AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523
BIBLIOGRAPHIC INPUT SHEET

FOR AID USE ONLY
Batch 43

1. SUBJECT CLASSIFICATION
A. PRIMARY
TEMPORARY
B. SECONDARY

2. TITLE AND SUBTITLE
The development of Latin American private enterprise

3. AUTHOR(S)
Brandenburg, Frank

4. DOCUMENT DATE	5. NUMBER OF PAGES	6. ARC NUMBER
1964	152p.	ARC LAT338.098.B817

7. REFERENCE ORGANIZATION NAME AND ADDRESS
NPA

8. SUPPLEMENTARY NOTES *(Sponsoring Organization, Publishers, Availability)*
(In Planning pamphlet no.121)

9. ABSTRACT

(DEVELOPMENT R & D)

10. CONTROL NUMBER	11. PRICE OF DOCUMENT
PN-AAC-810	

12. DESCRIPTORS

13. PROJECT NUMBER

14. CONTRACT NUMBER
CSD-4756 Res.

15. TYPE OF DOCUMENT

AID 590-1 (4-74)

The Development of Latin American Private Enterprise

A Report by

Frank Brandenburg

With an Introduction by Theodore Geiger

PLANNING PAMPHLET NO. 121 $2.50

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PLANNING PAMPHLET 121 MAY 1964

National Planning Association
Washington, D. C.

Library of Congress
Catalog Card Number
64-21273

May 1964, $2.50

Contents

*Introductory Statement of the Committee on Overseas Development**

Regardless of the varying stages of development achieved by the countries of Latin America, their economies have many characteristics in common. Chief among these is primary reliance upon private enterprise—in its many forms—as the way in which economic activities are organized. In agriculture, industry, distribution, and the service trades, Latin Americans in their private capacities have long been accustomed to making their own decisions regarding production, consumption, saving, and investment. It is true that, since World War II, the responsibilities and functions of Latin American governments have expanded substantially as these countries have been seeking to accelerate their economic and social development. But, with the exception of Cuba, no Latin American country has deliberately chosen to eliminate private enterprise as the major form of economic decision making and activity.

In recent years, uncertainty has been growing regarding the future roles of Latin American governments and Latin American private enterprises in accelerating Latin American development. In some countries, public enterprise has been expanding into industries and activities in which private enterprise has hitherto predominated. In some, newly established industries are being reserved for the government. Although other Latin American governments are limiting their roles to providing financial and technical assistance to Latin American private enterprise to enable it to establish new industries

* Footnotes by signers will be found on p. vii.

or to expand its existing operations, there has been understandably a growing concern among Latin American businessmen generally about their future role and relations with their governments.

These uncertainties have been compounded by recent social and political developments in Latin America. On the one hand, the rise of Castroism in Cuba and its aggressive designs on other Latin American countries and the spread of communism and of other doctrinaire socialist ideologies have constituted a growing threat to the future of Latin American private enterprise. On the other hand, the process of development itself and the increased social tensions which inevitably attend so profound a transformation are significantly altering the conditions under which private enterprise has hitherto operated and are thereby contributing to existing uncertainties. At the same time, new opportunities for expanding and strengthening Latin American private enterprise are increasingly arising.

In consequence, Latin American private enterprise has entered upon a crucial period. Under favorable policies and conditions, it would continue to make an already great and growing contribution to the economic and social development of Latin America. Conversely, discouragement or neglect of private enterprise by the Latin American countries could hold back their development and result in a tragic waste of human energies and of scarce economic resources. For these reasons, the NPA's Committee on Overseas Development decided to sponsor an assessment of the present problems of Latin American private enterprise and of the ways in which it could be assisted and strengthened to achieve its full potential in advancing the economic and social development of Latin American countries.

The Committee on Overseas Development was established by the National Planning Association in 1962 to sponsor research studies and policy recommendations on the problems involved in accelerating the advancement of the less developed countries. Through its program, the Committee hopes to improve understanding of the nature of these problems and of the ways in which private enterprise and other private institutions in the United States can cooperate with the U.S. government and with their counterparts abroad in more effective efforts to assist the less developed countries.

This study on *The Development of Latin American Private Enterprise* is the second research report to be published under the Committee's program.[1] The Committee has reviewed the original research outline and the draft of the report. While individual members do not necessarily concur in all of the author's conclusions and recommendations, the Committee was agreed that the report makes an important contribution to better understanding of the problems confronting Latin American private enterprise and of the practical measures which could be undertaken to strengthen its role in Latin American development. In consequence, the Committee recommends that the study be published by the National Planning Association.

[1] The first research study was published in March 1964 by the National Planning Association as *The Development of African Private Enterprise*, by Theodore Geiger and Winifred Armstrong.

Footnotes to the Statement:

Joseph A. Beirne: The private enterprise sector of many Latin American countries must, for their own future welfare, take the understandable risks associated with private enterprise—especially in the area of securing diversified ownership.

James G. Patton: While I am in agreement with the objectives of our committee and the importance of its work, it appears to me that this introductory statement by the committee tends, in tone, to equate private enterprise with healthy economic development and public enterprise with a less desirable form of development or with an extremist form of government. Such equations, as we have seen in our own country's history, are not correct. I feel confident that the committee did not wish to associate itself with such misconceptions and I therefore wish to unmistakably express my own disagreement with them.

Fred C. Foy: I wish that this introductory statement had gone into greater detail in questioning the practical wisdom of some less developed countries in deciding to rely heavily on public owned and operated enterprises as a means of development and growth.

Leaving aside the question of the relative efficiencies of private and public ownership and operation, the magnitude of the need for investment, technical knowledge and management ability is so vast in most developing countries that it probably cannot be met even making the fullest use of all sources of strength.

For this reason, where private enterprise, either local or foreign, is willing to undertake productive investments, not to allow it to do so is simply to deliberately restrain the national growth rate and postpone the creation of jobs and personal income for workers.

The historical and contemporary experience of many countries lends support to the view that economic growth is effectively spurred when governments create an environment in which private enterprise can grow and prosper.

Members of the NPA Committee on Overseas Development Signing the Statement

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International President, American Federation of State, County and Municipal Employees, AFL-CIO

* See footnotes to Statement.

Author's Preface

The purpose of this study is to assess the means by which private enterprise in Latin America can increase its contribution to the area's economic, political, and social progress. The importance of private enterprise to Latin America is easy to comprehend by imagining what the region would become if the millions of private industries, private commercial establishments, and private farms that presently exist in Latin America were eliminated. Various possible causes of such a change come to mind, all threatening to individual freedoms and all, in one form or another, variations on the Castro model. It is impossible to conceive how personal freedom, as affirmed in basic Alliance for Progress documents, would be served by eliminating private initiative and placing total economic decision making in government. Thus, the study is based on the assumptions that a healthy private business sector will help in the attainment of higher living standards and the broadening of individual liberties, and that it is desirable to strengthen domestic private enterprise in ways that will maximize its contribution to Latin American development.

The businessman with whom this study is primarily concerned is the private entrepreneur in Latin America who owns, promotes, organizes, or manages a manufacturing enterprise. As business innovators, mobilizers of capital, managers of enterprises and allocators of resources, the entrepreneurs are unquestionably the major—if not, as Schumpeter and others claim, the foremost—agents of productivity in the private sector of Latin American economies. It is the entrepreneur who stimulates and guides the relatively large sphere of economic decision making outside direct state operations, who provides capital and know-how to increase output and improve its quality, who supplies and expands markets. His presence, dynamism, and social consciousness forestall state authoritarianism and economic stagnation.

The classical Schumpeterian model of entrepreneurial activity has been adapted in this study to the existing forms of Latin American enterprise, financial and government practices, and changing demands of economic development from country to country, region to region, locality to locality. The word "entrepreneur" is defined to include an organization which joins together industrialists, financiers, merchants, miners, or farmers into a single managerial source or a series of overlapping managerial concentrations, as well as a business firm in which equity is widely dispersed.

The local entrepreneur who is a permanent resident possessing the equivalent of "first papers" but lacking full citizenship in a given Latin American country is classified with other local entrepreneurs. Terms such as "industrialist," "manufacturer," and "industrial entrepreneur" are used interchangeably. A socially responsible entrepreneur or socially conscious entrepreneur is considered to be the type of business leader desired by and generally in sympathy with Alliance for Progress objectives.

The decision to concentrate attention on entrepreneurship in the manufacturing sector of Latin American economic activity was taken in the light of the need for rapid and sustained economic growth. Manufacturing is the fastest growing economic activity in the largest Latin American nations. Indeed, in the minds of many Latin American economists, officials, and business leaders, industrialization has become the center of economic development. Latin American countries are typically much less intensive in their use of managerial resources than advanced industrial nations, and accelerating the industrialization process will require maximum utilization of high-level manpower. In emphasizing industrial entrepreneurship, the study nonetheless seeks to avoid any derogation of the importance of creativity, self-expression, and the development of skills in commerce, finance, mining, agriculture, and the services. It is no less important to increase productivity and competence of management in these sectors. The encouragement of responsible private initiative up and down the social, economic, and political ladders is an indispensable part of expanding and strengthening an industrial way of life in the framework established by Alliance goals.

State industries, foreign-owned industries and artisan (less than \$2,000 capital) industries are examined in terms of their impact on other types of industries and on the total ownership structure of individual Latin American economies. Entrepreneurs in the rest of the manufacturing sector of Latin America are treated according to a fourfold classification of small industrialists (\$2,000 to \$40,000 capital), medium industrialists (\$40,000 to \$400,000), large industrialists (over \$400,000), and industrialists who have entered joint equity ventures with foreign capital or local governments.

The study directs major attention to entrepreneurship in six of the Latin American nations. Selection of the six—Argentina, Brazil, Chile, Colombia, Mexico, and Venezuela—was based on several considerations. In 1962, these countries together accounted for roughly 78 percent of the population, 80 percent of the territory, and—employing IMF exchange rates unadjusted for inequalities in purchasing power—85 percent of the gross product of Latin America (excluding Cuba and remaining colonial dependencies). Second, a notable private enterprise sector and manufacturing complex already exist in these nations. Third, maximizing entrepreneurial contributions in these largest Latin American nations is crucial for their own domestic economic development; and should a region-wide Latin American free trade area emerge, strengthening and expansion of private enterprise in these six nations hold the key to private initiative elsewhere in Latin America.

The study is presented in six parts. Chapter I examines the changing environment of Latin American enterprise and its actual and potential contribution to Latin American development. Chapter II analyzes the characteristics of Latin American entrepreneurs that tend to encourage or inhibit private enterprise and economic growth. Subsequent chapters assess relations between Latin American entrepreneurs and their governments (III) and foreign private capital (IV). In the final section of Chapters II, III, and IV, recommendations are made for strengthening private enterprise in the framework of Alliance for Progress goals—what Latin American entrepreneurs can do themselves; what Latin American governments can do to foster private enterprise; and how private foreign enterprises can improve their contribution to strengthening private enterprise locally. Chapter V suggests policies and programs of foreign governments and international agencies required to assist Latin American entrepreneurship. Several statistical tables are given in the Appendixes.

The materials on which this study is based came from various sources. A survey was made of background information in the files, studies, documents, and reports of international and inter-American organizations, of Latin America's leading financial and economic development institutions, and of U.S. government agencies. This was supplemented by information in studies of university specialists, interest groups, businessmen, and other private sources, including previous studies of the National Planning Association. Persons familiar with industrial, labor, financial, and government conditions in Latin America were interviewed in the United States; and during the period December 1, 1962, to April 20, 1963, in Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay, and Venezuela. Among respondents in these countries were businessmen from the United States, Japan, Europe, and Latin America; officials of international, inter-American, Latin American, and U.S. agencies; labor, political, agricultural, and military leaders; chambers of commerce and industry; and university specialists. Several hundred Latin American businessmen participated in a survey prepared by the author; methodology of the survey is described in Appendix IV. In addition, case studies of individual Latin American businessmen and enterprises accumulated for university seminars taught by the author were examined and additional case studies were made in the course of conducting field research.

The author wishes to express his appreciation to the many people and institutions in Latin America and in the United States that assisted in the preparation of this study. The Agency for International Development of the U.S. Department of State and the U.S. Department of Commerce provided invaluable cooperation, and financial support with funds made available under the research program of AID by means of a contract between the Department of Commerce and the National Planning Association. The NPA Committee on Overseas Development, under the chairmanship of John R. White, supplied unpublished data and constructive advice on study outlines and suc-

cessive drafts of the manuscript. Similar assistance was provided by the Research Advisory Committee of distinguished social scientists and development specialists appointed by NPA, headed by Professor Eugene W. Burgess and including Robert E. Asher, William F. Butler, Alphonse DeRosso, William C. Doherty, Jr., John Fayerweather, Frederick Harbison, John Lindeman, James G. Maddox, William E. Moran, Jr., Benjamin Nelson, Stefan H. Robock, and other advisers selected from appropriate government agencies. Several businessmen designated by the NPA Committee on Overseas Development to facilitate research in specific Latin American countries—Hugh Wynne in Argentina, Eric Lamb in Brazil, George Raby in Chile, Fernando Espinosa in Colombia, and Harry Jarvis in Venezuela—gave generously of their time and knowledge.

