer movie seats per capita than Argentina, Chile, Colombia, Mexico and Venezuela. Venezuela, which is the highest in Latin America, has thirty times as many seats per capita as Pakistan, which is probably one of the lowest countries in Asia in this respect.

^{3/} These computations do not include processed foodstuffs, such as refined sugar, as manufactures.

^{4/} Japan's minimum wage law does not provide for any fixed minimum wage. Minimums are negotiable and they vary with industry and locality. This computation is based on a wage of ¥230 (64 cents) a day.

These scattered indicators deserve attention because there seems to be a widespread impression that Latin America is an area of desperate poverty. It has poverty, to be sure, and living conditions are in many cases distressingly bad, but the evidence of the statistics and my personal observations suggest to me that in general the people are substantially better off than those in most of Africa. There is even some question as to how the most advanced country in Asia, Japan, stacks up against some of South and Central American countries. The determination becomes difficult because of differences in national tastes and characteristics. The Japanese probably rank far ahead of Latin America in the number of cameras per capita, as well as in household appliances such as TV sets, washing machines, and refrigerators, not to mention electric rice cookers. They are also probably far ahead of all the Latin American countries in education, as a comparison of literacy rates testifies. It is difficult to weigh on the same balance cheap meat and good schools.

Questions

These comparisons raise some interesting questions. Both we and the Japanese are eminently satisfied with their economic position and performance. It is even widely believed that Japan is in a good position to give foreign aid to the "less developed countries." How do we square this with the fact that Japan, though she is now a highly industrialized country (she is now the world's fourth largest producer of steel), cannot boast of a standard of living for her 93 million people that is clearly much, if at all, superior of that enjoyed in the major countries of Latin America?

Why is it that Chile's 8 million people are looked upon as desperately in need of our assistance in very large amounts, while Thailand's much less affluent 25 million don't excite much interest and don't get much of our money?

Do we have any notion of the level of living that must be attained to ease the political tensions that concern us in Latin America? If Asian standards of living could be some means be raised to Latin American levels, would all our problems be solved and could foreign aid to that area be terminated?

Why should Latin America be so unstable financially compared to Asia when its wealth and potentialities are so much greater?

Given the tremendous difference between the population density of Asian and Latin American countries, is it possible that Latin America's best hope of improving on her already relatively high living standards will lie more in the direction of further exploitation of her land and natural resources rather than in competition with Asia's more numerous and more depressed masses in the industrial arena?

Inflation and invalidism

Looking at Latin America from a Pacific perspective, the theory that primary producing countries are doomed to poverty appears untenable. They may not achieve the prosperity that they aspire to, but Latin America, with all its heavy dependence on exports of primary commodities has already reached living standards that might well represent the goal of a great leap forward for most of Asia.

Similarly, the notion that inflation and currency depreciation are "built-in" factors in a developing economy and are avoidable only at the cost of economic stagnation, looks singularly unconvincing in the light of the relative stability that the developing countries of Asia have demonstrated during a period when many Latin American countries have been inflating their heads off. Though it might conceivably be argued that the inflation has stimulated growth and therefore helps explain why Latin America has attained higher living standards than Asia, this will not hold water. Inflation has been no boon to the Asian countries that have experimented with it, and experience has led Asia to reject the inflationist arguments.^{4/} It is hard to understand why these arguments still command a substantial amount of support in Latin America.

Putting aside for the moment the question of economic growth, inflation clearly is to blame for the fact that so many of the Latin American countries are perpetually on the "sick list", forever requiring emergency financial transfusions just to keep them afloat. Some of these are countries which even now are basically much better off than many Asian lands and which probably could, if they properly managed their affairs, qualify as donors of aid just as well as Japan.

The question of growth is not easily analyzed with the data that are available. In some countries, such as Chile, inflation has clearly been inimical to sound growth. In Brazil, the claim is made that the real rate of growth has been very high in spite of inflation. Perhaps there are figures that will prove this. I don't know how you would separate such pyramid-building operations as the construction of Brasilia in order to adjust the data so that they represented some meaningful index of the ability of the economy to satisfy genuine human needs. I don't know how you measure Brazil's growth accurately when the country's industrial production index provides data on only six of the 14 categories for the years since 1955. I don't see much evidence of impressive growth in the export record. Brazil's export volume was no higher in 1961 than it had been in 1946.

I would not argue that Brazil has not been experiencing some growth and development. I am sure that she has, though I seriously question the appearance of precision in the statistics that are usually cited to show how great the growth has been.

The tragedy of Brazil, to my mind, is that in spite of her wealth and her potential power, with a population nearly 70 per cent as large and an area more than 20 times as great as Japan's, Brazil is regarded as, and indeed regards herself as, an economic invalid. Japan on the other hand is universally thought of as a vigorous, robust power. Countries, like men, ought to be judged in terms of how well they fulfill their potential. On this basis, Brazil's performance is far from impressive.

Causes and consequences

If we step back and take a detached view of the economic problems and potentials of Asia and Latin America, I think it becomes apparent that some of the solutions that have been proposed for the problems are not likely to accomplish what is expected of them.

