DIMITRIOS J. DELIVANIS

ECONOMIC DEVELOPMENT
IN SOUTH AMERICA
Professor Dimitrios Adamopoulos has been one of those who contributed substantially to the creation of the Faculty of Industrial Studies of Thessaloniki. The great number of students who have attended and are attending their courses in the Faculty of Industrial Studies of Thessaloniki proves that the Faculty corresponds to a real need. In view of this initial contribution of Professor Dimitrios Adamopoulos, of his long and successful teaching and of his publications I accepted with pleasure when asked to do so to honour him by contributing to the volume which his colleagues are publishing.

I decided in this connection to investigate the causes of the slowness of South American development in the economic sphere. I believe that the subject would interest Professor Dimitrios Adamopoulos.

Thessaloniki, 21 February 1976

DIMITRIOS J. DELIVANIS
South America impresses the visitors by its wealth and very often by the high level of education of its inhabitants. History teaches that wars are not frequent in South America and the examination of public expenses does not show excessive percentages for defense. Accordingly we ought to expect a rather high income per head. This is not however the case, as provisional estimates of the income per head in current U.S. dollars in 1974 were as follows:

<table>
<thead>
<tr>
<th>Country</th>
<th>Income per Head (U.S. dollars)</th>
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<tbody>
<tr>
<td>Argentine</td>
<td>1,200</td>
</tr>
<tr>
<td>Brazil</td>
<td>750</td>
</tr>
<tr>
<td>Chile</td>
<td>600</td>
</tr>
<tr>
<td>Peru</td>
<td>450</td>
</tr>
<tr>
<td>Uruguay</td>
<td>600</td>
</tr>
<tr>
<td>Venezuela</td>
<td>1,200</td>
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Of course everybody is aware of the reserves with which international comparisons of the income per head have to be accepted particularly in countries where

2. The figures for 1969 in 1960 $ United States are of course lower:

<table>
<thead>
<tr>
<th>Region</th>
<th>Average for Latin America (U.S. dollars)</th>
<th>514</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>range</td>
<td>980</td>
</tr>
<tr>
<td>Argentine</td>
<td>Argentine</td>
<td>980</td>
</tr>
<tr>
<td>Brazil</td>
<td>Brazil</td>
<td>390</td>
</tr>
<tr>
<td>Chili</td>
<td>Chili</td>
<td>680</td>
</tr>
<tr>
<td>Peru</td>
<td>Peru</td>
<td>408</td>
</tr>
<tr>
<td>Uruguay</td>
<td>Uruguay</td>
<td>720</td>
</tr>
<tr>
<td>Venezuela</td>
<td>Venezuela</td>
<td>790</td>
</tr>
</tbody>
</table>

a) statistics are poor,
b) foreign exchange rates fluctuate,
c) multiple foreign exchange rates are applied,
d) the illegal deals in foreign exchange are rather important, at least as a rule,
e) the income tax laws are not always thoroughly enforced,
f) great flows of incomes pass unnoticed and so untaxed,
g) the quality of the social insurance system shows substantial differences from country to country,
h) price regulations differ in their content, in their application and in their influence on the economic activity of the people of the countries concerned.

In view of the necessity for the Economic Commission for Latin America and for everybody interested to make comparisons of the income per head of the countries of Latin America efforts have been undertaken to discover the appropriate way of conversion. Of course the income per head has no relation with the level of civilisation of the country concerned; the sacrifices in order to secure increased incomes of the latter's inhabitants in their leisure, the free supply of some commodities and services etc. are not considered.

In trying to make comparisons of the income per head in various countries it is necessary to fix the year which will serve as basis and to consider eventual modifications. If the period to be examined is rather long this factor has a greater importance as all over the world efforts not always successful are undertaken to improve the results achieved. Thus the possibilities of carrying out useful comparisons are reduced. It would have been right to start comparisons on the basis of the data of 1913 and to compare same with those of
a) the best year of the interwar period, that is 1928,
b) the last year before the beginning of world war II, namely 1938,

3, 117, 119, 128, 133, 140 - 1, 143 and in referring to D. Ricardo, C. Furtado, op. cit., 1964, pp. 3 - 4.

4. Cf. U.N. Economic Commission for Latin America, Economic Survey of Latin America 1968, Criteria for the conversion into dollars of income figures expressed in terms of Latin American currency units, pp. 33 - 6. This publication constitutes the continuation of similar efforts undertaken under different conditions in the fifties.
c) the year 1949 which was more or less the first normal post war year,
d) the year 1960 when inflation was rather weak,
e) the year 1970 when inflation was strong,
f) the last year for which official data are available.

It is well known however that for both 1913 and 1928 data on the
national income were practically non available and in the case of
the countries to be examined it was not better in 1938.

It seems so that the best way to proceed is to use the data if avail-
able of the years 1949, 1960, 1970 and 1972 independently of their
poor quality at least in certain cases. It is however appropriate to com-
pare these data of the six South American countries involved with a
European country and preferably with those of a country of the North-
ern shores of the Mediterranean where conditions are up to some degree
similar to those prevailing in South America. Of course all these coun-
tries have been involved in world war II and most even in world war I.
That means that both the population and their real capital were un-
favourably affected but this applied to all European countries except
Sweden and Switzerland. Of course both these countries with their
extraordinary achievements and their non entanglement in wars since
1814 cannot be compared with the South American countries considered
here. On the other hand Brazil participated in both world wars with
the dispatch of an expeditionary force whose contribution, sufferings,
losses and expenses have not to be underestimated but which were
lower both in absolute terms and in proportion than those of the vari-
ous ex belligerent European countries.

It follows accordingly that it will be necessary to compare the
gross national product and the income per head of the six South Ameri-
can countries involved of the years mentioned before with those of a
European Mediterranean country. These are from West to East : Spain,
France, Italy, Yougoslavia, Albania and Greece. Spain did not partici-
pat in both world wars but its long civil war 1936 - 9 and its con-
sequences could certainly be compared with the ordeals of those Euro-
pean countries which were involved in world war II. France cannot
be considered as an exclusively Mediterranean country. Italy, Yougos-
slavia, Albania and Greece participated in both world wars and could
be used for comparisons under certain reserves. So the differences be-
tween Northern and Southern Italy are substantial, Yougoslavia and
Albania became communistic since 1945, Greece underwent great chan-
ges owing to the 1923 massive exchange of populations. Spain has not been affected in this way and has the further advantage in the comparision considered that her people have great similarities with those of Latin America. Let me add 1) that their ancestors discovered, occupied and ruled until the twenties of last century South America except Brazil, 2) that the development of Spain has been rather substantial, particularly in the years 1960-74.

The author came accordingly to the conclusion that it will be better to compare Spain with the six South American countries involved and it will be indispensable to treat in the appropriate way the data available in order to make comparisons possible. The conversion in U.S. dollars would have been the simplest method available and perhaps the only available independently of the great difficulty lying with the choice of the appropriate conversion rates in each of the South American countries to be examined here. It is certain that the rate of every conversion will have to be found on the basis of a particular investigation and that by trying to find the most appropriate there is some danger of using in every case criteria which will not be uniform nor give the opportunity of reaching satisfactory conclusions.