I owe a special debt of gratitude to four persons on the NPA staff: John Miller, Executive Secretary, for his confidence and persistent realism; Theodore Geiger, Chief of International Studies, for his understanding, patience, and perception while supervising the study, as well as for his authorship of the Introduction; John C. L. Hulley, economic consultant, for his editorial revision of the manuscript; and Lilyan Kahn, for providing general research assistance and typing successive drafts of the study. Without the assistance of many other persons and institutions that necessarily remain nameless here, the study would have lacked significant dimensions.

To clarify the relationship of the author and the National Planning Association to sponsors and advisory counsel, I wish to emphasize at the outset that the opinions, conclusions, and recommendations contained in this study are the responsibility of the author alone and, of course, do not necessarily represent the views of the U.S. government, of the NPA Committee on Overseas Development, or the Research Advisory Committee.

FRANK BRANDENBURG

Washington, D. C.
April 1964

The Development of Latin American Private Enterprise

by Frank Brandenburg

With an Introduction by

Theodore Geiger

INTRODUCTION

Why Latin American Private Enterprise?

Though private enterprise has been the predominant form of economic organization in Latin America, doubts have been expressed in recent years by a number of Latin Americans as to whether their countries will be able to achieve their development goals through continued reliance mainly upon private economic activity. Such doubts have come not only from convinced communists but also from other Latin Americans who either have been partly influenced by Marxism or are opposed to private enterprise for other reasons. Regardless of their particular ideological backgrounds, these critics of Latin American private enterprise commonly allege that it is not dynamic, and hence cannot contribute to economic growth; that the goals served by private entrepreneurs are often inconsistent with national development; and that private profit is immoral, because it necessarily involves exploitation and injustice.

Our purpose here is to examine the validity of these criticisms. Is private enterprise in Latin America less dynamic than other forms of economic organization? Is the pursuit of private purposes incompatible with the achievement of Latin American development goals? Does private enterprise necessarily involve exploitation and injustice? Is it better or worse in these respects than are other forms of organizing economic activity?

Before attempting to answer these questions, it would be well to disclaim utopian expectations. No form of society can ever be perfect. In all, there are continual conflicts or inconsistencies of several kinds. First, there is the fact that external realities—physical resources, the state of technology, the uncontrollable international environment, etc.—impose limitations upon the ability and freedom of action of a society to achieve desired goals. Second, the various social groups composing a complex modern society have at least partially competing interests and objectives—even in so-called "classless" societies, such as are supposed to exist under communist regimes. Finally, and perhaps most important of all, the values which people seek to embody in society are always in partial conflict with one another. For example, freedom of the individual to realize his potential for personal development is to some extent inconsistent with the ideal of equal welfare for all, and the conflict between justice and love is an age-old dilemma of ethics and theology. Even the great philosophical utopias of Plato, Bacon, More, and Butler were based on the selection of one absolute value as the organizing principle of the ideal society and other values were subordinated to it. Neither in literature nor in life is it possible to devise a society which can provide full satisfaction of all aspirations, interests, and ideals. Every society necessarily is characterized by imperfections, difficulties, and frustrations. Social progress consists of minimizing these shortcomings and of working out more effective reconciliations of competing interests and conflicting values.

Inevitably, this work of minimizing difficulties and reconciling conflicts necessitates choices among the various goals which compete for scarce resources, among the divergent interests which compete for the existing capacity for satisfaction, and among the different values which compete for social expression. In Latin America today, there is a growing dissatisfaction with the particular choices and reconciliations which have traditionally characterized Latin American societies. More and more Latin Americans are demanding increased economic and social welfare, greater equality, more freedom to realize their individual potentialities, and greater responsiveness on the part of political institutions to the popular will. Thus, increasing numbers of Latin Americans expect their societies progressively to realize welfare, justice, and personal and political freedom. The question is: What specific institutions and relationships will best fulfill these aims within the resource capabilities and environmental limitations of the Latin American countries?

Standards for Evaluating Economic Systems

Economic systems are major means for the achievement of social goals and values; they are not ends in themselves. Accordingly, they can be judged by their relative ability to realize the chosen goals and values of a society. Economic systems are more or less efficient in producing and allocating the resources needed to achieve a society's objectives; and the ways in which they do so are more or less compatible with the social values which a society seeks to embody in its institutions and relationships. These two criteria express the operational and the moral aspects of the ends-means problem. But, again, it must be pointed out that no economic system can ever be perfect in these two respects. There will always be some inefficiency and injustice in the ways in which any economic system produces and distributes scarce resources; and every economy will be constrained by the limitations imposed by resource availabilities, the state of technology, the external economic and political environment, and other factors over which it has little control.

In the circumstances of Latin America today, the choice of economic means to achieve development goals and social values appears to be between continuation and improvement of the predominantly private enterprise system on the one hand, and expansion of the number and scope of government-owned and operated enterprises into some form of state socialism on the other hand. Each of these possible choices can be evaluated in terms of the two criteria relevant for judging economic systems—efficiency and compatibility with social values.

However, it would be unrealistic to make such an evaluation in terms of the pure or abstract forms of possible economic systems. A complete laissez-faire private enterprise system has never existed in Latin America nor is it ever likely to do so. Governments play major roles in modern private enterprise economies not only in Latin America but also in the highly industrialized countries of North America and Western Europe. In the latter, there are important government enterprises in certain sectors of the economy, as well as active government policies and programs for stimulating and assisting private enterprise so that the economy can achieve and maintain adequate rates of growth, levels of employment, standards of living, etc. In Latin America, too, certain types of public enterprises could fulfill a constructive role in national development, and active government policies and large-scale government programs are also required for the effective functioning of a developing private enterprise economy.

Indeed, if modern private enterprise is to grow and make its fullest contribution to national development and the achievement of desired social goals in Latin America, the governments of the region must be willing and able to engage effectively in a wide variety of economic activities on a continuing basis. Appropriate government policies and programs are necessary to establish the basic climate for private investment; to make available financial and technical assistance to existing and new private enterprises; and to provide incentives for stimulating the flow of private investment into those activities which contribute most effectively to increasing productivity, employment, real income, and foreign exchange earnings and savings. Public investment must be adequate to furnish necessary infrastructure (transportation, communication, power, water supplies, etc.) and social capital (education and training, health facilities, etc.) where private enterprise may be unable to provide them but which are required to make possible and to support private economic activities in manufacturing and extractive industries, distribution, finance, and services. Government policies and programs are needed to maintain reasonable domestic monetary stability and to prevent or correct unmanageably large external payments imbalances. Realistic and effectively administered regulations are required to protect the health and welfare of the community and to prevent the possible abuse of economic power by private enterprise, organized labor, and other particular interest groups.

The need in Latin America today is not that governments should refrain from playing an active role in the economy. Rather, the problems are to define the limits of that role and to ensure that the required government policies and activities are realistic and effective. In particular, the issue is whether reliance should continue to be placed upon fostering the growth of modern forms of private enterprise in manufacturing and extractive industries, distribution, finance, and services; or whether public enterprises should be established in, and should increasingly preempt, these economic sectors. Our evaluation here is specifically addressed to this question.

Types of Latin American Private Enterprise

In applying the criteria for evaluating economic systems, an important distinction needs to be made between the two contrasting types of private enterprise which exist in Latin America today. These may be designated as the traditional and the modern.

The traditional type of Latin American private enterprise has predominated in the past and is still prevalent today. It is generally owned and managed by an individual, family, or small group of business associates, and its characteristics tend to reflect both the early stages of industrialization and certain distinctive features of traditional Latin American society.

This older type of enterprise has largely developed over the past 50 years or more in the older industrial and commercial fields—e.g., textiles and clothing, processed foods and beverages, other light consumer goods, moneylending, and foreign trade. The technology of these industries was comparatively simple and changed relatively slowly, particularly in past decades, when they were first established in Latin America. The markets which these industries served were small and slow growing, and the factors which entrepreneurs had to take into account in making decisions were fairly simple and affected the enterprise directly over short periods of time. For these reasons, the traditional type of Latin American private enterprise was not oriented either toward technological improvement or toward longer-term growth. Nor was technical and professional training required of the owner-managers of this older type of Latin American private enterprise.

These characteristics—inherent in the nature of the older industries and of the markets in which they operated—were reinforced by certain social traits of the owner-managers of the traditional form of Latin American private enterprise. The purpose of the enterprise was primarily to provide income for maintaining and improving the status, influence, and living standards of the family or small group of associates owning the business. Large and immediate profits were generally preferred to the reinvestment of earnings in the improvement and expansion of the enterprise over the longer term. Management positions and responsibilities were usually reserved for members of the family. Little, if any, effort was made to train and promote nonrelated employees to managerial levels within the enterprise, nor was much responsibility delegated to outsiders who might have achieved supervisory positions. Younger members of the family qualified for future responsibilities by learning the business from within and not by obtaining managerial and technical training at modern universities or professional schools.

The characteristics of the modern type of Latin American private enterprise are in marked contrast to those of the older kind. As the process of industrialization has accelerated during the past two decades in Latin America, a new type of enterprise has been established in increasing numbers, particularly in the more advanced countries. It, too, reflects both the requirements of the newer industrial and financial fields and certain major changes in Latin American expectations and social attitudes.

These newer economic fields include chemicals and plastics, machinery and vehicles, electrical and electronic equipment, consumer durable goods, basic metalworking industries, and the parts, components, operating supplies, containers, and ancillary financial and distribution services which they require. Such industries are by nature dependent upon a complex and rapidly changing technology, upon extensive interindustry relations, upon a relatively large and expanding market demand, and upon the effects of a wide variety of economic and political factors both within the country and in the international environment. If they are to survive, such enterprises need managers with technological and managerial training, who are willing and able to plan operations over a comparatively long period of time and who have the interest and the knowledge for taking into account, in making business decisions, a broad and complex range of factors, many of which have indirect and delayed effects.

These modern Latin American private enterprises are generally owned by a family or group of business associates, but increasingly they are taking the form of a corporation, part of whose shares are, or may eventually be, sold to the public. Because of the nature of the new industrial, financial, and distribution fields in which such modern enterprises operate, their managers are compelled to take a long-term view, to regard the organization as having an existence and interests of its own, independent of those of the family or group of owners. Inevitably, the improvement and expansion of the enterprise through the planned reinvestment of earnings over the long term tends to take precedence over paying out the largest amount of profits in the short term. Younger members of the owning family must qualify for management positions through managerial and technical training at universities and professional schools. Top management positions are perforce increasingly open to promising employees not related to the owner, because the modern type of enterprise requires more management personnel with a broader range of skills than the owning family can supply. Professionally trained managers of these enterprises are generally alert to new technological innovations and expansion into new fields, and their policy decisions tend to reflect broad economic, political, and social knowledge and interest.

As Latin American countries industrialize, this modern type of private enterprise will become more and more prevalent. Not only will its numbers and importance grow as the newer branches of industry are established and expanded, but its distinctive management orientation and policies are already being—and will increasingly be—transferred to the older, traditional type of Latin American enterprise. Such transfers have taken place in Western Europe and North America, and will inevitably occur in Latin America because of changing social attitudes and because the enterprises that fail to modernize will be unable to survive in competition with those that do. Therefore, in comparing the relative advantages of public and private enterprises in manufacturing, distribution, finance, and services, we shall have in mind the characteristics of the modern type of Latin American private enterprise even though it is not yet predominant numerically.

Comparative Efficiency

To meet a country's aspirations for rising living standards, its economic system must be capable of achieving a rate of economic growth significantly in excess of population increase. For this purpose, an adequate rate of saving and investment is required to finance the introduction of progressively more productive equipment and techniques. The individual producing units comprising the economy—regardless of whether they are private or public enterprises—have to possess the capability of utilizing the scarce factors of production in increasingly more economical ways and of accumulating from their own operations, or obtaining from outside the enterprise, the capital and the skills required for improvement and expansion. Both within their own organizational structures and in the economic environment in which they exist, there must be incentives and pressures which impel enterprises toward technological innovation, expansion within existing and into new fields, and increased efficiency of operation.

These requirements of an effective and dynamic enterprise are by no means easy to meet. As an economy modernizes and grows, it becomes increasingly complex, and the factors which affect the activities of its constituent enterprises become more numerous, more diverse, and more uncertain. The range of policy and operating decisions which must be made by entrepreneurs expands continuously; the consequences of wrong judgments or of failures to act in time become increasingly more serious; and the need for information about, and understanding of, the relevant internal and external factors grows steadily. To conduct an effective and dynamic enterprise in these circumstances requires owners and managers who are strongly motivated toward technological innovation, expansion into new economic opportunities, and introduction of more efficient methods of operation, who are responsive to changes in the internal and external situation of the enterprise, and who are capable of making rapid and appropriate decisions for coping with such developments.