^{5/} See "Asian Views on Inflation and Economic Development" by Richard H. Kaufman, Review of Foreign Developments, November 6, 1962.

It ought to dawn on us that the strength and stability of a country is not directly correlated with its per capita GNP, its natural resources, or its rate of economic growth. The increase of growth rates and the improvement of living standards are desirable objectives, but we are going to be sadly disappointed if we bank on them being the key to peace and stability in the world. Achieving these objectives in Asia, with its overpopulation, limited resources, and bad climatic conditions has been and will continue to be far more difficult than in Latin America. However, the threat of internal communist subversion is a far more serious problem in Latin America than it is in most of Asia.

The political problems of the area are not necessarily the product of bad financial policies. I suspect that the more correct analysis is that the political and economic instability of Latin America have common roots. They are both derived from certain ideas of economic and social justice combined with an inadequate or incorrect conception of what is economically possible. This is an ancient problem. Jack Cade in the 16th century inflamed the London masses with promises that if he were king there would be "in England seven half-penny loaves sold for a penny."

The Latin American masses have to a distressing degree been victimized by ideas of a similar character to a far greater extent than the Asians. One finds a strong tendency in the popular mind to accept what might be called the "distributionist" in contrast to the "productivist" school in economics. That is to say, there has been a tendency to look to the political authority to improve the common lot by various kinds of transfer payments and legislation designed to improve the welfare of workers, but which patently exerts a depressing effect on productivity. The Asian countries, being poorer to begin with, have generally realized that they could not afford the elaborate social security and welfare programs that many of the Latin American countries have adopted. One senses important differences in popular attitudes in the two areas. Japan's very heavy investment in industrial plant and equipment in recent years has been made possible in part by the fact that industrial workers have been content to see their wages rise at a far slower rate than their productivity. The result has been that business profits have risen sharply, providing both the incentive and some of the means for increased investment. In Hong Kong a few years ago the female employees of the textile mills actually protested when the government enforced a reduction in the number of hours they could work. They evidently realized that in the highly competitive textile field, they could not hope to maintain their incomes if they reduced their hours of labor.

These are examples of attitudes that one doesn't encounter in Latin America. One is more likely to hear of flagrant featherbedding, of early retirement, of complicated and expensive welfare requirements which make it more attractive to use machines in cases where it would, in the absence of these laws, make more sense to use men, of laws which make it impossible to get rid of inefficient or redundant employees, of wage demands that would bankrupt the employer if he could not count on the government continuing to fuel the inflationary spiral.

One cannot put all the blame on the workers. The businessmen are afflicted similarly. With a few exceptions, they don't appear to be insisting on different policies. They don't blink very hard at wage demands that are clearly far in excess of productivity gains, since they are quite content to maintain profits by raising prices. They are not only resigned to, but are enthusiastic about policies which

make it profitable for them to invest in enterprises that not only do not have a prayer of a chance of selling anything abroad but which could not even compete at home if not heavily protected by tariffs and import quotas. This, of course, means that the consumers are taxed to provide these profits, which is one form of the redistribution of income. What does bring protests from these entrepreneurs is an anti-inflationary program that dries up their credit and their ability to cover their rising costs by raising prices. Needless to say they show no enthusiasm for a program that would expose them to free competition from outside and wipe out those that were too inefficient to survive.

There is still more blame to be assigned. A large part of it falls on the economics profession. In Latin America, economists of distinction and influence have taught that inflation in that area is inevitable if not desirable. They have taught that the law of comparative advantage is outmoded, and that, if Latin America is to progress, it must ignore it and use protective measures to develop industry, even if it is uneconomic. To what extent they have been responsible for the erection of unrealistic social security programs I cannot say, but I can't see that they are doing very much to restore the balance and place more emphasis on increasing productivity as contrasted with redistributing the national income.

Correction

The thinking of a whole people changes very slowly over time in the absence of some profound shock. Bitter experience can be a persuasive teacher, but we have never been willing to stand by and let nature take its course in Latin America. This means that if the Latin American countries that are suffering from the erroneous attitudes that I have cited are to change, it will have to be done through a long slow process of popular education, or through the strong-arm methods of dictatorship. We don't like the latter, even though we must admit that it was very fortunate that we were able to stuff a very unpopular stabilization program down the throats of the Japanese in 1949 because we had an army of occupation on the scene.

We don't know much about popular education in economics, but the time has come to find out how it can be accomplished. We certainly cannot afford to leave this field to the communists and Fidelistas with their absurd distortions. Nor can we leave it to those economists who try to clothe in respectable dress erroneous economic ideas that have demonstrated popular appeal since the days of mercantilism and John Law.

The least that we can do is to quit "talking down" Latin America. This is not, by and large, a backward and impoverished area in the same sense that large parts of Asia and Africa are. The nations of Latin America would benefit greatly from the realization, the conviction, that they could, if they would, stand on their own feet and carve out for themselves a position of pride and prestige in the world community.

The vision of national grandeur has worked in France. Why not in Brazil?