In view of these difficulties and as the author does not intend and cannot write the monetary and the economic history of the six South American countries considered in this essay he decided to ignore as a detail the multiple and the black market rates of exchange and to proceed to the conversion of both the gross national product and of the income per head calculated in South American currencies into U.S. dollars on the basis of the year's official average rate of the U.S. dollar in the country concerned. If different rates apply for commercial and for financial transactions, he will apply the rate for commercial transactions, as as a rule in South American countries the trade balance is more important than the balance of the invisibles. He also noted that capital transfers towards South American countries are carried out as a rule in goods whilst their repatriation may be rendered possible by compensation with new imports of capital or with services whose tracing is not easy even in countries with better statistics than those of the countries examined here.

On the basis of the assumptions analysed here table 2 has been drafted with:

1) the population in millions,
2) the gross national product in billions of national currency as cal-
culated by those responsible in the country concerned,
3) the income per head in national currency, that is 2:1,
4) the average official rate of the U.S. dollar in the year referred to
without considering the various other rates nor of course the black
market rates with the belief that the turnover on the basis of the
official rate is under more or less normal conditions much more
important than those on the basis of the other rates mentioned
already,
5) the gross national product in billions of U.S. dollars that is 2:4,
6) the income per head in U.S. dollars that is 3:4.

All these data have been taken from the United Nations statistical
yearbooks which as known limit themselves to the reproduction
of the official statistics of the countries concerned. They are however
not complete. So

1) Argentine's data for 1972 are missing except population and the
U.S. dollar rate. Instead of getting the gross national product for
1949 and the U.S. dollar rate for 1949, the respective figures for
1948 and 1951 are available.
2) Brazil's data for 1949 have been replaced by the population of 1947,
the gross national product of 1948 and the U.S. dollar rate of 1951.
Instead of showing the gross national product of 1960 we got that of 1959.
3) Chile's data for 1949 have been replaced by the population of 1947,
the gross national product of 1950, the U.S. dollar rate of 1951.
The population and the income per head of 1972 are missing.
4) Peru's data for 1949 have been replaced by the population of 1947,
the gross national product of 1950 and the U.S. dollar rate of 1948.
Instead of getting the gross national product of 1960 that of 1958
is available. The population and the income per head both in local
currency and in U.S. dollars for 1970 are not available.
5) Uruguay's data available are only the population and the U.S.
dollar rate. Instead of getting the population of 1949 and 1970 those
of 1947 and 1963 were published. The U.S. dollar rate of 1951 and
not of 1949 has been available.
6) Venezuela's data of population refer to 1947, 1961 and 1971 instead
of the years 1949, 1960, 1970 and 1972. The gross national product
of 1949 has been replaced by that of 1950. The U.S. dollar rate of
1949 has been replaced by that of 1951.
7) Spain's figures for 1949 of population, gross national product and U.S. dollar rate have been replaced by those of 1947, 1948 and 1951 respectively.

It follows that with these deficiencies comparisons cannot be satisfactory.
TABLE 2

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<tr>
<th></th>
<th>ARGENTINE</th>
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<td>5</td>
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<td>20</td>
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<td>1970</td>
<td>23,4</td>
<td>94,8</td>
<td>1620</td>
<td>4</td>
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<td>405</td>
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<td>1972</td>
<td>23,9</td>
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CHILE

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<tr>
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<td>(1958)</td>
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URUGUAY

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<tbody>
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<td>1960</td>
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<td>1972</td>
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<table>
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<th>SPAIN</th>
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<tbody>
<tr>
<td>1949</td>
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<td></td>
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<tr>
<td>1972</td>
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</tr>
</tbody>
</table>

1. Population in millions
2. Gross national product in billions of national currency
3. Income per head per year in na currency (2 : 1)
4. U.S. $ rate in nat. cur. average year official (with multiple rates the commercial is considered)
5. Gross national product in billions of U.S. dollars (2 : 4)
6. Income per head per year in U.S. $ (3 : 4)
The choice of the six South American countries to be examined here and to be compared with Spain has been carried out in view of the particularities each of them shows. They have however the following common characteristics:

1) dualistic economy,
2) great reliance on exports,
3) greater proteines consumption than elsewhere in the third world,
4) very low productivity of the latifundia,
5) limited absorption of fertilizers,
6) limited mechanization of the agriculture as manpower is abundant,
7) deep disparities in incomes per head between metropolitan areas and the rest of the country,
8) tendency of the agricultural population to diminish in percentages.

5. For the developments in the whole area Cf. Inflation and growth — a summary of experience in Latin America, U.N. Economic Bulletin for Latin America, 1962, pp. 23 - 51. The possibility of integration is stressed on the basis of the evolution during world war II.
9. Cf. C. Furtado, op. cit., 1970, p. 57 and U.N. Economic Survey of Latin America, 1966, pp. 334 - 56. Even in the other cases the productivity and the farmer’s incomes are very low. This is due to the system of land tenure and to other institutional obstacles as they existed in Greece before the expropriation of the latifundia in the twenties.
13. In some cases also in absolute terms,
and immigration towards cities in combination with a relative diminution of unemployment. The author believes that he will be able through his choice to draw attention to the points which have to be considered.

1. The Argentine has been the first South American country to develop. It is the only one with rather satisfactory infrastructure, with a complete railway network facilitating the intercourse between the various areas and a relatively good administration. Its output, both qualitatively and quantitively, is favourably influenced by the high educational level of the Argentine people. In view of the nature of Argentine's exports and of the small elasticity of their demand abroad, the Argentine has been the only country of South America not to default in the great depression and to improve continuously the living conditions of her people. On the other hand except when political conditions become completely upset the capital inflow continues. The weak point in the Argentine is the intensity and the fluctuations of the inflation rate. This of course is even more the case in a period of world wide inflation.

2. Brazil is considered in our days the South American giant. As a matter of fact Brazil has in South America the greatest space and has shown a successful effort of diversified industrialisation. This effort was not combined with the abandonment of agriculture which is not a monoculture. So both in its production and in its export Brazil enjoys a high degree of diversification. The financing of development is secured by the export proceeds and by the inflow of foreign capital which allows the reduction of the rate of inflation if the targets of development are fixed in accordance with the means


15. There are important relationships between inflation and economic growth but not of a straight forward nature. Cf. A. Kafka, Interpretation of Latin American development, H. Ellis (editor), Economic development for Latin America, London 1962, p. 17. On the other hand C. Furtado, op. cit., 1964, p. 138, considers that development is connected with strong inflationary pressures.


available \textsuperscript{18}. Despite all these satisfactory developments problems arise with the great regional discrepancies. They have the following characteristics:

a) a very high rate of development in the triangle Rio de Janeiro - San Paolo - Santos,

b) complete backwardness in the North East,

c) great differences of incomes and of living conditions.

On the other hand Brazil enjoys in the seventies relative internal security which has to be estimated at its appropriate value in view of conditions prevailing all over the world.