These requirements are relevant to both private and public enterprises. Hence, it is possible to compare the two types of enterprise in these respects.

Motivations and Incentives

In a modern or modernizing economy, the motivations of the managers of private enterprises are of various kinds. First and foremost, there is the need to ensure that the enterprise will earn an adequate return upon the invested capital both to compensate the owners and to provide a large and growing portion of the new capital needed for improvement and expansion.

Regardless of whether the manager is at the same time the owner or whether he is a salaried employee, he has the primary obligation of ensuring that the enterprise will yield an adequate return because its continued existence depends upon its performance in this respect. He also has a strong personal interest in the earning capacity—and hence efficiency—of the enterprise because his own income and advancement are directly dependent upon such performance. So, too, is his reputation in the community and, therefore, his ability to attract new capital and more skilled employees to the enterprise.

This basic motivation is both conditioned and reinforced by certain other considerations which become increasingly important as an economy modernizes and develops. The earning capacity of an enterprise depends not only upon its internal efficiency of operation but also upon the attitude toward it of the principal groups involved in its activities—employees and workers, suppliers and customers, colleagues in other enterprises and competitors, government officials and local opinion leaders. Managers must be increasingly concerned about the kinds of opinions of the enterprise which these groups hold. This "corporate image," as it is called in the United States, becomes a more and more significant factor as interindustry relations proliferate in the process of industrialization and as markets increase in size and in responsiveness to consumer demand.

For the same reason, private entrepreneurs are becoming responsive to the new expectations for increased welfare and justice in changing Latin American society. In consequence of their broader education and deeper understanding, professionally trained owners and managers of the modern type of private enterprise are themselves likely to be motivated by a sense of social responsibility and a desire to contribute effectively to national development. In addition, they recognize increasingly that the continued existence and earning capacity of a private enterprise depends upon the progress made by the economy as a whole toward national development and toward the realization of desired social values.

The executives of government-owned enterprises are also characterized by a similar set of motivations and incentives. But, there is a crucial difference of degree between their motivations and those of the entrepreneurs who manage modern private enterprises. In theory, failure of the enterprise and loss of personal income and reputation also confront the managers of economically inefficient or socially irresponsible public enterprises. But, in practice, such consequences rarely, if ever, follow. Government subsidies are always available to cover the deficits of public enterprises resulting from inefficient operations; monopoly privileges are generally conferred upon public enterprises unable to meet market competition; public capital is made available—often at low or no interest—to public enterprises unable to earn a return sufficient to provide the investment funds required for replacement and modernization of plant and equipment or for expansion. Thus, in practice, the managers of public enterprises have weaker incentives to achieve desired standards of performance because they know that any deficiencies of the organization can be—and usually are—made up by recourse to the financial resources and economic power of the government.

Nor do their personal incomes and reputations suffer to nearly as great an extent from poor performance as do those of private entrepreneurs. Executives who manage public enterprises are often politicians or civil servants, and have comparatively little difficulty in moving to other positions. Indeed, an all too common method of getting rid of inefficient managers of public enterprises is to transfer them to other positions, often with higher prestige and larger salaries. Moreover, the deficiencies of a public enterprise can usually be blamed on factors other than the shortcomings of its management, regardless of whether this is really the case. In contrast, the responsibility of the managers of a private enterprise is directly apparent and cannot normally be evaded.

In sum, the motivations and incentives for efficient and socially responsible performance on the part of the owners and managers of modern private enterprises are substantially stronger than are those of the managers of public enterprises.

Decision Making and Innovation

A similar, and equally significant, difference of degree generally exists in the capacity for rapid and effective decision making and in the propensity for technological innovation and expansion into new fields between public enterprise on the one hand and the modern type of private enterprise on the other.

Assuming that managers have the training and experience required for making effective policy and operating decisions, their capacity to do so is influenced by the nature of the bureaucratic system in which they operate. All complex organizations, whether public or private, are *ipso facto* bureaucracies. A large part of their operations must perforce be routinized and carried on in accordance with fixed procedures which do not involve significant decision making. However, no matter how elaborate and extensive such standard operating rules and procedures may be, they cannot take account of the changing and novel situations and problems with which any organization in a growing economy will inevitably be confronted. The capacity for rapid and effective decision making is therefore essential for the efficient and successful functioning of both public and private enterprises.

There is a much greater tendency in public enterprises, as compared with private enterprises, to continue to rely upon standard operating procedures even when changing or novel circumstances indicate that new decisions are required. There are two reasons for this difference. First, the difficulty of getting decisions made in a public enterprise is usually greater. Even if the managers possess the necessary authority—which often is not the case—they may still shift responsibility for the final decision to the government ministry or ministries to which they are attached; such evasion of final responsibility—and thus of accountability—seems to be inherent in the nature of a government bureaucracy. Sometimes even routine operating matters—such as replacing a worn-out machine, ordering supplies, or hiring and firing employees—have to be referred to or approved by the relevant government ministry.

At the least, this tendency results in considerable delay in decision making, particularly when the views of several ministries have to be coordinated or when the public enterprise is not located in the capital city. Generally, the more important the decision, the more likely it is that the managers of a public enterprise will have to obtain the approval of the government ministries concerned. In contrast, the managers of a private enterprise, who are often also the principal owners, have no higher authority to whom final responsibility for decisions could be shifted, and they are also accountable for failure to make decisions in time.

The second reason is the natural human reluctance to make decisions which involve the risk that the decision maker will be blamed if things go wrong. So long as a government bureaucrat operates in accordance with the standard rules and procedures, he is generally safe from blame because, if anything goes wrong, it is the procedures which are at fault and not he personally. In contrast, the owner or manager of a private enterprise who sticks to the rules when the nature of the problem requires new decisions will certainly be blamed and penalized for the adverse consequences of his failure to assume the necessary initiative and responsibility. Hence, he is under much greater pressure to make decisions rapidly and effectively than is the manager of a public enterprise.

This difference between public and private enterprises in their relative capacities to make the decisions required to adapt to changing and novel circumstances is important not only for the enterprise itself but also for the economy as a whole. Economic growth is essentially a process of introducing new and more efficient activities, techniques, and products into the economy as the opportunities for doing so are created by the development already achieved. Economic growth does not occur unless there are enterprises and entrepreneurs eager and able to undertake technological innovations and to expand into new opportunities. Private enterprises have a much greater propensity for doing so than do public enterprises owing to the stronger incentives and motivations of private entrepreneurs and to their greater ability to make the required decisions rapidly and effectively. Assuming that the necessary investment capital is available, the modern type of private entrepreneur will more readily adopt technological innovations and will more rapidly expand into new fields of industry than will the government operating through public enterprises.

The Competitive Market and Monopoly

The motivations and incentives which impel, though in varying degrees, the managers of both private and public enterprises are either strengthened or weakened by the nature of the market conditions in which they operate. The more competitive the market, the more pressure there is upon the managers of private enterprises to improve efficiency, to introduce new techniques and products, and to expand into new fields as demand increases in the domestic economy or in export markets.

The beneficial effects of competition on productivity and innovation are too well known to require discussion here. But, healthy competition of this kind is not automatically maintained and, indeed, efforts must continually be made to preserve it. The reason is that, though competition is undeniably beneficial to an economy in general, it is not necessarily regarded as beneficial by any particular enterprise, whether private or public. In fact, there is a natural tendency on the part of all productive enterprises, particularly in complex modern economies, to try to eliminate or offset competition wherever possible.

Any organism, whether biological, social, or economic, acts either unconsciously or consciously to preserve its existence and equilibrium. In an economic system, productive enterprises do so in part through their capacity to adapt themselves to changing external circumstances, and in part by bringing these external factors under their control and thereby eliminating the necessity for undesired adaptation. Since changes in the structure and functioning of an organization are always in some degree difficult to make—and hence unpleasant—the natural tendency of an enterprise is to prefer the latter type of response to the former. A public or a private enterprise can reduce the necessity to change itself to the extent to which it can bring under its control the external factors which affect its continued existence and welfare. This process becomes more difficult as the economic system grows and becomes more complex; but, for precisely this reason, the impulse to try to do so becomes stronger. Hence, enterprises strive to reduce the uncertainties and the incalculability of the markets in which they operate; in other words, they strive to reduce or eliminate competition by absorbing their existing competitors or by preventing the establishment of new competing enterprises.

Again, the difference in this respect between public and private enterprises is one of degree, not of kind. Moreover, it is a difference not in their common dislike of competition but in their comparative ability to reduce or eliminate it. Because of the government's power over economic conditions, it is able by law or through its operating policies to maintain or eliminate competition, or to increase or reduce it. As entities of the government, public enterprises are more likely to ask for and obtain government assistance in reducing or eliminating competition. Indeed, many of them are endowed with monopoly or near-monopoly privileges when they are established, or obtain such a position at a later stage if they are unable to meet the competition of existing private enterprises within the economy or of imports coming from abroad.

Private enterprises may be no less desirous of obtaining or preserving monopoly privileges but their ability to do so is considerably smaller than that of public enterprises. Since private enterprises are not parts of the government, the public authorities have less incentive to use their economic power to confer monopoly privileges upon them. Conversely, it is less difficult for the government to use its economic power to preserve or improve competitive conditions when the organizations affected are private enterprises. True, private interests, particularly in less developed countries, are often influential enough to induce the government to grant them monopoly privileges or to prohibit or deter competitors from entering markets in which established firms have hitherto held monopoly positions. The point is not that private monopolies do not exist or cannot be created through collusion between influential private interests and public officials. Rather, the significant differences are, first, that the government is less likely to assist a private than a public enterprise to preserve or obtain a monopoly position; and, second, that, if it wishes to do so, the government has the power to regulate and supervise market conditions so as to ensure healthy competition among private producers. Thus, an economy in which private enterprise predominates in industry, distribution, finance, and services can obtain the benefits of competition in stimulating productivity and innovation with less difficulty than can an economy in which public enterprise controls substantial portions of these economic sectors.

In Latin America today, there is much discussion of monopolies and monopolists but, as these terms are used, they are mainly Marxist clichés which have little or no bearing on realities. The great majority of Latin American private enterprises, whether of the traditional or of the modern type, are of small or medium size. Enterprises big enough to dominate their branches of industry are generally government owned, and most existing monopolies in Latin America are in fact in the public sector. In his study, Dr. Brandenburg has for the first time assembled and published data on the 30 largest enterprises—computed on the basis of total capital and reserves—in each of the six countries which together produce 85 percent of Latin America's gross product. In all of these countries, over 60 percent of the total capital and reserves of the 30 largest enterprises is attributable to government ownership, and many of these are in manufacturing industry and finance. As Dr. Brandenburg points out, the trend toward government ownership of the largest enterprises has been increasing in recent years. In reality, the threat of monopoly control in Latin America today comes much more from public than from private enterprises.

It is sometimes argued in Latin America that a public enterprise monopoly is tolerable, if not beneficial, whereas a private enterprise monopoly is not. A public enterprise monopoly may be desirable in certain manufacturing fields for reasons of national defense or of public health. But, in terms of comparative economic efficiency, Dr. Brandenburg finds that Latin American experience offers few, if any, examples of public enterprises—particularly when they enjoy monopoly positions—that are as efficient as private enterprises. The conclusion follows that, if scarce resources of capital, skills, and materials are to be used effectively for development purposes, public enterprises are likely to be even less tolerable as monopolies than are private enterprises.

Compatibility with National Goals and Social Values

The question may now be asked as to how public and private enterprises compare in terms of the second criterion for evaluating the performance of an economic system—its compatibility with the attainment of national development objectives and with the realization of desired social values.

Does Private Enterprise Serve Development Goals?

That private enterprise effectively serves national development goals cannot be doubted in the light of the performance of the economic systems of North America and Western Europe. In those two regions, private enterprise has been mainly responsible for the achievement of the highest productivity and living standards ever attained in human history. In Latin America itself, modern private enterprise has in the last two decades also demonstrated a similar capacity where conditions have been favorable to its establishment and growth. The modern type of Latin American private enterprise has played the largest role in the extraordinary economic progress enjoyed by Venezuela, Southern Brazil, Monterrey (Mexico), and Medellín (Colombia), and by rapidly developing areas in other Latin American countries. Where government policy is favorable and market demand is adequate, private enterprises of the modern type soon become established and demonstrate their capability for achieving rapid economic growth.

This dynamism of private enterprise is often conceded by Latin American critics, who nevertheless argue that private enterprise does not effectively serve development goals because it is inclined to undertake activities that make only minor contributions to increasing national productivity. This argument is supported by reference to the tendency for private capital to be invested in real estate speculation and in the production of luxury goods and services. Latin American critics of private enterprise also point to private capital flight and to the tendency on the part of some wealthy Latin Americans to prefer luxury consumption to productive investment. These phenomena certainly exist to a greater or lesser extent in a number of Latin American countries, and undeniably reduce the contribution which private enterprise could make to national development. But, two important qualifications need to be made.

The first is that some kinds of private investment deplored by Latin American critics are not necessarily of minor importance for the achievement of development goals. For example, the construction of a luxury hotel may absorb capital, labor, and materials that might otherwise be used to build a factory to produce domestically goods hitherto imported. But, a luxury hotel may in time earn more scarce foreign exchange for the national economy through the increase of tourism than would be saved by the factory through substituting domestic production for imports. Moreover, the luxury hotel generally creates more employment and higher real incomes than the factory, which is normally more capital intensive and often charges higher prices for its products than consumers formerly paid for imported goods.

Second, and more important, government policies can be the decisive factor influencing the use to which private funds are put. If the basic attitude of the government is favorable to private enterprise and if appropriate government policies are implemented, private capital flight could be substantially reduced, and even completely eliminated; luxury consumption could be discouraged and productive investment fostered; and private resources could be encouraged to flow into the specific industrial fields which will make the largest contribution to the growth of productivity, employment, foreign exchange earnings, and real incomes. Whether private efforts of these kinds will be made depends to a major extent upon the government's attitudes and upon its ability to carry out the fiscal, monetary, and other economic policies and programs which can provide private enterprise with the necessary incentives and financial and technical assistance.

In recent years, Latin American countries have been adopting development planning as a major technique for determining development targets and for mobilizing the resources required to achieve them. However, as Dr. Brandenburg explains in his study, private entrepreneurs have not been effectively involved in the development planning process, nor have development plans included the government policies and programs required to stimulate private investment on the necessary scale. Properly conceived and utilized, development planning could be a useful means for increasing and accelerating the contribution of private enterprise to the achievement of national development goals. To do so, however, private enterprise needs to play an active and effective role in the preparation and evaluation of development plans, and these plans have to include the incentive policies and the financial and technical assistance programs required by the private sector.

Under favorable conditions, Latin American private enterprise can in time play as significant a role in the development of its countries as North American and West European private enterprises have played in the development of theirs. For, under a system of modern private enterprise, it is possible for a country to mobilize for development purposes a larger proportion of potentially productive resources and a greater measure of creative and diligent effort than could be done by any other means. In contrast, less efficient and slow moving public enterprises, such as exist in many Latin American countries, waste scarce development resources and cannot normally evoke as great a degree of conscientious effort from their managers and supervisory personnel.

Is Private Enterprise Immoral?

There is a tendency—not only in Latin America but also in many other countries—to regard private enterprise as immoral because it is undertaken for private gain and because it allegedly involves the exploitation of large numbers of people for the benefit of a small group of entrepreneurs. True, private enterprise does involve the pursuit of private benefit; as we have seen, self-interest provides an important part of the entrepreneur's basic motivation and hence of the efficiency and dynamism of private enterprise. However, that private benefit is by its nature immoral or that private enterprise necessarily involves exploitation by no means follows from the fact that self-interest is an essential part of the entrepreneur's motivation.

The objection of Latin American critics to private enterprise on the grounds that it expresses self-interest and is undertaken for private gain arises in part from confusion of the criteria of personal ethics with those of social ethics. Under the strong influence of the Iberian religious tradition, Latin American ethics has tended to be personalistic, emphasizing the good or evil intentions of the individual and the performance of individual acts of charity, restitution, and repentance. However, for ethics concerned with social reform or economic progress, what counts are not the intentions of individuals but the social consequences of their actions, particularly of those performed in the course of day-to-day participation in the economic and political institutions of the society. Thus, with the best of intentions, a governing elite, including the managers of public enterprises, can and does engage in actions which are socially harmful, while, even with selfish motivations, private entrepreneurs can and do perform actions which are socially beneficial. As the Bible warns, "By their fruits, ye shall know them." By this criterion, a public enterprise that wastes scarce development resources through inefficiency and fails to take advantage of opportunities for innovation and expansion owing to bureaucratic inertia is immoral even though it is not intended to operate for anyone's private profit. Conversely, a private enterprise which is efficient, which innovates and expands, which improves the quality of its products and services, and which equitably shares its productivity gains with its workers, employees, and customers is moral no matter how strong the self-interest that motivates its owners and managers.

Many philosophers from Aristotle to the present day have pointed out that an ethical system based upon the denial of the element of self-interest in human motivation and behavior neither accords with reality nor is capable of wide application. Altruism is an ideal toward which people can aspire and which may actually govern their behavior in certain moments of their lives. But, even the saint may be motivated as much by his personal hope of salvation as by his desire to serve God and man without thought of reward. For the overwhelming majority of human beings, a practicable morality has always been one which recognizes the deeply rooted nature of self-interest and seeks to enlist its energy and perseverance in the service of personal goals which are at the same time socially beneficial. Indeed, precisely because it draws upon the strength of self-interest, private economic activity may more effectively and substantially serve social goals than if no private benefit were involved for the people who have to make the effort required. Thus, modern private enterprise is a uniquely effective means for enlisting the strong motivation of private benefit in the service of socially desirable goals.

It is true that some private enterprises made large profits by paying their employees bare subsistence wages for long hours of work in dangerous or unhealthy conditions. Such exploitation was prevalent in the 19th century during the early decades of industrialization in Western Europe and North America; however much it may have contributed to the growth of the investment capital necessary for the economic development of those countries, it was not morally justified. However, in the 20th century, private enterprise in Western Europe and North America has amply demonstrated its willingness and ability not only to pay higher and higher wages commensurate with the growth of productivity but also to provide increasingly valuable welfare benefits to workers and employees—e.g., profit sharing plans, company pension retirement systems, medical and hospitalization care, housing, paid vacations, severance pay, education and training, recreation facilities, cultural programs, etc. In the advanced industrial countries today, the majority of private enterprises, large and small, provide some or all of these benefits to their workers in addition to those available under government-operated social security systems.

Latin America has been going through a similar evolution in this respect. True, there have been in the past and still are Latin American private entrepreneurs guilty of exploiting their labor. Large landed estates of the traditional type, particularly those with absentee owners, have been and often still are very exploitative of the peasants who work them, but where such practices exist, they are at least in part the consequence of the very low productivity characteristic of this type of agriculture. Some traditional Latin American private enterprises in the older industrial fields can also be accused of exploitation—though, again, it is in part owed to their low productivity and lack of dynamism. However, in Latin America today, there are also modern private enterprises whose records with respect to wages and social welfare benefits equal, and in some cases exceed, those provided by their counterparts in North America and in Western Europe. Moreover, such policies have been voluntarily adopted by these Latin American enterprises and were not the consequence of the government's social welfare legislation.

In fact, the most flagrant and widespread exploitation in the world today does not occur in the private enterprise economies but in those countries in which the state owns and operates the means of production in agriculture and industry. In the 20th century, the communist countries have been exploiting their populations more ruthlessly and with less concern for the rights and welfare of the individual than was generally the case even in the worst period of 19th-century industrialization in Western Europe and North America.

Neither public enterprises nor private enterprises are immune to the temptation to engage in exploitation and other socially irresponsible behavior. The graft and corruption that exist in too many public enterprises and government ministries are too well known to require description here. In contrast, modern private enterprise is much less inclined or able to yield to the temptation to exploit workers and employees or to engage in other socially harmful practices. In consequence of their broader education and deeper understanding, modern private entrepreneurs more and more recognize that the continued existence and progress of their enterprises are dependent upon the prosperity and well-being of the people as a whole. For their part, workers and employees have increasingly effective means for improving their condition. Moreover, government regulations and programs exist for preventing socially harmful behavior and for improving the living standards and the economic security of low-income groups in the population. As Latin American countries develop and greater resources become available, private and public policies and programs will be able to be more and more effective in ensuring that all groups in the population share in the benefits of productivity growth.

Social Values Fostered by Private and Public Enterprises

Latin Americans today increasingly expect their societies not only to achieve higher living standards through national development but also to accomplish this objective in ways which foster increased justice and equality, more freedom for people to realize their potentialities, and greater responsiveness of political and economic institutions to democratic control. How do private and public enterprises compare in their relative abilities to foster these social values?

By its nature, private enterprise is a voluntary activity undertaken at the initiative of private citizens who are themselves responsible for the necessary actions and their consequences. Thus, private enterprise fosters initiative, self-reliance, and responsibility on the part of the people, and hence their capacity for democratic decision making. It provides widening opportunities for people to realize their individual potentialities for personal achievement in economic life, and enables them to do so in activities which benefit the society as a whole. By producing a larger and faster growing volume of goods and services than would otherwise be available, a modern private enterprise system makes possible an increasing measure of distributive justice in the society. Moreover, it does so in a manner which brings the greatest rewards to those capable of demonstrating the initiative, creativity, and conscientious effort essential for increased productivity—not only to owners and managers but also to workers and employees.

An economic system which is increasingly dominated by state-owned and operated enterprises is, in contrast, less and less conducive to the realization of social values of these kinds. In Latin America, it would revive and strongly reinforce the tendencies toward authoritarianism and paternalism that have always characterized traditional Latin American societies.

Though rooted in the traditional society, paternalistic and authoritarian attitudes have also been fostered by certain aspects of 19th-century positivism, which has been a major intellectual influence on Latin American elites either in pure or in quasi-Marxist forms. Positivism stresses that all significant social problems can sooner or later be solved by the application of the social sciences and industrial technology. It fosters the notion that an elite trained in modern economics, sociology, and engineering is alone capable of transforming a traditional into a modern society. Many members of Latin America's new elites have had professional training in the social sciences and technology, and those who favor public enterprise and state socialism tend to be influenced by this positivistic faith in the ability of a scientific elite to solve social problems in the interest of the people.

In addition, proponents of state socialism often conceive of the state in Hegelian terms as an entity superior to the other institutions of the society, which exist in order to serve it. Since such an entity is presumed to be above the conflicts and interests of particular groups and institutions within the society, the state is supposed automatically to represent the interests of the people as a whole and to express their collective will. The visible form of the state is the government—the political leaders and officials who administer its authority and power. Hence, public enterprises, as part of the state, are believed *ipso facto* to be in the interest of all the people, and their managers, as officials of the government, are presumed automatically to direct their operations for the good of the people.

However, social realities do not conform to these positivistic and Hegelian notions of a scientific elite benevolently and automatically wielding the authority of an omnipotent state for the good of all of the people. Societies which have endeavored to embody such theories have inevitably become authoritarian. Where the state is regarded as superior to the society and its officials are presumed to act automatically for the good of the people, there is no room for democratic institutions through which the will of the people can periodically be expressed and differences among them resolved. Such institutions are considered not only unnecessary but harmful because they interfere with the effective functioning of the state. So also are private initiative and innovation or, for that matter, any decision making by individuals and groups which has not been planned or sanctioned in advance by the state.

Socialism takes its name from the desire to socialize—that is, to place in the hands of the people—both the control and the benefits of economically productive activities. By this definition, there are valid reasons for concluding that, in modern pluralistic societies, private enterprises are more socialized than are the state-owned and operated enterprises of a socialist system. Private enterprises are responsive and accountable to the will and interest of the people in four ways: to public opinion, as expressed in representative government and a free press and other media of mass communication; to the law, as embodied in legislation and government regulations affecting private economic behavior; to the disciplines of the competitive market, which reflect the preferences and choices of the people acting as consumers, wage earners, stockholders, and investors; and to the countervailing power of trade unions, organizations of farmers, and other enterprises operating as competitors, suppliers, and customers. These constraints are much less effective, even in pluralistic societies, in influencing the behavior of public enterprises. And, in authoritarian societies, particularly in those with socialist economies, these means of ensuring the social accountability of the managers of productive enterprises are either weak or suppressed entirely.

Modern private enterprise systems and pluralistic societies have problems and difficulties of their own, and injustice and hardship continue to exist in them. Nor is progress in mitigating these problems easy or certain. Nonetheless, the distinctive institutions and relationships of modern, private-enterprise, pluralistic societies are more conducive to the realization of the social values to which Latin Americans today aspire than are any other forms of economy and society. The growth of modern private enterprise would not by itself be sufficient to ensure greater welfare, justice, and personal and political freedom for Latin Americans; but it is one of the essential conditions for achieving these values. The indefinite expansion of public enterprises in manufacturing and extractive industry, distribution, finance, and services would, in contrast, revive and strengthen those traditional tendencies in Latin American society which foster authoritarianism and paternalism.