3. Despite substantial satisfactory development before the two world wars, despite a very high level of education \textsuperscript{19} and despite a well trained middle class Chile has not been able to get rid of monoculture in both production and export \textsuperscript{20} nor of inflation which is continuous and rather intensive particularly after the nationalisations of the early seventies. The latter are gradually cancelled provided the ex-owners are willing to resume their ownership without rising claims against the Treasury for losses, omissions, sales etc. during the operation by the Treasury. The military government in charge tries to reestablish as far as possible a free market economy. Chile was most hit by the world crisis of 1929 \textsuperscript{21}.

As export was run by foreigners many measures were taken to discourage exports and secure funds for the financing of industrialization. Those in charge did not understand that by reducing the profitability of agriculture and mining exports the growth and the import ability of their country were reduced in as much as durable consumer goods are not produced on a great scale in Chile. At the same time inflation was strengthened \textsuperscript{22}.

4. Peru is run by a leftist military government which has proceeded

\textsuperscript{18} Cf. C. Furtado, op. cit., 1964, pp. 58 and 61.

\textsuperscript{19} This is not universally accepted. Cf. R. C. Blitz, Some observations concerning the Chilean education system and its relation to economic growth, C. Arnold Anderson and Mary Jean Bowman (edit.), Education and economic development, Chicago 1965, pp. 305 - 6.


\textsuperscript{22} Cf. M. Mamalakis and C. W. Reynolds, op. cit., p. 78.
to nationalisations on a great scale and has so discouraged new investments. Certainly neither the structure of the economy nor the composition of exports are satisfactory. The educational level and the living conditions of the people need radical improvement.

5. Uruguay's economy continues to rely as at the beginning of the century mainly of the export proceeds of meat and of the other goods connected with cattle breeding. Its actual inflation is caused by the claims of public employees for higher remuneration independently of their productivity and of the receipts of the Treasury. Of course this development leads to capital export weakening further more the rate of the Uruguayan peso and attracting so numerous tourists from neighbouring countries.

6. Whilst many South American countries produce oil on a rather great scale in relation to their own needs Venezuela is one of the six greatest oil exporters of the world. This results in a big surplus of its balance of payments and in the monetary stability the country enjoys. The latter however prevents the diversification of the production as many items are not competitive inasmuch as substantial wage increases were imposed by governmental decree leading thus to cost inflation whilst demand pull inflation has been prevented until early 1975.

7. The choice of Spain for comparison has been justified in I and there is no need to revert to this point. On the other hand the six South American countries considered here show except Venezuela a practically continuous deficit of their current balance of payments, frequent devaluations, multiple exchange rates, last but not least, continuous inflation whose intensity shows fluctuations. Spain despite continuous political troubles until 1939, despite the loss of all her Latin American colonies in the XIXth century, despite unfavourable developments in Morocco and despite relatively small possibilities of very energetic and rational proceedings in all sectors of human activity has succeeded to secure better results. The rise of the income per head 1949 - 1974 has been quite spectacular and the achievement of self-sustained growth is one of the successes due to the policy applied after 1960 when Spain opened her frontiers to international competition and stopped the application of steps not promising much. Of course Spain is near its markets and has not the disadvantage of long distances as they do in South America.
In view of the contents of table II and of the arguments advanced until now let us examine:

a) if economic development is possible in South America,
b) if the problems to be solved in this connection have found the appropriate solution in South America,
c) if the South American countries have the entrepreneurs and the executives they need.

a) Economic development needs:
aa) the will to work of the inhabitants of the country,
bb) the desire to improve their living conditions,
cc) productive resources in the right proportion

dd) the appropriate program of action

ee) monetary equilibrium,
ffe) the optimism and the ability of the entrepreneurs,
gg) a satisfactory infrastructure.

The will to work of the inhabitants of the country concerned has to be combined with the effort of application of the fundamental economic principle, namely the effort to secure the best result with the means available, the effort to increase knowledge and to expand its application, last but not least to increase the capital at the disposal of every person employed. Let us doubt if the majority of the inhabit-


ants of the South American countries are really willing to work hard in order to contribute to the economic development of the whole country and to the improvement of their own lot. They are rather often happy and right with the way they live and work. Their climate and the facilities available certainly reduce the will to work and so the expansion of the gross national product. It has to be added that the application of the economic principle does not seem to be one of the greatest problems of the South American people who being very civilised esteem at its real value leisure and the amenities of life. Productive ressources are certainly available on a great scale. The preparation of an appropriate plan of action in the macroeconomic sphere is not facilitated by the political instability prevailing permanently; its preparation in the microeconomic sphere is rendered more difficult by the difficulties connected with macroeconomic planning, monetary instability, the external disequilibrium and the importance of psychologic reactions in favour of acting impromptu and without previous preparation. Monetary equilibrium is certainly the exception rather than the rule. About entrepreneurs being available there is no agreement and this will be treated under c.

The infrastructure is certainly not satisfactory as private public utility companies are constantly prevented from fixing fees on a scale securing profits, amortization and expansion and as nationalised firms do not have the possibility of investing according to present needs and to those to be foreseen in the future.

b) The problems connected with economic development which must be solved before deciding the rates of development to be applied are

aaa) the acceptance or the avoidance of the unfavourable repercussions on the living conditions of those alive when economic development is carried out,

bbb) the priority of monetary stability or of economic development,

ccc) the priority of the external equilibrium or of economic development,

ddd) the extent of the stocks to be held in order to face unforeseen delays, shortages and redundancies.

It seems that in the case of the six South American countries examined here independently of the decisions taken no government has been really ready to start economic development’s projects leading to a deterioration of the living conditions of those alive.

On the other hand economic development was given priority in relation to monetary stability, external equilibrium, the holding of stocks needed to cope with unforeseen events and redundant facilities. When economic development is carried out without taking appropriate notice of monetary stability, of external equilibrium and of securing what is needed to cope with unforeseen emergencies the whole attempt is carried out in a haphazard way.

The result cannot be satisfactory and this may constitute an explanation why economic development in South America has not been better.

c) It was already mentioned that there is no agreement if entrepreneurs and executives needed in each South American country examined here are available. If we admit that these countries are still developing it seems undeniable that entrepreneurs and executives will be missing. They can be replaced by foreigners settling permanently in the country where they are missing on assuming the obligation to stay as long as specified in the agreement concluded with their employers. In view of the hospitality shown to foreigners in South America and of the civilisation of those living there it does not seem difficult to get those needed.

The author believes he has been so able to find two answers to the causes of the unsatisfactory development of the South American countries. This has however to be completed in IV.

28. When the latter’s reestablishment is possible only with extraordinary measures as a change of the exchange rates or exchange control the maladjustment is serious. Cf. C. Furtado, op. cit., 1964, p. 61.
IV

Economic development in South America has so not been as expected in considering the qualities of the people, the wealth of resources an the small percentage of military expenses as

1) the majority of South American people estimate the amenities of life and leisure without the tendency to live in order to work and
2) the appropriate care has not been given to monetary stability, external equilibrium and the holding of what is needed to cope with emergencies and unforeseen developments.

If trying to analyse this first answer we got on the causes of the delay in the development of the six South American countries examined here it seems plausible to divide them in six groups namely:

1) those connected with the local people, their choice of investment and the rates a) of investment, b) of consumption,
2) those connected with the government and the latter’s policy,
3) those connected with geography,
4) those connected with immigrants, foreign and multinational firms,
5) those connected with monetary policy in view of inflation, the trade cycle and investments,
6) those connected with the balance of payments.