In developing economies like those of Latin America, the relationships between the government and private enterprise and the relative emphasis placed on the public and private sectors need to be flexible and responsive to changing needs and capabilities. The essential requirements are that a developing country recognize the vital role which modern private enterprise can play in national development and that it be prepared to adopt and implement the government policies and programs conducive to the growth of private enterprise. Dr. Brandenburg's study assesses the extent to which these essential requirements are being met by the major Latin American countries and the changes in policies and programs that are required for Latin American private enterprises to play a role commensurate with their capabilities in the development of their countries.

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I

Private Enterprise and the Alliance for Progress

The path of competitive political and economic development is a difficult one. For the relatively low income countries, the nationalization of large productive enterprises has often appeared to be the easiest solution to problems of political strength and economic justice. Taking the longer view, however, the trend toward socialization may threaten future wealth, creativity, and freedom unless it is checked in some countries and reversed in others.

A positive way to alter the trend is to increase the contribution of private enterprise. The present study deals with ways of encouraging its development in Latin America—how private enterprise can help itself (Chapter II), and how Latin American governments (Chapter III), foreign corporations (Chapter IV), and foreign governments and international institutions (Chapter V) can contribute to this end. This introductory chapter reviews briefly the reasons why the encouragement of domestic enterprise in Latin America is important now.

The Condition of Private Enterprise in Latin America

The classical arguments about the relative merits of public and private enterprise were worked out during the 19th century, primarily in the context of the economically more advanced countries. For the relatively less developed nations, and for Latin America in particular, the situation is different today since public ownership is more dominant than in the classical European and North American economies of the 19th century. Choices have already been made, and are now being made, which decisively affect the concentration of economic power, and thereby of political power as well. The advocates of statism are articulate and politically effective. The advocates of private enterprise appear to be less so. If private enterprise is valuable for the economic growth and democratic evolution of Latin American countries, effective policies and programs should be devised for its support because its position is more vulnerable there than in the relatively advanced countries.

Statistics for Argentina, Brazil, Chile, Colombia, Mexico, and Venezuela (as qualified in respective country lists in Chapter III) illustrate the extent of government ownership in industry, finance, commerce, mining, and utilities. Of the 30 largest firms in each of these countries, government accounts for over 60 percent of total capital reserves. In Argentina, Brazil, and Chile, foreigners own 20 percent and local entrepreneurs 20 percent. Hence, the ratio of government to domestic private ownership among these firms is about three to one. The percentages are curiously similar in each of the three countries.

This ownership mix is at present restricted to large firms. Among medium-sized and small companies, the ownership is overwhelmingly private. But large public corporations often have the power to squeeze smaller private ones out of business, and bureaucracies obey Parkinson's Law of gradual expansion. Some examples of the trend toward public absorption of the private sector are given in Chapter III.

In every country of Latin America except Cuba, the debate is not so much over whether ownership should be all private or all public as it is over what the proportions should be. It is generally conceded that some of each is necessary. The argument for public ownership of large enterprises revolves around their value as a defense against irresponsible forces within and neocolonial forces without. The justification of private enterprise is seen in its contribution to economic growth and long-run democratic evolution. The view has been expressed that:

> It is not the responsibility of the United States to define the exact borderline between the public and private sectors in the recipient economies. Latin American countries will not only insist upon doing this themselves but would resent interference on our part.[1]

It is at least evident that the question of private versus public ownership is an acute one in Latin America. Whether the goal is to expand the proportion of private enterprise among large firms, or whether it is simply to preserve its predominance among medium and small firms, the time to carry out supportive action programs is now.

Potential Contribution to the Goals of the Alliance

The purposes of the Alliance for Progress, as affirmed in its basic documents,[2] include the defense and expansion of human rights. The 10-year development program of the Alliance aims at accelerating economic growth and social reform in Latin America by means compatible with

[1] Statement developed at the Foreign Policy Clearing House Conference held at Harvard University, December 19, 1960.

[2] The "Charter of Punta del Este" and the introductory "Declaration to the Peoples of America." Inter-American Economic and Social Council Special Meeting at the Ministerial Level, Punta del Este, Uruguay, 1961, *Alliance for Progress Official Documents* (Washington, D.C.: Pan American Union, 1963).

democratic institutions. In championing social reform and higher average income, the architects of the Alliance sought to cope with what they believed to be the growing frustration of broad sectors of Latin America's population with the slow pace of economic development. They feared the emergence of revolutionary movements unless comprehensive measures of social and economic justice were to be effected voluntarily and unless reforms evolved through self-determination and by peaceful procedures.

Accelerated and sustained economic growth requires substantial increases in productivity. Expansion of the existing relatively modest productive plant was deemed indispensable. Hence, Latin America would have to apply a higher proportion of national incomes to productive investment. Although the Alliance is predominantly an understanding among governments, the essential role of private enterprise in achieving these objectives was recognized. The Charter contains several proposals on decentralized, private economic decision making and activity:

> That institutions in both the public and private sectors, including labor organizations, cooperatives, and commercial, industrial, and financial institutions, be strengthened and improved for the increasing and effective use of domestic resources. . . . [Title II, Chapter I.]
>
> National development programs should incorporate self-help efforts directed toward: . . . Improvement of systems of distribution and sales in order to make markets more competitive and prevent monopolistic practices. Development programs should include . . . the encouragement of private savings. [Title II, Chapter II.] [3]
>
> It is necessary to promote the development of national Latin American enterprises in order that they may compete on an equal footing with foreign enterprises. . . . The active participation of the private sector is essential to economic integration and development, and except in those countries in which free enterprise does not exist, development planning by the pertinent national public agencies, far from hindering such participation, can facilitate and guide it, thus opening new perspectives for the benefit of the community. [Title III.]

The strongest statement in support of private enterprise is found in the "Declaration to the Peoples of America." Among other pledges, the countries signing the Declaration agree:

> To stimulate private enterprise in order to encourage the development of Latin American countries at a rate which will help them to provide jobs for their growing populations, to eliminate unemployment, and to take their place among the modern industrialized nations of the world.

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[3] An appendix to this Title of the Charter identifies two of eight "Elements of National Development Programs" as being the "measures which will be adopted to direct the operations of the public sector and to encourage private action in support of the development program" and the "machinery of public administration—including relationships with local governments, decentralized agencies and nongovernmental organizations, such as labor organizations, cooperatives, business and industrial organizations—to be used in carrying out the program, adapting it to changing circumstances and evaluating the progress made."

Private enterprise can make major contributions to two main goals of the Alliance—economic growth and democratic evolution.

Economic Growth

Within beneficial limits, which the society may democratically determine, the profit motive can secure the most rapid and efficient growth of production and jobs. Private entrepreneurs are able to take advantage more readily than public enterprises of the new productive opportunities to which the expansion of the economy as a whole gives rise.

The profit motive induces the saving of money which might otherwise be spent on consumption and encourages the investing of money which might otherwise be hidden in the mattress or sent abroad. Latin Americans may insist that Great Britain and the United States industrialized at too high a cost in human sacrifice during the 19th century, and North Americans may counter that the Soviet Union has been trying to do so at very much higher costs and with much less success in the 20th century. This said, the key lesson offered by successful private enterprise industrial nations is precisely their willingness and ability to accumulate savings, invest them many times over, and become efficient producers.

Private industry accumulates surpluses which provide for further industrial expansion and still higher output. This is an indispensable attribute of industry in the development process, which is respected by few state corporations in Latin America. Inefficiency, graft, loss, and, at best, modest earnings are the norm for Latin America's state-owned enterprises.

New and expanding industries mean jobs, necessary to keep pace with Latin America's burgeoning population and rapidly growing urban centers. Forecasts indicate that Latin America's estimated mid-year 1963 population of 224 million, already greater than that of the United States and Canada combined, will double in less than 28 years. By the year 2000, Latin America's population will exceed 500 million, with Brazil accounting for about two fifths and Mexico for about one fifth. When population is examined on the basis of urban growth, industrial development acquires additional importance. Rates of growth forecast for urban populations between 1960 and 1975 are three times as large as growth rates forecast for rural populations. By 1970, Latin America will be predominantly urban, and major cities will still be growing more rapidly than small towns. Already, metropolitan São Paulo, Mexico City, Buenos Aires, and Rio de Janeiro each has over four million inhabitants.

The importance of private enterprise as the optimum agent in the mobilization and allocation of Latin America's resources may be seen in country development plans submitted to regional organs of the Organization of American States (OAS); these plans assign roughly 65 percent of all new investment to the private sector. "The objectives of the Alliance," as the Council of Finance Ministers of the Inter-American Economic and Social Council observed at the Mexico City meeting in October 1962, "cannot be achieved without the full participation of the private sector and adequate measures must be taken to assure maximum contribution to growth by the private sector."

Private companies also appear to be generally more efficient than government corporations. Two of the many evidences of recurrent deficits in public enterprise can be cited, one in Argentina, the other in Brazil. Some measure of the magnitude of the deficits incurred by state enterprise in Argentina can be gleaned from the fact that, in January 1963, the Unión Argentina de Proveedores del Estado, an association of suppliers to the government, announced that its members were owed more than 100 billion pesos by state enterprises and various national, provincial, and municipal government agencies. Much of the financial trouble is traceable to the state petroleum company (YPF) and state railways (EFEA). YPF has heavy financial obligations to private oil contractors who have lived up to their promise of largely satisfying Argentina's domestic oil needs by finding new sources. The oil companies cannot recover their investments until YPF begins paying for the oil they produce; and YPF lacks funds. "Reorganization" of the EFEA, which lately has accounted for approximately three fourths of the national budget deficit, has been announced time and again. A new railway administration was installed in February 1963, headed by technically qualified managers who, it was promised, would not be subject to dismissal on political grounds. How the new management will handle the "featherbed" dilemma plaguing the Argentine railways is as yet unknown. Most experts agree that a solution must include dismissal of at least half of the over 80,000 railway workers, but legal prohibitions on such an action, to say nothing of potential political repercussions throughout the ranks of organized labor, threaten to create an impasse.

Similar examples in petroleum and railroads can be cited in Brazil. The Brazilian newspaper *Correio da Manhã,* on February 20, 1963, commented on the proposal of the director of Petrobras, Brazil's state petroleum corporation, advocating expropriation of all private refineries and gasoline distributors, with Petrobras absorbing these activities under its own administration. The proposal, contended the journal, aims at "setting up monopolies and bureaucracies in a broad sector of the Brazilian economy; . . . a monopoly is not the safest means of expanding; . . . one cannot talk in terms of development." The journal went on record in favor of "a well administered Petrobras which informs the public honestly and develops stage by stage." In contrast, it condemned "a Petrobras dominated by politico-economic groups looking for indemnity deals instead of producing and administering." In an article on March 7, 1963, entitled "Federal Railway System and Federal Government Aid," the influential newspaper *O Estado de São Paulo* observed that 90 of the 94 billion cruzeiros earmarked to cover deficits of the Brazilian railroads in 1962 were for operating expenses and that less than 5 percent of this immense outlay underwrote improvement of antiquated lines. While conceding that a public utility like the railroads may operate at a reasonable deficit, the newspaper claimed that the logical manner to reduce annual deficits to reasonable proportion is through fare adjustment. Yet in early 1963, when the federal government raised fares on Rio de Janeiro suburban trains for the first time in decades, it increased the fare only for a 50-mile ride to or from Rio to a total of less than two cents. To establish a normal railroad fare in line with prevailing bus fares, the editorial pointed out, the increase ought to have been three times as large. Even this would not have amounted to one half of the corresponding fare in a majority of countries, including many with lower per capita income than Brazil. "No theory of deficit finance of public utilities can justify such artificial fares," concluded the newspaper.

Since it is extremely difficult to measure the efficiency of state monopolies precisely, it is significant that a high official of the inter-American community's only intergovernmental development bank has observed that:

> . . . when personal ambitions are dedicated to obtaining a profit in a competitive free society, economic activities must be carried out at the lowest possible cost in order to reach the efficiency so necessary to competitive survival and market success. When the same powerful individual ambitions express themselves through government operations without the profit motive, it is hard to prevent them from resulting in massive, inefficient, and costly bureaucratic machinery with political orientation. For in the first case, the expression of personal power is achieved through success in competitive markets, whereas in the latter, the degree of success is judged by the number of people, offices, divisions, regions, etc., under the individual's control, and his efforts will be frequently devoted to justifying this apparatus regardless of its cost, rather than reducing it to the minimum in order to achieve maximum efficiency.[4]

The immediate incentive to satisfy one's own needs and those of one's dependents stimulates private entrepreneurs to use their money carefully, to work harder, and to learn new skills where necessary. Materials, equipment, and labor time are applied more economically, because losses due to waste are direct and personal. In public enterprises, the risk of personal loss is much smaller, and the incentives are correspondingly reduced, particularly where government subsidies may be counted on to cover deficits. Furthermore, adoption of new methods and activities by public corporations is often inhibited by the need for detailed approval by higher officials and through interministerial and cabinet decisions.

Democratic Evolution

Beyond immediately visible physical effects, Latin American private enterprise holds promise as an engine for releasing human energies in the direction of spontaneous, responsible local development. The Alliance for Progress envisages increases in levels of income taking place simultaneously with a broadening of individual self-help and free democratic institutions.

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[4] T. Graydon Upton, Executive Vice President, Inter-American Development Bank, address at the 18th Meeting of the Mexico-United States Committee, Denver, Colorado, October 15, 1963.

The responsible private industrialist is more than a business innovator, mobilizer of capital, manager of an enterprise, and allocator of resources; he also stimulates and participates in much of the social and political decision making outside direct state control. Industrialization in the hands of responsible, enlightened entrepreneurs can do much to foster community development and broadened political freedom. As the influence of industrial management expands, it will inevitably be matched and challenged by other groups. Private merchants, farmers, trade unionists, professionals, and other groups will be stimulated and strengthened by the growth of industry and will also be concerned with the preservation and expansion of decentralized, private decision making.

Democratic labor movements may benefit in a way that sometimes is not possible under government corporations. The latter offer tempting opportunities for irresponsible labor elements. Sheltered from the winds of competition, protected from above by layers of bureaucracy, and prevented by political considerations from giving adequate weight to economic criteria, public enterprises in Latin America all too often find that they have little effective bargaining power in dealing with labor unions. Some examples of "featherbedding" in government enterprises are cited in Chapter III. Also, communists have found public enterprises especially easy to penetrate and have used them as effective vantage points from which to weaken further the private enterprise sector.

Procedures aimed at accelerating social reforms and economic growth thus tend to be self-defeating when they are not based on the self-help of the free individual. Government action best helps democracy when it includes a minimum of manipulation or control and a maximum of stimulation, inducement, or assistance.

Latin America has a long history of violent, authoritarian, and extremist politics. The best hope for democratic evolution is in the growth of many diverse interest groups which are relatively independent of government. The danger of nationalizing industry is that it facilitates the nationalization of people, including ultimately the nationalization of their thoughts and beliefs. The advantage of private competitive enterprise is that it tends to encourage and sustain a free press, personal freedom, and freedom of thought and belief. It develops a strong interest in the maintenance of law and order. It offers channels for the unfolding of genuine creativeness and innovation arising from the varied background of native cultures. It is the best hope for the development of political democracy, stability, and self-reliance in Latin America—that is, for achieving the basic objectives of the Alliance for Progress.

The future of free enterprise in Latin America depends on many factors. If entrepreneurs are lazy or paternalistic or concerned only with the welfare of their families and not at all with that of their employees, their survival

is impossible. If national governments harass business with unpredictable taxes and tariff duties, with rampant inflation and expanding expropriation, they can quench enterprise. If foreign industrialists maintain rigid barriers against domestic employees and concern themselves exclusively with taking profits out of the country, they can dim the prospects for economic independence. And if international agencies confine their contacts to government circles, they will be giving less help than they could, and may at times actually hinder the evolution of democracy.

An analysis of these points and recommendations are given in the chapters that follow.

II

Latin American Entrepreneurs: Characteristics and Problems

Whether private enterprise will accelerate development along lines laid down by the Alliance for Progress depends in large measure on the character and capacity of Latin American entrepreneurs. This chapter reports the results of a survey of typical entrepreneurs—the origins of their wealth; their ethnic, religious, and other characteristics; and their attitudes on typical business problems.[1] The survey provides a factual background for the recommendations on what Latin American entrepreneurs can do to strengthen private enterprise and increase their own value to the community.

Origins of Wealth

Venture capital behind the promotion of domestic industry in Latin America has come from numerous sources. Investment funds have been acquired by raising cacao, coffee, cotton, fruits, nuts, palm, sisal, sugar, timber, tobacco, and wheat; in mining gold, silver, coal, copper, lead, zinc, and other minerals; and in cattle, sheep, and other varieties of ranching. Legitimate trading, importing, shipping, and merchandising have built up capital reserves subsequently employed in industry. Breweries and smelters; textile, sugar, and flour mills; and factories making wood, leather, and metal products have also produced capital for other investments.

Urban real estate and land speculation in general have been a source of investment funds. Local private and public financial institutions have provided resources. The independent moneylender has shifted capital into promoting his own industrial ventures. Foreclosure of mortgages on industrial properties has led to reorganization and launching of new industries.

Immigrants, particularly those of Italian origin in Argentina, Brazil, and Venezuela, have arrived bringing capital which they later invested in setting up new companies. Foreign financial institutions and flight capital and other speculative capital from abroad have helped start local enterprises. Present-day industrialists also include a group of nationals that worked abroad, in

[1] Sources of the survey are described in Appendix IV.

capacities ranging from scientist to migratory farm laborer, and placed their savings in industry when they returned home. Income from professional careers (law, medicine, accounting, etc.) has been another source of savings.

Government employment and intermediary roles between government and private activities have accounted for numerous take-offs into capital accumulation. Among those who have accumulated industrial investments of their own are former presidents, governors, cabinet ministers, state bank officials, state industry managers, military personnel, customs officials, and diplomats. Politicians, labor bosses, and local "strong men" have manipulated funds to permit the opening of their own private manufacturing concerns. Other sources of investment funds have included devaluation, inflation, public works contracts, sales contracts, smuggling, lotteries, and betting.

A majority of Latin American entrepreneurs probably come from middle-class families of small industrialists, merchants, ranchers, civil servants, professionals, soldiers, teachers, and politicians, as well as unemployed middle-class elements living off relatively modest inheritance or other savings. This phenomenon is consistent with the generally accepted premise that family, friends, and speculators provide the preponderant source of venture capital for small and medium industries.

Nonetheless, many skilled workmen of humble origins have set up small industrial firms of their own in Córdoba, Maracaibo, Mexico City, São Paulo, and elsewhere. Some of the truly wealthy entrepreneurs of today started from very humble origins. The late William Jenkins in Mexico, who amassed a personal fortune estimated at above $100 million, once worked as a traveling salesman. In Honduras, there is Boris Goldstein and his brother who once peddled shoes in Guatemala. Gabriel Ángel in Colombia once drove his father's mule teams between Medellín and the Magdalena River.

In contrast, some family industrial fortunes stem from previous or concomitant wealth in agriculture and ranching. Probably the highest incidence of this occurs in Argentina, where old family fortunes in farming, ranching, and shipping are conspicuous in big industrial ownership. Prominent Venezuelan, Brazilian, and Mexican industrialists also stem from landed gentry.

Private industry in the Medellín region of Colombia may be taken as an example of the multiple origins of industrial wealth and the complexity of ownership in Latin America. The first Colombian efforts to promote modern industry on a large scale date from the early 1920s. Relatively modest personal savings convinced one youthful group that a collective venture was the best form of acquiring sufficient investment capital to enter industry. They centered their activities on Medellín, undertaking a variety of industrial, commercial, and financial ventures. The "Group of the 1920s" was composed of men whose backgrounds ranged from mule driver, coffee merchant, printer, engineer, small local industrialist, and middle-class rancher to moneylender and big farmer. Sound finance, integrity, and a spirit of association attained early business stature for the Medellín group, and soon attracted financing from other Colombians and from Germans and British.

Their innovating and industrious qualities helped to earn for Medellín the title of "The Industrial City of Colombia." Among the principal businesses promoted by the group were some of today's largest private enterprises: COLTEJER and FABRICATO (Colombia's two largest textile mills), Compañía Colombiana de Tabaco (Colombia's largest maker of tobacco products), Cervecería Libertad (merged later with Cervecería Antioqueño to become Cervecería Unión, the nation's no. 2 brewery), Compañía Nacional de Chocolates (the nation's largest candy and chocolate factory), Banco Alemán Antioqueño (a bank in partnership with German capital, later liquidated), and Cine Colombiano (Colombia's largest motion picture distribution and exhibition company). Through an intensive commercial battle, the group also participated in the consolidation of Bavaria brewery, the largest domestic, privately owned industry in Colombia today. While suffering business setbacks from time to time, every enterprise was nurtured responsibly and each grew into a relatively large corporation; all are listed today on the Colombian stock exchange.

Other entrepreneurs in the Medellín area worked independently of the 1920s group. The Saldarriaga family founded a modest paint factory which evolved into Colombia's largest paint manufacturer, Pintuco. The same family promoted a retail food store into the large chain of Mercados Candelaria. The Steuer family, immigrants with part of their business in Argentina, opened the first store of the nationwide chain of TIA department stores in Medellín. Luis Eduardo Yepes similarly built a nationwide chain of LEY five-and-ten stores. Mercados Candelaria, LEY, and TIA manufacture some of the merchandise sold in their respective chains. Posada Tobón established a soft-drink bottling firm which later became the country's largest. A Medellín branch of the Restrepo family, led today by Juan Gonzalo Restrepo, centered its entrepreneurial talents in the Galletas NOEL cookie factory.

After World War II, a series of new industries and supporting businesses promoted by Colombians sprang up in Medellín. Members of the 1920s group, their children, and other investors promoted the Banco Industrial, Compañía Suramericana de Seguros, Cementos Argos, Cementos Valle (in Cali), Cementos del Caribe (in Barranquilla), and Siderúrgica, S.A. FABRICATO entered a profitable joint venture with Burlington Mills in the enterprise Textiles Panamericanos (PANTEX). The Vásquez brothers founded a radio-phonograph assembly plant. Alberto Vásquez and Gabriel Ángel initiated Industrias Metalúrgicas Apolo to make cement mixers, block pipe, and agricultural and sugar mill equipment. Small factories producing all manner of goods appeared on the Medellín scene.

Perhaps the most dynamic potential for further industrial entrepreneurship in the Medellín region today resides in the private industrial and commercial development bank (*financiera*) established in Medellín by 80 individual investors in 1960. The International Finance Corporation has made a stock option loan to the *financiera*, and foreign private financial institutions also hold equity in it.

Ethnic, Religious, and Other Characteristics

This section reports the results of the survey with respect to ethnic origins, religion, family and social life, and education and skills.

Ethnic Origins

All races can be observed among Latin America's native entrepreneurs. While the skin color of industrialists tends to darken from large to small industrialists, there appear to be no formal color bars. Racial tolerance is perhaps a natural development in countries like Brazil and Mexico where many, perhaps most, inhabitants are uncertain of their racial origins. There are few nonwhite industrialists in Argentina. But Negro, Indian, and *mestizo* industrialists are encountered in Brazil, Colombia, Mexico, Peru, and Venezuela.

The ethnic origins of entrepreneurs not accountable to Indian or Negroid racial strains are largely Spanish and Portuguese, although many and possibly a majority of the entrepreneurs in Argentina come from Italian stock. Immigrants from the Iberian Peninsula have varied from the original *conquistadores* to refugees from the Franco and Salazar regimes and recent arrivals seeking to finance a return home in style. Despite the continued existence of Spanish and Portuguese social colonies in Latin America, the cultural assimilation of Spaniards and Portuguese has been great. Spanish colonies and Portuguese colonies are by no means unified ethnic groups, either. Some Brazilian Portuguese boast of descent from the aristocracy that accompanied the Portuguese royal family to Brazil during Napoleonic times; other Brazilian Portuguese deprecate such ancestry. Refugees from Republican Spain encounter bitter enemies in local Spanish colonies supporting Franco. Further splits are based on descent from different Spanish provinces, such as Asturias, Catalonia, or Galicia. Some industrialists born of families resident for generations in Latin America still claim that they are Spaniards or Portuguese instead of Argentine, Brazilian, Colombian, or Mexican. A few seem to claim to be more Spanish and Portuguese than aristocratic families living in the Iberian Peninsula itself. These same persons are found to be among the least desirable industrialists in terms of innovation, risk taking, and civic consciousness.

Many refugees of the post-World War II epoch now in Colombia, Mexico, and Venezuela have also exhibited relatively little confidence in the future of their adopted countries, for they have shown a high proclivity to convert industrial earnings into foreign currencies.

Local entrepreneurs of non-Iberian ethnic background are also present on the Latin American industrial scene. These include permanently resident U.S. citizens, some born in this country and others born in Latin America, as well as children of mixed U.S.-Latin American marriages. Enterprising families descended from U.S. stock include Sanborn and Wright in Mexico, Byington and Marvin in Brazil, Phelps in Venezuela. A large number of industrialists are of Italian origin, particularly small industrialists in Argentina, Brazil, and Venezuela. Truly large industrial complexes in Argentina, Brazil, and Mexico have also been established by entrepreneurs of Italian origin, men such as Matarazzo and Pignatari in Brazil, DiTella in Argentina, and Pagliai in Mexico. Industrialists of British and German descent, who are most conspicuous in Argentina, Brazil, and Chile, are found everywhere in Latin America. Highly successful in the German entrepreneurial group are Frederico Schmidt and the Renner family (Brazil), Gustavo Vollmer (Venezuela), the Lenz brothers (Mexico), and the Kopp family (Colombia). The British group includes the Fraser (Argentina), Edwards (Chile), and Boulton (Venezuela) families. A French colony of entrepreneurs is very strong in Mexico, centering on the Banco Nacional de México, on Carlos Trouyet, the Braniff family, and families originating in the small French town of Barcelonette. Local entrepreneurs of French descent are also present in Argentina, Brazil, Chile, Colombia, and Venezuela. A few local industrialists claim Belgian, Canadian, Chinese, Dutch, Irish, Polish, and Scandinavian descent. Many others, concentrated in southern Brazil, come from Japanese ancestry.