A. The first group includes reasons of the slow rate of the economic development in South America connected with the local people, their choice of investment and the rates of both investment of consumption.

The inhabitants of South America rely mainly on foreign trade for the capital accumulation that economic development needs. This

has a particular importance inasmuch as it is connected with.

a) The small number of women employed outside their home,
b) the small density of the population despite the latter's rapid increase in the recent decades<sup>35</sup>,
c) the low propensity to work,
d) the low productivity of labour in general and particularly in the supply of services where emplacement is heavy,
e) the inefficiency and the unreality of many of those employed in combination with the inappropriate education they have been given<sup>36</sup>,
f) the tendency to press continuously for wage increases under the influence of inflation independently of the small results achieved as long as full employment does not occur often in South America.

The unfrequency of female employment out of home in South America reduces substantially the purchasing power and so the demand of the households except of those which are very wealthy.

It has further to be stressed that the small density of the population, the great distances, the expenses connected with transport, reduced incomes caused by the low propensity to work, the low productivity of labour and the poor quality of the work performed in the case of the majority of those employed<sup>37</sup> tend to reduce the size of the market and so the cases where new investments can be considered as profitable. It is often found that when import substitution has been achieved there is no scope for further investment and no possibility of exploiting the advantages connected with decreasing costs except if export becomes possible<sup>38</sup>

<sup>35</sup> Cf. C. Furtado, op. cit., 1970, pp. 4 - 5 and The demographic situation in Latin America, U.N. Economic Bulletin for Latin America, 1964, pp. 13 - 43, showing an increase per year 2.86 % (United States 1.37 %, Soviet Union 1.24 % and Europe 0.89 %) (Eastern Europe 0.72 %).


<sup>37</sup> Cf. E. Gudin, H. Ellis (ed.), op. cit., p. 45.

<sup>38</sup> The South American countries examined here have not been able until now to secure the substantial export of manufactured commodities as Colombia did and as so many other developing countries have started following the example of Japan before the latter's development has been achieved. On the other hand the whole Latin American market of manufactured commodities equals roughly the
B. In view of the dangers due to inflation, nationalisations and poor organisation the tendency prevails in South America to give priority of investment in real estate, to avoid investment and even employment in agriculture whose export possibilities are often ruined or at least substantially reduced by the non appropriate fixing of the exchange rate of the export proceeds of the more important agricultural commodities, to prefer the ownership of fixed capital as long as working capital depreciates and to rely whenever investment decisions are taken on its financing by loans particularly without the obligation to restitute increased amounts whenever monetary devaluation has happened before the loan has been repaid.

C. The relatively low income per head of the great majority of the inhabitants of South America limits the amounts which they can invest whilst those enjoying great incomes have great opportunities of investment provided they are not afraid that in doing so they will become the targets of terrorists' activities. The propensity to invest may be also weakened by the influence of the demonstration effect which leads to increased expenses of those concerned. Investment is also discouraged by the autonomy of the various sectors of the economy because when the saving of a certain sector with low marginal efficiency cannot be invested in another sector with higher efficiency it


41. The Argentine is outstanding in this connection and is acting once more so in the seventies.


43. The Soviet Union has shown that provided a government is able to interfere with consumers' preferences the necessary volume of investment and saving can be generated internally. Cf. J. A. Kershaw, H. Ellis (ed.), op. cit., p. 133.
will in some way be affected to consumption, speculation or investment abroad.\(^{44}\) It has to be added that the development of a society increases the number of goods to be used on a great scale\(^{45}\) and so the opportunities of investment for their production. When the turnover foreseen is small and when exports are not considered possible investment is much more limited.

2

The second group includes reasons of the slow economic development of South America connected with the government of the respective countries and with the latters' policy. It has to be stressed that these reasons appear also in other parts of the world but of course not always with the same intensity.

The obstacles to development are connected with the tendency of those governing a country even if they are not sure that they will do so for long or that their successors will follow the same policy to consider economic development as their own responsibility and not that of innovating and private entrepreneurs.\(^{44}\) The latter are better equipped for this job in as much as they know that their failure will cause them great damages or even lead to their total economic ruin whilst in the case of political personalities, administrators and technocrats they may think 'des affaires c'est l'argent de autres'. When governments are in charge of economic development they have much more than private entrepreneurs the tendency to apply methods and technologies already tried in developed countries for the production of old established products than the production of new products replacing old or called to satisfy new needs. In this latter case the developing country has much more the possibility of securing profits and a privileged position but of course this attitude is connected not only with

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46. They ought to limit their contribution to economic development in preventing political warfare, demagoguery, inflation, hostility towards foreign capital, unbalanced or excessive protection. Cf. E. Gudin, H. Ellis (ed.), op. cit., p. 47. This is not the opinion of C. N. Vakil and P. R. Brahmanand, Planning for an expanding economy, Bombay 1956, op. cit., pp. 279 and 292.
great investments but also with great risks. Those in the government or in the administration are not willing to assume them and this influences unfavourably economic development. Inasmuch as the tendency prevails that economic development aims mainly to increase consumption in order to close the gap between developed and developing countries.

The assumption by the government of the responsibility of economic development is connected with even greater setbacks as:

1) The administration is in many countries not only inefficient but even corrupt, which of course does not entitle to generalisations independently of the fact that the damage may materialise if the key positions are held by corrupt or inefficient officials.

2) The government is often unstable and the policy applied by its successor may be completely different; the change will at least cause a substantial delay.

3) The authority of those running and of those serving the government is sapped by the suspicion of corruption, inefficiency and instability even if not justified.

4) The economic policy of a developing country cannot be limited to the imitation of that of a developed country or even of that which was applied there when the latter was still developing most probably a long time ago.

5) The danger of defaults and of nationalisations without the certitude of a fair, rapid and real settlement in favour of those expropriated discourages foreign and national investments or loans; thus economic development is always delayed and even the latters' continuation is endangered.

6) These fears influence both collective and individual action once more with the result of delaying or even interrupting economic

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47. It is connected with the assimilation of techniques already existant. Cf. C. Furtado, op. cit., 1964, p. 61.


50. Payment in blocked accounts in national currency in a bank operating in the expropriating country cannot be considered as satisfactory even if it is not excluded in the concession agreement when the latter was concluded.
development inasmuch as normal market mechanisms will not provide an optimum supply.  

7) The latter is unfavourably influenced when planning is only financial and not physical. This is much more needed as long as in this way those planning are obliged to consider what is really available. When the planning is financial, targets may be fixed in an unrealistic way and as in developing countries the central bank is particularly weak it cannot resist to pressure groups whenever the amounts fixed do not cover the expenses needed for the realisation of the targets, when expenses have increased under the influence of inflation caused on a great scale by economic development. Of course the latter must be connected with appropriate care for getting sufficient liquidity as the latters' scarcity constitutes an obstacle for the smooth continuation of economic development. This explains why the Treasury must secure satisfactory proceeds from taxes as the delay of the latters' payments constitutes another very important setback for economic development. As a matter of fact those carrying out public works or supplying the public sector are obliged to stop causing so unemployment, various disturbances and a chain of other unfavourable developments.  