Another ethnic group is the "Turcos," who are not necessarily Turks, but Lebanese, Syrians, and generally anyone from the Levant, including Christians, Jews, and Moslems. They are usually exceptionally energetic entrepreneurs who tackle obstacles that frequently overwhelm and discourage business leaders of others ethnic origins. Concentrated in Chile (where they are often called "Arabs"), in Central America, and in Mexico, the Turcos have succeeded in becoming important in textiles (Khalil in Brazil, Yarur in Chile, Aboumrad in Mexico) and related industries.

Assimilation of immigrants is generally high, except in some instances for the Turcos and World War II refugees. The crusading drive toward assimilation by many recent Italian immigrants in Argentina, Brazil, and Venezuela leads older industrialist families to accuse them of trying to be more Argentine, more Brazilian, or more Venezuelan than citizens of local origin.

Religion

Statistically, Latin American industrialists are predominantly Catholic. But their Catholicism, according to Jesuit sociologist Rev. Joseph P. Fitzpatrick, ranges from an "intensity of practice and devotion that is heroic, to an indifference that is difficult to conceive." Many industrialists are baptized, given first communion, and married in the Church, only to become practicing Freemasons until returning to the Church for extreme unction rites. For the census taker, these "Catholic Freemasons" are simply Catholics. Some Catholic industrialists trace their family trees to Sephardic and other Jewish stock, giving rise to instances of allegiance to both Catholicism and Judaism. While the Catholic hierarchy across the continent shares universality and oneness with Rome, religious content and organizational privileges vary decidedly between and within Latin American nations. For example, small industrialists in Central America and Mexico tend to accept the dark-skinned Virgin of Guadalupe as the primordial religious symbol. In contrast, big industrialists everywhere and small and medium industrialists outside Middle America usually have little if any room in their religious beliefs for the Guadalupana.

It is common to attribute the slowness of economic progress in Latin America to religious causes. According to this argument, Catholicism has placed less emphasis on material progress than major Protestant denominations. Hence, the more Protestant nations, such as the United States, Great Britain, West Germany, and the Scandinavian countries, enjoy higher per capita incomes than traditionally Catholic nations, such as Ireland, Italy, Portugal, and Spain. However, restraints on entrepreneurship are also imposed by the influences of traditional socio-economic patterning in agricultural life, authoritarian political institutions, and military dominance. The relation between these and religion in Latin America is not always clear.

Catholic industrialists typically manifest greater concern for change in this life than do Catholic owners of *estancias*, *fazendas*, or *haciendas*. This should not imply that every Catholic industrialist is an enlightened, progressive business leader, dedicated to social welfare. Some industrialists interviewed for this survey subscribe to *Opus Dei*, with its emphasis on the virtues of charity and of self-denial by the labor force. In contrast, many industrialists are evidently applying the social teachings of Pope Leo XIII and Pope John XXIII on labor relations and community life. Such industrialists are found as leaders of Catholic social action and Christian democracy groups throughout Latin America. U.S. college history texts stereotyping the Catholics of Latin America as conservative, authoritarian, or paternalistic, as holding to a uniform creed, or as obstacles to progressive economic development are in need of modification.

Nor is industrial entrepreneurship in Latin America confined solely to Catholics. Many entrepreneurs are Freemasons, Jews, Protestants, Mohammedans, agnostics, atheists, and followers of oriental religions. Freemasonry is strongest in Mexico and Chile. It is considerably weaker, in declining order, in Venezuela, Brazil, Colombia, and Argentina. It binds industrialists of varying Catholic faith with those of Protestant, Jewish, and oriental creeds. In some communities, it sets the pace for socially progressive private enterprise. Masonic lodges—the one place in the nation where the Catholic, Protestant, and Jewish businessman, soldier, and politician met during the turbulent days of 1910–20—were instrumental in giving ideological content to the Mexican Revolution.

In relating Latin American entrepreneurship to religion, it is clear that various Christian and non-Christian religions provide nominal ethical standards for industrialists. The extent to which Roman Catholicism affects entrepreneurship can be determined only through consideration of its numerous mutations in Latin America and by appropriate attention to non-Catholic creeds and institutions. This applies particularly to Freemasonry, for schisms have long characterized its symbolical and philosophical orders within and between Latin American countries. Latin America is no exception to the rule that religious beliefs and institutions are modified by environment.

Family and Social Life

The family firm constitutes the prevailing form of industrial enterprise in Latin America. Because the family often encompasses as many as a dozen or more actual heads of households, the industrialist shoulders heavy financial responsibilities for the general welfare of his relatives. Family fortunes rise and fall with the successes and setbacks of the favorite son directing the family's concern or complex of enterprises.

The industrialist typically wants his wife to observe the Latin American tradition that keeps women apart from business affairs. He wants his friends to be selected from outside the circle of his business suppliers and clients, and he designs his social life for nonbusiness purposes. He customarily draws sharp distinctions between business acquaintances and associates on the one hand, and relatives, friends, and social companions on the other. The expression of these preferences appears to be stronger among small industrialists, the older big industrialists, native-born industrialists, and provincial manufacturers. It is weaker among the new big industrialists, heads of joint capital ventures, industrialists of recent immigrant origin, and business leaders of large metropolitan centers.

The typical Latin American business leader concurs with his U.S. counterpart on what he desires *for* his family but not on what he expects and ordinarily receives *from* his family. He desires for his family good health, education, religious training, automobiles, friends, wealth, a large home, vacations, and good marriages. He also seeks sufficient domestic help, exclusive club memberships, resort homes or a ranch, and, possibly, riding horses, yachts, or insurance policies. In return he expects love, loyalty, obedience, respect, and discipline. He discourages his children from taking jobs after school hours, on weekends, or at vacation time, and from performing menial domestic chores traditionally assigned to servants. Above all, he demands the privilege of unaccountability for his private life outside the home. He wishes not only to be master of his business and family life but also to be free to express his masculinity unfettered by marriage and family.

Education and Skills

Not all industrialists are literate or well versed in grammar, the history of their own country, or basic world political geography. The number of college graduates among medium and large industrialists probably surpasses the number of small industrialists possessing similar education. The ratio of college graduates among owners (as distinct from professional managers), may be greater in medium than in large industries, at least in Central America, Mexico, and Venezuela.

It is not uncommon to discover that two or three generations of an entrepreneurial family have studied abroad, sometimes at the same preparatory school and university. Institutions favored by responsible old families of relatively progressive industrial outlook are M.I.T., the Wharton School, the London School of Economics, Georgetown, and Harvard. Among Latin

American educational institutions, greater prestige normally attaches to the University of Chile and Catholic University in Santiago than to Chile's state Technical University; to Javierana and the University of the Andes than to the National University in Colombia; and to Monterrey Institute of Technology and Iberoamericana of Mexico City than to the National University of Mexico.

Willingness to seek outside advice, employ competent technical and administrative personnel, and modernize industrial plant and management tends to vary according to size, age, and equity patterns of Latin American industrial firms. Old-fashioned management procedure, in which family considerations and personal loyalties are regarded as more important than professional competence, is more prevalent in the smaller, older, and less widely held enterprises. Modern management, with a premium on efficiency, education, and skills, is more prevalent in larger, newer, and more widely held enterprises.

Exceptions are found in every country. In Mexico, thousands of small and medium industrialists have attended courses at productivity centers sponsored jointly by the U.S. and Mexican governments. Latin America's largest family-owned business complex, the Garza Sada–G. Sada enterprises of Monterrey, is being continuously modernized under the direction of several Garza Sada graduates of M.I.T. and other competently prepared family members. The giant Colombian-owned textile mills—COLTEJER and FABRICATO—are obviously geared to modern technology. Managers of these mills and other Colombian industrialists encourage their workers to acquire new skills at the nationwide system of SENA trade schools and at management training centers. In Venezuela, the industrial complex of Eugenio Mendoza attempts continuous managerial and technical improvements by underwriting worker education. Enlightened business leadership in the seven most populous Latin American countries is financing soundly designed, if not always competently staffed, educational programs leading to degrees or certificates of achievement in management. Large and medium-sized firms, public as well as private, are increasingly demanding a college education for managerial positions.

Business Problems

This section contains an analysis of the typical businessman's opinion on profits, efficiency and competition, inflation, markets, labor relations, government intervention, state ownership, political activity, and foreign investors.

On Profits

The true level of profits in Latin American business is cloaked in myth and haphazard bookkeeping procedures. The native entrepreneur says that he anticipates a higher rate of return than that generally prevailing in Europe and the United States because he feels his risk is much greater and the capital markets in which he operates much weaker. In Colombia, Mexico, and Venezuela, large industrialists uniformly say they expect a rate of return above 15 percent; medium industrialists, above 25 percent; and small industrialists, above 35 percent. Small, medium, and large industrialists in the inflated economies of Argentina and Chile persistently mention the need for returns above 30 percent. In the hyperinflated economy of Brazil, profit expectation now exceeds 60 percent.

But profit expectation may be far from reality. What does a profit of 60 percent mean in a country such as Brazil, experiencing an annual inflation in excess of 50 percent? [2] If profits were exceptionally attractive in real terms, would Latin American businessmen who regularly engage in capital flights resort to this practice to the extent that they do? We hear of the big fortunes accumulated in Latin America, but nobody has undertaken a serious assessment of the number of business failures or of the level of profits of a nation's total industrial plant. Of 113 securities registered on the Bogotá Stock Exchange on December 13, 1962, only 95 paid a dividend during the preceding year. This means that 16 percent paid no dividend. Business failures probably are more common in Latin America than they are in the United States.

Just as U.S. investors are discovering that net after-tax profits are higher from European and even from domestic ventures than from Latin American investment,[3] thousands of small and medium-size Latin American industrialists are learning that they have been operating for years believing that profits are much higher than they actually are. Confronted by growing competition, labor union demands, and regulations of and taxes on business, native industrialists are finding that presumed high profits result partly from inadequate provisions for amortization, depreciation, and reserves. They are experiencing the additional impediments to higher profits raised by the relative nonliquidity of their investment, the absence of active stock exchanges and strong capital markets, and the consequent difficulty in converting their investment to marketable securities. Devaluation and inflation can catch them off guard. Their raw material supply is frequently subject to sudden tariff changes. Small industrialists, in particular, lack the strong, continuous ties with established financial institutions that are enjoyed by large industrialists.

With the invaluable assistance of the Economic Research Department of W. R. Grace & Company, a detailed examination was made of the true profits of 41 large and medium-size locally owned business firms in five South American countries during 1958–62. The profits and "total capital employed" of every firm included in the assessment were adjusted for currency devaluations and inflation.[4] Names of the firms included in the survey are listed in Appendix V. Table 1 on page 38 summarizes the results.

We know that the market value of securities generally dropped throughout Latin America as a result of Castroism and related phenomena. The statistics underscore the fact that the market value of stocks tells us little if anything

[2] The inflationary spiral in Brazil is charted on a graph found in Appendix XVII.

[3] See Appendixes X–XIII, indicating rates of return on U.S. private investment abroad.

[4] *Ibid.*

TABLE 1

After-Tax Net Profit as Percentage of Total Capital Employed of 41 Locally Owned Business Firms in Five South American Countries, 1958–62

Country	1958	1959	1960	1961	1962	Annual Average 1958–62
Argentina	20.11%	27.27%	21.77%	12.40%	10.13%	18.33%
Brazil	10.74	12.57	14.08	16.53	14.31	13.65
Chile	11.73	9.07	6.68	6.78	9.02	8.66
Colombia	11.13	11.00	11.10	9.42	9.96	10.52
Peru	9.19	9.80	14.25	12.06	8.62	10.78
Average for five countries	12.58	13.94	13.58	11.44	10.41	12.39

about after-tax net profits. While the statistics are based on a sample that probably inadequately represents local business as a whole, it is interesting to observe that true profits in Brazil and Chile were higher in 1961 and 1962 than in 1960. In addition, 1961 and 1962 were better years for the businesses examined in Brazil than the last three years of the Kubitschek Administration. The statistics endorse the belief that Argentines obtain the highest return in South America and Chileans the lowest.