8) The administration and even more the government have the tendency to rely on models which as a rule are completely unrealistic, as those which are satisfactory for a developed economy are not so far a developing independently, of not taking notice of the continuous changes of the various economic aggregates under the influence of economic, political and social factors.  

9) The government and the administration cannot take advantage of windfall opportunities as both are obliged to comply before with


52. In order to avoid setbacks of this type it is suggested by certain authors that planning ought to be carried out at national levels in considerable advance in order to give the opportunity of integration between the South American countries particularly in view of the industrialisation which is not favoured by the smallness of the national markets. Cf. C. Furtado, op. cit., 1970, pp. 204 - 5.  


rules and to accomplish time consuming formalities with the result that the opportunities have disappeared when the latter will have been accomplished 55.

10) The rate of investment to be enforced is fixed in an unrealistic way endangering the smooth functioning of the market mechanisms and the external equilibrium of the country concerned as the machinery of both the government and of the administration is equally slow to start and to stop 56. This is even more dangerous when the propagation mechanism is strong 57.

11) The unequal distribution of the national income cannot be neutralised by fiscal measures or other governmental steps before a long time has passed. This creates many leaks and lags which cannot be avoided whilst the model that did not consider them is carried out.

12) The strong desire of the planners of economic development backed by the government to realise a change of the structure of the economy for political and prestige reasons even if not justified by economic data may lead to an economic havoc 58. This would certainly have been prevented with private businessmen. It so happened that in the Argentine the agricultural exports were discouraged in order to secure resources for industrialization with very unfavourable repercussions on the balance of payments and on the whole economy as inflation was intensified and the import capacity was reduced 59. Experience teaches that whenever agriculture is allowed

55. The Greek government lost so some precious opportunities for the purchase of commodities and foodstuffs at low prices at the beginning of world war II.

56. When it is noticed that the targets fixed are unrealistic and endangers both the smooth functioning of the market mechanisms and the external equilibrium their realisation cannot be stopped before many formalities have been carried out.


59. El. Gannagé, Financement du développement, Paris 1969, p. 60, considers that industrialisation is linked with the abandonment of agriculture. This is not unavoidable.
to lag the consequences are very bad. On the other hand planners all over the world tend to overestimate the undisputable advantages of industrialization which however cannot alone cure the weak points of the economy concerned nor secure full employment which is the main target in view of the continuous diminution of the manpower needed as a result of growing rationalisation and mechanisation. The tendency prevails all over the world and not only in South America to underestimate the unfavourable repercussions of industrialisation on the balance of payments if not financed by foreign capital or by genuine savings, on the expansion of urban centers, on the pollution, on the transport capacity available on the distribution of national income.

13) The officials of the public sector have the tendency if backed by expert’s advice to support the application of new methods dictated by technical reasons even if they are not recommended by profit considerations, by their repercussions on the balance of payments, on employment and on the capital market of the country involved.

14) Exports are not always promoted as those concerned are often afraid that on world markets with the competition prevailing their inability in cutting costs and in securing a satisfactory quality will be shown.

15) Planners often support the view that handcraft production is connected with excessive costs and that industrialisation will reduce same whilst in reality planners ignoring or even fighting handcraft

60. Only China between the countries with planned economies was able to learn this lesson. The results have been satisfactory at least as far as known until 1975. Cf. Agricultural policy in the countries signatory of the Andean subregional integration agreement, U. N. Economic Bulletin for Latin America, 1971, pp. 91 - 119.

61. Cf. C. N. Vakil and P. R. Brahmanand, op. cit., p. XXV.


64. Even if the new industries are owned by the government as they give even then the opportunity for the creation of jobs with high rewards to a great number of executives, engineers and specialists whilst the workers receive very low remunerations justified by the desire to neutralise their low productivity.

are afraid that the latters’ achievements are good enough to show industrialisation useless at least when financed by the taxpayer and when causing heavy payments abroad 66

3

The delay of economic development as far as geography is concerned may be caused by the lack of natural resources, by very long distances connected with excessive freights, by a very hot or a very cold climate, by the lack of water, by the aridity of the soil and by an excessively dense or an excessively light population 67. In this connection it may be said that South America

a) is not suffering from a lack of natural resources and certainly the small consumption of energy 68 cannot be justified by the scarcity of resources available but by the modest development and the small needs of the continent,

b) is not affected by a general aridity of the cultivable soil without of course omitting differences of fertility as anywhere,

c) is not having an excessively dense population as is the case of South Eastern Asia or certain areas in North Western Europe,

d) is not having a climate affecting unfavourably economic activity.

On the other hand it has to be admitted that distances between the South American countries and the latter with both their customers and their suppliers oversea are excessively long. Let us add that the unfavourable economic repercussions of these long distances are intensified by the way freights and tickets are calculated in that part of the world and as far as sea traffic is concerned, by the poor equipment of the great majority of South American harbours and even by the long

66. This is shown on a great scale in the East European countries where handcraft has been annihilated by nationalisation and in the case of those exempted by the imposition of heavy fiscal burdens, by the discriminatory exclusion from the supply of raw materials, energy, manpower and transportation.


68. Despite the quick increase in the last decades. Per capita consumption of energy in terms of petroleum equivalent (commercial) was 1966 in Latin America 0,490 tons, in the world 1.166, in Western Europe 2.574, in the United States 6.629. Cf. U.N. Economic Bulletin for Latin America, Vol. XV, 2, 1970, pp. 3 - 93.
distances between a great number of airports and the towns they deserve. Under these conditions it is natural that in some cases railways have become useless 69. The inefficiency of transportation for commuters has also to be stressed in this connection in many of the big South American capitals.

As mentioned in the introduction to IV a special group of reasons of the slow economic development of South America is connected with the cosmopolitan character of its countries and of their openness to the outside world independently of foreign exchange control, restriction of immigration, reliance on special residence and labour permits of foreigners and licenses for the operation of foreign firms and multinationals 70. In reality this legislation which of course is not uniform in all South American countries, nor is applied in the same way and once more with changes from time to time in handled in reality — I am not considering the formality — in a very generous way. The result is that the impression prevails that this legislation is not in force and that each of the South American countries is really a part of the world economy with which intercourse is certainly restricted but not prohibited.

The immigrants, foreign firms and the multinational firms are to be considered. Immigrants are rather numerous in practically all South American countries but of course the percentage of the inhabitants or of the manpower is not the same in each of them nor is it without changes in every country concerned. Immigrants to South America come mainly from the Mediterranean countries except to Brazil where Portuguese are numerous whilst fewer come from Northern and Central Europe. All immigrants have to face the language barrier as any activity and employment are impossible without knowing Spanish and in the case of Brazil Portuguese. They have also to comply with the laws on immigration which however as a rule are handled by the national authorities in a human way. The cases of expulsion are as far as I know rather seldom. Provided the immigrant is energetic, conscious and sy-

69. They have practically disappeared in Venezuela. This is the contrary of what ought to be expected. Cf. C. N. Vakil and P. R. Brahmanand, op. cit., p. 207.
70. This does not exclude the necessity to rely on many commodities produced within the country. Cf. C. Furtado, op. cit., 1964, pp. 68 and 139.
stematic and provided he does not get involved in criminal proceedings nor does invest, borrow, consume in an irresponsible way he is usually able to prosper and even with some good luck to become relatively rich in a few years 71. In judging his success it has to be considered that those immigrating are usually more clever and more systematic than the average of those of the same age, origin and profession in their country of origin and in the country where they settle down. Immigrants to South America when successful repatriate usually in one way or the other a part of their savings in agreement with the principle of the division of risks 72. These transfers are as a rule 73 not possible through the banks and have to be carried out through other channels that are rather numerous but more expensive and more risky. The admission of immigrants permits the transfer of know how to the country where they settle; the latter of course benefits from same.

The establishment of foreign firms provided they are linked with nationals of the country concerned and comply with the laws in force is rather easy at least as a rule. The bigger the firm the more difficult, the more onerous and the more expensive is the transfer of profits abroad through non banking channels. Certainly even under the more severe foreign exchange control illegal transfers are always possible for those who are not afraid of consequences or who trust their ability to avoid same. Independently of this the investment of profits in the country concerned is as a rule both possible and from the latter's point of view desirable.

The same possibilities with greater chances of achieving whatever is desired by those concerned is secured by the multinational firms whose field of operation in South America is rather large. It seems on the basis of data available that their profits are substantial in South America and that their exclusion from there would be harmful for their world wide interests independently of the advantage each of the South American economies secures through the operation of a multinational firm in its territory.

72. They also consume rather much and so reduce investment. It may increase if population increases less than employment. Cf. C.N. Vakil and P.R. Brahmanand, op. cit., pp. 225 and XXII.
73. They are not forbidden in Venezuela in 1975.
It is the belief of the author that in reality the development of each of the South American countries is accelerated and strengthened by the inflow of immigrants and by the license granted to foreign firms and to multinational firms\textsuperscript{74} to operate in their respective territory. There are of course unfavourable consequences for the balance of payments but it cannot be forgotten that whenever a service is offered it has to be paid at least if judging objectively and if forgetting mercantilistic conceptions. As long as the immigrant, the foreign firm and the multinational firm earn more than they spend this constitutes the proof that their contribution to the host country has been needed, has been appreciated and has been rewarded. It is very probable that in this way the host country independently of the advantage derived may avoid payments abroad which are much more important than the transfers abroad of immigrants, foreign firms and multinational firms. It can so not be accepted that the economic development in South America has been adversely affected by the transfers mentioned before. Certainly it would have been better if these transfers could have been avoided but this is quite similar to the argument that by buying something without paying one is better off than if he had to pay particularly if he had to pay a high price. A setback for the economic development of a South American country would only occur if the transfer of immigrants, foreign and multinational firms are more important than justified by the services rendered to the host country. This calculation however is very complicated, the data needed are not available, their checking is rather impossible by objective calculators and the conclusion will never be accepted unanimously. The opinion prevails with many South Americans that their countries are in this connection net losers but this is not a sufficient proof.

Another group of causes of the delay noticed in the economic development of the six South American countries may be found in monetary policy in view of inflation, in the trade cycle and in investments. We shall examine

\begin{footnote}{74. Provided the governments are taking care of the distribution of the profits of the mining firms. Cf. C. Furtado, op. cit., 1970, p. 34. C. V. Vaitseos is more pessimistic. Cf. Intercountry income distribution and transnational enterprise, Oxford 1974.}

A) those connected with monetary policy,
B) those connected with the trade cycle,
C) those connected with investment.

The contribution of monetary policy to economic development resides
a) in securing monetary conditions not preventing despite too little
   saving the financing of economic development nor spending on a
   big scale 76,
b) in avoiding both hyperinflation and deflation,
c) in allowing the capital transfers that are needed in order to facili-
   tate and to promote economic development.

In judging the monetary policy of the six South American countries
examined here it cannot be denied that monetary conditions are favor-
able for economic development but not for the export nor for the inflow
of foreign capital 76. As a matter of fact despite frequent devaluations
of five of the six currencies examined 77 the normal operation of the
respective economies has never been upset by monetary upheavals
inasmuch as hyperinflation has usually been avoided 78. In South Amer-
ica everybody gets accustomed to inflation and acts accordingly with
the aim of reducing losses and of securing profits. This leads to the op-
inion that inflation is structural in South America 79.

Deflation has never been seriously applied in South America 80 and
is mentioned only when efforts are undertaken to curb inflation. Of
course both deflation and hyperinflation do not always have the same

op. cit., pp. 86 - 88 and 97 - 98, giving arguments rationally presented and pointing
out that multiple rates with exchange control are most commonly applied.
77. The exception is the Venezuelan bolivar which is hard currency.
78. Cf. A. Kafka, H. Ellis (ed.), op. cit., pp. 24 - 5. There is on the contrary
   repressed inflation with various price increases. Cf. also D. J. Delivanis, op. cit.,
   pp. 105 - 9.
80. Cf. H. Ellis (ed.), op. cit., pp. 97 and 104, in connection with the avoid-
    ance of fluctuations of the barter terms of trade and of the capacity to import.
meaning\textsuperscript{81} and through getting accustomed to continuous devaluations even rather substantial ones these do not create panic, nor massive withdrawal of bank deposits, nor interruptions of the normal banking business which in other parts of the world would have been considered natural.

Economic development is strengthened by capital transfers from abroad because thus the purchase of machinery, spare parts and whatever else is needed for increased and accelerated investment, for the intensive operation of plants, means of transportation and of any firm is rendered easier and ceases to constitute a problem. Of course loans from abroad are never serviced in South American currencies and investments in public utilities are no more popular with foreign firms and banks because the South American governments do not permit as a rule the increase of fees nor the operation of the plants in a rational way\textsuperscript{82}. This however is not connected with monetary policy\textsuperscript{83}. The latter endangers or even prevents capital transfers when external convertibility has been abolished. Exchange control hampers the transfer of interest due and of redemption funds of loans contracted by private firms of a certain size but not in the case of those of small private firms which may revert to the black market without running the danger of being discovered by the corresponding entries in their books nor in the case of loans secured by the government, nationalised firms, municipalities and independent public services. Last but not least security considerations of foreign investors and foreign banks may prevent capital transfers and even the operation of foreign and even more of multinational firms.

B

The upwards phase of the trade cycle intensified certainly economic development in the countries that supply developed economies

\textsuperscript{81}. In South America even if the rate of inflation reaches 80\% per year the country concerned is not considered to have hyperinflation.

\textsuperscript{82}. Cf. \textit{R. de Oliveira Campos, H. Ellis (ed.)}, op. cit., pp. 92 - 3, who does not believe that subsidies will improve the prospects of private investment in public utilities nor that inflation will be curbed.

\textsuperscript{83}. It favours light industry whose input is so rendered cheaper. Cf. \textit{R. de Oliveira Campos, H. Ellis (ed.)}, op. cit., p. 96.
with foodstuffs \textsuperscript{84} and raw material \textsuperscript{85}. As long as the depressions after world war II, at least until 1974, have not been very important as they marked only the slowing down of the rate of expansion of the various economic aggregates or at the most a small diminution it cannot be accepted that the causes of the non satisfactory development in South America may be attributed to world depressions as it happened 1929 - 33. The non attribution of unsatisfactory economic development in South America to world wide depressions is further strengthened by the financing of investments up to a certain degree by inflation \textsuperscript{86}. That means independently of the complications arising in the external equilibrium of the country concerned that the depression even in the technical sense only of the term is shortened inasmuch as savings available are invested at once in order to avoid the loss of their purchasing power. The tendency of those lending to charge high rates of interest in order to cover the capital loss inflicted by inflation, the risk incurred and the normal rate of interest do not frighten those contracting loans as they got experience with developments under inflationary conditions \textsuperscript{87}.

The prosperity phase of the trade cycle is of course unfavourably affected by the impossibility of making serious plans with inflation as inflation expands same \textsuperscript{88}. It results that certain investments prove ex post as badly conceived and as creating disappointment to their owners, to the latter's creditors and the whole economy as long as savings, foreign balances, manpower and stocks have been wasted without noteworthy results. Monetary expansion alone I mean without supply cannot secure increased output but leads to price increases \textsuperscript{89}.

The intensity of the upwards phase of the trade cycle was and is certainly weakened by the fear of expropriation without the prompt


\textsuperscript{86} This is not the view of some leftist authors. Cf. in Greek translation Kordoba A. Mieres, Marini, Zondak: Latin America: fascism or revolution, Thessaloniki, 1975, p. 24. Cf. also on forced savings possibilities C. N. Vakil and P. R. Brahmanand, op. cit., p. 83.


\textsuperscript{88} Cf D. J. Delivanis, op. cit., 1970, p. 98.

payment of a fair indemnity or by the fear that for non rational motives
the government will impose a non economic operation by forbidding
the fixing of the appropriate fees particularly in the field of public util-
ities. The latter constitute very often a bottleneck in South American
countries 90. These considerations weaken the propensity to invest ex-
cept eventually in housing but not the propensity to consume. The
aggregate of these two propensities is so not affected inasmuch as the
constitution of stocks whenever the commodities concerned may be
stocked without danger of deterioration or at least of becoming obso-
lete has to be considered. It has further to be stressed that under the
protection of exchange control, multiple exchange rates, import quotas
and import prohibitions 91 the upwards phase of the trade cycle may
continue even if a depression develops abroad provided the essential
imports may be secured and provided the absorption of commodities
produced on the local market may be considered probable even if this
proves wrong ex post.

C

Investment in South America is limited by the narrowness of the
local markets 92; by the difficulty of exporting manufactured commodi-
ties at least until 1974 93, by the waste of resources in view of the neces-
sity of investing funds available at once without the possibility for lack
of time to study carefully the various data involved, by the smallness
of savings available, which however is not generally considered a reason
for applying in every case capital saving methods 94, by the fear of
expropriation and by the fear of being forbidden economic exploita-
tion 95. On the other hand investment expected to be profitable from

90. Cf. R. Nurkse, J. R. Boudeville and M. Byé, H. Ellis (ed.), op. cit., pp. 75,
392 - 93 and 398.
91. They do not reduce but do modify imports except if the money not spent
94. On the other hand even if banks do not finance investments their liquidity
makes them easier. The correlation between changes in incomes and savings is true
only within limits. Cf. C. N. Vakil and P. R. Brahmanand, op. cit., pp. 6 and 284
95. This happens with public utilities but also by uneconomic conversion
rates of agricultural export proceeds.
the microeconomic point of view even if not considered so from the macroeconomic angle is furthered by the fear of savings’ annihilation 96 except if transferred abroad 97 and by the prospect of continuous price rises which also reduces the elasticity of demand.

Judging in retrospect it is possible to support the view that investments would have been more profitable and would have been more popular if agriculture would not have been crippled by non economic export proceeds conversion rates 98 and would have been strengthened by the appropriate investments 99. That would have led to parallel investment in both agriculture and industry which now uses many foreign intermediate and capital goods 100. The author but not all economists 101 considers this as the appropriate solution for achieving the best rate of development. As a matter of fact the increase of the agriculture’s output and of the farmers’ incomes would have led a) to the bridging of the agricultural gap 102,

97. As a rule not through banking channels.
101. However A. Kanellopoulos, Economic development: analysis and policy, Athens no date, in Greek, two volumes, pp. 597 - 602, H. Wallish and P. N. Brahmanand, H. Ellis (ed.), op. cit., pp. 271 and 399 - 424, support the same view. The importance of agriculture in the frame of economic development of Latin America was somewhat underestimated under the influence of the wellknown article «The economic development of Latin America and its principal problems», by R. Prebisch, U.N. Economic Bulletin for Latin America 1962, pp. 1 - 22. The latter does not consider wise for Latin America to rely only on agricultural exports. He favours industrialisation in combination with regional integration as the national markets are not important enough in order to reduce the consequences of the deterioration by 36,50 % of the Latin American barter terms of trade 1870 - 1930. They would have been avoided if U.S. workers did not succeed in rising their wages. Financing will be possible through profits, savings and inflation. R. Prebisch stressed the dependence of Latin America on conditions prevailing in the United States and Europe. He favours some enforcement of commercial relations with Europe and expects the contribution of exchange control in this connection. He further relies on the contribution of the increase of the population of Latin America and of their average income per head for the growth of the whole area.
102. Due in part to very low output per acre. Incomes are correspondingly
b) to the increase of export proceeds 103,
c) to the increase of the demand for manufactured products,
d) to the latter's increased production with the securing of decreasing costs and eventually of prices increasing so demand and so the propensity to invest of those concerned 104.

6

Last but not least the weakness of the South American development is connected with the practically permanent deficit of the balance of payments 105 of each of the six South American countries examined here except Venezuela, the latter even before the trepling of the oil price 106. As a matter of fact economic development is connected with the necessity of importing 107 on a big scale both commodities, particularly machinery and means of transportation 108 and know how. These


104. Cf. the growth and decline of import substitution in Brazil, U.N. Economic Bulletin for Latin America 1964, pp. 1 - 59. This has not to be linked necessarily to increased employment in view of technical progress. Cf. C. N. Vakil and P. N. Brahmanand, op. cit., p. 15.


108. Also agricultural commodities if there is a lag in their production which
imports are not easy when the balance of payments shows a permanent or at least a frequent deficit caused as a rule by inflation. In that case efforts are indicated in order to reduce imports or at least to fix priorities with the result the process of economic development is delayed, occasions for the purchase at low prices, provided immediate cash payment, are missed, complicated combinations have to be arranged in order to reduce payments abroad, more expensive procedures have to be applied. It follows that a fundamental disequilibrium of the developing economy is materialising and that this will affect the latters' cost structure for a long time. The structural changes which are considered necessary, very often under the influence of theories of scholars who are not willing or able to grasp realities or in the hope that they will prove they are right constitute a setback for development. It may thus be delayed or even prove unrealisable independently of the fact that structural changes by themselves are not of major significance as causes of the balance of payments difficulties according to some economists. The author cannot agree with them. He believes that structural inflation can be cured by adequate financial policy provided those running the government are willing to get the odious sum of stopping expenses not matched by receipts.

In the South American countries as a rule production of manufactured commodities is geared to national demand alone resulting in the forfeiture of the advantages of decreasing costs, of the international division of labour and of specialisation. The realisation of self-sufficiency is connected with a reduction of the standard of life as a result of the

may be on a big scale and endanger economic development cf. R. de Oliveira Campos, H. Ellis (ed.), p. 89.


ignorance of the fundamental economic principle's implications as shown by increased imports whenever foreign balances increase.

The long application of exchange control even in countries better organised than the South American leads to the creation of channels of capital transfer despite legal prohibitions which are operating nearly as well as the banks and which are hardly more dangerous. Of course they are more expensive for those using them. The importance of the deals through the parallel market varies from country to country and from year to year. Anyhow they are very useful for those using them and even for the countries involved as they contribute to the maintenance of links with the world economy despite the loss of certain amounts of foreign exchange. I should say that the opportunity cost involved is not exorbitant.

The necessity of applying exchange control is dictated not only by the desire to prevent capital outflow by those who want to avoid unfavourable results of devaluation, exchange control, expropriation and bankruptcy increasing so the risks of foreign creditors but also as a reaction against overvaluation of the national currency involved. The latter's neutralisation through devaluation will allow the abolition of exchange control when those holding liquid balances will not use the opportunity for substantial capital transfers abroad particularly when dictated by security considerations and not by other reasons.

The removal of the overvaluation of the national currency involved if not leading to price increases will make exports more profitable and will thus contribute substantially to the curing of the weak points of the South American economies created by the fallacious policy they followed in order to secure the diversification of their exports, the change of their structure and the redistribution of national income without making before sure that this policy will not weaken the basis of the economy and even more its external equilibrium.

Capital transfers abroad from developing countries where interest rates are high and profit margins substantial are dictated mainly by

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115. In the XIXth century economic development was not necessarily connected with inflation. Cf. R. de Oliveira Campos, H. Ellis (ed.), op. cit., p. 82.
security considerations as far as monetary stability\textsuperscript{116} and punctuality of payments becoming due are concerned. That means that they will not be prevented by the improvement of the income secured but only by that of the security considerations. Inflation is of course increasing the amounts to be transferred not only in national currency but also in foreign currency except if the latter's devaluation is carried out.

Immigrants' remittances constitute another burden of the balance of payments of all South American economies without great possibilities of reducing same or of compensating same with supplementary exports to the country where these remittances from South America are dispatched.

While foreign markets of South American traditional exports may be very important\textsuperscript{117} this is seldom the case with manufactured commodities. This latter defect is connected with the small size of the intra South American trade which constitutes the normal characteristic of the underdeveloped economies\textsuperscript{118} and which it is hoped will gradually disappear if the attempts of regional integration as the Andean Pact should prove successful.

The attempt of improving the balance of payments through import restrictions is doomed to failure if not connected with prohibitions to consume\textsuperscript{119} as long as the commodities whose import is restricted will be imported in another form and will be completed within the country concerned. The same applies to price stabilization agreements\textsuperscript{120}.

The contribution of foreign experts will not be useful in this connection as as a rule they are not able to grasp the problems faced by the deficit country and the possibilities available independently of the burden their remuneration will constitute for the balance of payments of the host country.

\textsuperscript{116} For the repercussions of devaluation cf. C. Furtado, op. cit., 1964, pp. 165 and 167 - 8.

\textsuperscript{117} Despite the fact that South American countries have not always taken advantage of the valuable export possibilities open to them. Cf. E. Gudin, H. Ellis (ed.), op. cit., p. 267.


\textsuperscript{119} Cf. R. de Oliveira Campos, H. Ellis (ed.), op. cit., p. 101, draws attention to the asymmetric impact the demonstration effect (Increased imports but not of new production techniques).

The dependence of each of the South American countries from the capitalistic world economy — the relation with the socialistic countries are not worth mentioning — creates problems connected with the trade cycle as exposed in 5 but at the same time may endanger economic development through the competition of goods produced in better quality and by more competent manpower in the developed western countries. These better products appeal to the good taste, the established habits and the cosmopolitan mentality of the South American people.

The continuous diminution of the purchasing power of the currencies in which loans have been contracted by the governments and by the corporations of South American countries has diminished the real burden of the servicing of these loans. This item has also to be considered when examining the balance of payments of any South American country. It has anyhow at least in nominal terms an importance as foreign capital goes to South American countries rather as loan than as equity capital. The latter's contribution would not have been possible without international trade both in agricultural and in manufactured commodities.

121. Independently of what is published on this item in the opposite sense.
CONCLUSIONS

The effort undertaken to find the main reasons for the slow economic development of six South American countries has shown that they may be divided in those connected with the people, in those connected with the operation of the various units, both private and public, in those connected with the government and in those connected with inflation.

The reasons connected with the people refer to the scarcity of both entrepreneurs and executives, to the low propensity to work and even more to overwork, to their low productivity in combination with unreliability, inappropriate or limited education, to the tendency of female workers to limit themselves to their homework and also to the small density of the population despite recent rapid increase.

The rational operation of both private and public units is prevented by their poor organisation, by the smallness of the markets, by the autonomy of the various sectors, by the inability to present new products, by long distances, by substantial freights and by the replacement of raw materials through artificial products.

The governments' responsibility in delaying economic development is caused by the small care taken for monetary stability, external equilibrium and for holding stocks appropriate to face emergencies, by nationalisations carried out very often without reason and by frequent defaults which both could be avoided but discourage investment and the granting of credits, by the inability to check terrorism, by govermental instability, by the application of unrealistic models, by the fixing of unrealistic targets combined with the overestimation of the advantages of industrialisation and the underestimation of the disadvantages of discouraging handicrafts, last but not least by some rather poor elaboration of long term plans which anyhow are not adopted to unsettled and unstable political conditions.

In the frame of the governments' carelessness for monetary stability and external equilibrium exports are discouraged, the wrong monetary
policy is applied, capital is transferred abroad despite exchange contro.
increasing so external disequilibrium and savings available are invested
in a haphazard way in order to avoid annihilation.

I'm afraid that the conclusion on the relative importance of this
rather long list of causes of slow economic development is not possible
on the basis of what the author read, heard and observed. He believes
that the quality of the people living in South America if left unhampered
will lead to a quick and satisfactory rate of economic development.
On the other hand every scholar and every investigator has the tendency
to attribute the greater importance to those causes with which he is
most familiar.

Thus the author came to the conclusion that governmental in-
stability and structural inflation\textsuperscript{122} are the main reasons but he does
not forget that they cannot simply be removed by academic people's
advice or recommendation\textsuperscript{123}.

\textsuperscript{122}. He disagrees with \textit{G. M. Alter, H. Ellis} (ed.), op. cit., p. 155, that coun-
tries with a growing appreciation of the damage produced by inflation will be moved
to prefer growth without inflation.

\textsuperscript{123}. \textit{El. Garmagé}, op. cit., p. 94, excludes orthodox fiscal policy in Latin
America.