On Efficiency and Competition

Until recently, competition rarely transcended the bounds of gentlemen's agreements made among a few families in each of the several branches of industry. Private industries tended to be family owned, with each family concerned about protecting its particular investments against encroachments by outsiders. Professional business administrators who were not members of the family were also regarded as outsiders. Placing confidence in managers outside closed family circles was looked upon as a retreat from a desirable way of life and a danger to traditional patterns. In such circumstances, inefficiency and low risk were commonplace.

In the most populous Latin American nations, there are a growing number of socially progressive entrepreneurs who have established or who operate relatively efficient, low-cost industries. Their modern technical, managerial, and merchandising achievements are increasingly exerting pressure on traditional business practices. Family management, with or without competence, is still prevalent in all sizes of industrial enterprise. But competition from new quarters is no longer easy to meet through circuitous political devices. Improvements in product and plant efficiency are the outcome.

The average Latin American industrialist still tends to embrace notions antithetical to competition, his exhortations in defense of private enterprise notwithstanding. His usual expression of distaste for monopolies, cartels, and trusts requires examination. He readily reveals an antipathy for foreign subsidiaries, which he may charge with monopolistic practices regardless of the facts; yet monopolies and oligopolies dominated by domestic business interests are evident. At the top level of Mexican industry, for example, a group of professional bureaucrats and politicians manages formerly foreign-owned monopolies along with other state enterprises. Beside them is a group of nine giant private financial-commercial-industrial complexes exercising monopolies and oligopolies over much of the nonpublic sector of big industry.[5] Ricardo Lagos, in the latest edition of his study on the theory and reality of economic concentration in Chile, records that "eleven financial groups, or really three (Sud American, Chile, and Edwards) because they are so intertwined with the other groups, dominate 70.6 percent of all Chilean capital invested in business corporations." [6] Tomás Fillol, in his prize-winning study done at M.I.T., reports similar patterning in Argentina.[7] Monopolistic practices also characterize industrial activities in other nations of Latin America. Of course, monopoly is difficult to avoid as long as existing markets fail to expand appreciably.

Lack of competition at the top has by no means eliminated the rigors of stiff competition for tens of thousands of small and medium industrialists, and for some large industrialists in Argentina, Brazil, and Mexico. The attitudes of this group on profit expectations are shaped and reshaped by growing competition, excess installed capacity, and cost differentials. Lush public works contracts in Argentina, Mexico, and Venezuela, which gave birth to thousands of small and medium industries, are less freely available now. Nor is another impetus on the scale of Brasília immediately in the Brazilian offing. Many tax concessions favoring new industries in Argentina, Chile, and Mexico have expired, reducing profit margins. At the same time, the evolution of an industrial way of life, with its demand for quality control, exerts increasing pressure on small and medium industrialists to produce higher quality goods. This is certainly the case in Buenos Aires and Córdoba, Mexico City and Monterrey, and Belo Horizonte and São Paulo. In fact, small and medium industrialists interviewed in Argentina, Brazil, Chile, and Mexico saw the twin specters of Castroism and government intervention as less immediate threats than extinction through local competition. Colombian and Venezuelan industrialists, in contrast, tended to subordinate the dangers of excessive competition to those of Castroism and potential government control.

On Inflation and Growth

The belief that inflation is an indispensable, readily available, and indefinitely applicable tool for increasing capital formation is held to varying degrees by native industrialists everywhere in Latin America. It is most pronounced among Argentine, Brazilian, and Chilean industrialists, and least pronounced among Mexicans. Mexicans anticipate less inflation than Colombians and Venezuelans, and the latter expect decidedly less than Argentines, Brazilians, and Chileans. Awareness of the real causes of infla-

[5] Frank R. Brandenburg, "A Contribution to the Theory of Entrepreneurship in the Developing Areas: The Case of Mexico," *Inter-American Economic Affairs*, Vol. 16, No. 3 (Winter 1962), pp. 3–23.

[6] Ricardo Lagos, *La concentración del poder económico. Su teoría. Realidad chilena* (Santiago, Chile: Editorial Del Pacífico), 1962, p. 165.

[7] Tomás Roberto Fillol, *Social Factors in Economic Development: The Argentine Case* (Cambridge, Mass.: M.I.T. Press, 1961).

tion is universally low among industrialists, as could be expected. While more sophisticated perspectives on economic development are discovered among large industrialists, willingness to support political reforms leading to the changes in social structure necessary for sustained economic growth—as contrasted with continued reliance on the inflation-devaluation cycle—is rare among Brazilian industrialists and infrequent among big Argentine and Chilean industrialists. The conviction among big industrialists that expansionist monetary policies must be avoided is most noteworthy in Mexico, Peru, and Venezuela.

Argentine, Brazilian, and Chilean industrialists appear insufficiently concerned with the ways excessive inflation distorts patterns of investment and hinders real growth to reshape their inflation-mindedness voluntarily. Specialists on the ABC countries differ on whether expansive monetary policies have been a deterrent to industrial investment in these countries. Some specialists contend that the industrialist in the ABC countries borrows as much as he can and invests as fast as possible because he can repay in depreciated currency, or if his funds are in plant investment, their value will increase with inflation. They further argue that budgetary and balance-of-payments assistance from foreign governments and international agencies has tended to retard the internal solution of basic problems. If the attitudes of private industrialists in the ABC countries are taken into account in an anatomy of local industrial growth, the traditional assumption that inflation is a deterrent to investment requires some refinement. The differences between structuralist and monetarist schools of thought on inflation in Latin America lead to one conclusion: there is no stock explanation for the causes of inflation and its effects on growth.[8]

On Markets

The market orientation of Latin American industrialists varies, with notable exceptions, according to the size of plant, degree of competition, and nature of the product manufactured. Small and medium industries are normally more locally and regionally oriented than large industries, but there are significant exceptions. Small and medium plants enjoying product monopolies, such as makers of high quality nipples for baby bottles or of select automobile parts and accessories, sell nationally while large producers of cement, beer, some heavy chemicals, and brick and clay products cannot compete nationally. Markets for goods in the latter group are, as elsewhere, more circumscribed by transportation costs than markets of big enterprises in such "rural industries" as processing and packing of fruits and vegetables. Native manufacturers of end-use consumer goods, who account for the bulk of small and medium industrial output, incline more toward local markets than do manufacturers of capital goods, industrial raw materials, or industrial intermediates. However, large consumer goods manufacturers also sell in national markets. Many Argentine, Brazilian, and Mexican industrial-

[8] The dilemma is examined in some detail under "Inflation, Payments Balances, and Private Industry" in Chapter V.

ists in the metallurgical, chemical, machinery, electronic, and transportation equipment fields produce capital goods as well as industrial intermediates, selling some products locally and others nationally. The paucity of reliable industrial surveys precludes estimation of the number of enterprises simultaneously manufacturing end-use consumer goods, industrial intermediates, and producer goods, to say nothing of the ratio of each to total manufactures.

Every national development plan reviewed under Alliance for Progress procedures envisages establishment of new industries in provincial centers as an important means toward accelerating local economic growth. However, industrialists beset by excess capacity for existing domestic markets and businessmen highly concerned about market growth frequently hold back support of measures aimed at industrial decentralization. The larger Argentine, Brazilian, and Mexican manufacturers, in particular, question the wisdom of industrial decentralization. They contend that setting up a series of new industrial plants manufacturing the same or similar products will virtually prohibit progressive lowering of unit costs in existing industries. Both old and new plants, they say, will suffer from lack of adequate markets. Existing plants will face weighty problems of excess capacity and new plants will remain high-cost, low-output operations. Excess installed capacity is already seriously disturbing industrial sectors in Argentina and Mexico and is found in some activities in other Latin Amercian countries. While industrial decentralization involves complex issues of population concentration, electricity shortages,[9] and numerous additional factors, its possible impact on rapid industrialization, unit costs, and greater efficiency raises a challenge to planners who view the creation of tens of thousands of new small industries as a panacea for achieving Alliance for Progress objectives.

The issue also spills over into the potential export of industrial goods. Larger domestic sales within a Latin American country normally represent the *sine qua non* for reducing costs to a level that will permit exports of manufactured goods to compete in world markets. Exceptions are found in the fishmeal industry of Peru, which accounts for substantial sales in world markets without large sales at home, and in select industrial exports of other nations of the region. Rapidly expanding consumer durable sales in Brazil, whose internal market can grow into one of the world's largest, may assist Brazilian industrialists in pushing unit costs down to competitive levels. It is going to be difficult, however, for Latin America to drop unit costs sufficiently to permit much industrial export to world markets.

On the other hand, progress toward regional economic integration testifies to the increasing opportunities for industrial export in inter-Latin American trade. While improving decidedly in the 18 months ending July 1, 1963, regional trade in manufactured goods is still in an incipient stage. In the 1959–63 period, annual trade within the region averaged considerably less than 10 percent of total exports, with manufactured goods accounting for less than 10 percent of total interregional trade. In other terms, industrial

[9] The role of electric power installation in deciding industrial location is discussed in Chapter V.

TABLE 2

Latin American Free Trade Association: Comparison Between Total Foreign Trade and Intrazonal Trade 1950–62 (U.S. $ Millions)

Year	Exports			Imports		
	Total	Inter-LAFTA		Total	Inter-LAFTA	
		Value	% of Total		Value	% of Total
1950	$4,467	$363	8.13%	$3,900	$352	9.03%
1951	4,996	468	9.37	5,721	475	8.30
1952	4,255	394	9.26	5,410	397	7.34
1953	4,865	469	9.64	4,392	496	11.29
1954	4,952	495	10.00	5,107	539	10.55
1955	4,811	508	10.56	5,086	575	11.31
1956	5,119	354	6.92	5,156	408	7.91
1957	4,681	362	7.73	5,671	441	7.78
1958	4,407	373	8.46	5,159	399	7.73
1959	4,591	323	7.04	4,783	353	7.38
1960	4,797	339	7.07	5,670	375	6.61
1961	4,959	299	6.03	6,025	359	5.96
1962	5,211	361	6.93	5,945	421	7.08

Source: *International Financial Statistics* (May 1961, March 1962, and June 1963); Department of International Trade (1948–58) and Department of Latin American Trade (1959–62), Banco de México; Latin American Free Trade Association (1962–63).

exports in Latin American interregional trade represented less than 1 percent of Latin America's total foreign trade. Central American industrialists, in particular, are making impressive gains by widening their sales orientation from narrow domestic horizons to the less narrow Central American markets. In the first quarter of 1963, manufactures accounted for 38.2 percent of trade among the five Central American Common Market (CACM) nations, while total trade rose to $15 million, up 36 percent over the first quarter of 1962. Interchange of industrial goods within Latin America should receive a boost after January 1, 1964, when local manufacturers first became eligible for funds allocated by the Inter-American Development Bank out of its ordinary capital resources for medium-term (six months to five years) financing of industrial exports.

While progress toward regional economic integration of the nine-member Latin American Free Trade Area (LAFTA) has been slower than that of the five-member CACM, LAFTA's private industrialists are neither ahead of nor behind their governments in attempts at promotion of regional interchange of industrial goods. Opening every national market to the unfettered competition of any and all industrialists of the area is not envisaged by existing LAFTA conventions; for that matter, promotion of private enterprise is not explicitly envisaged either. To protect smaller member countries from the adverse competition of manufactures of larger member countries, regional interchange of manufactures is based on the principle of compensatory reciprocity of trade. Confronted (and protected) by these obstacles, private industry can do little toward competing for LAFTA markets until Latin American governments negotiate across-the-board tariff reductions and erect a common outer tariff. However, LAFTA is made up of sovereign nations so far unwilling to take these indispensable steps toward integrating into a single economic union. Government and industry in Latin America, as elsewhere, are victims of the traditional dilemma of foreign trade: how to capture free markets abroad without the *quid pro quo* of removing tariff barriers protecting domestic markets against competitive imports.

Increasingly aware of this aspect of LAFTA, Latin American industrialists are beginning to collaborate on the possibilities of reaching agreement among themselves on the division of regional markets. They have been instrumental in prodding LAFTA governments to sign a few complementation agreements on select manufactures. Private industrialists in the ABC countries have spearheaded bilateral negotiations for trade and industrial complementation in almost all branches of manufacturing, with permanent consultation set up for trade promotion between Argentina and Brazil, Argentina and Chile, and Brazil and Chile. Industrialists in every Latin American country have joined various regional associations that are designed to operate within the framework of LAFTA. The principal institutional mechanism of this sort is the Association of Latin American Industrialists (ALAI), and affiliated but mutually exclusive associations corresponding to specific sectors of industrial activity are rapidly being set up. Associations already exist for manufacturers of glass, textiles, tool and office machines, canned foods, fine chemicals and pharmaceuticals, steel, and basic chemicals. As a consequence of understandings reached at meetings of these various associations held since April 1963, specific complementation agreements appear forthcoming on certain lines of manufactures. With resources in Latin America so scarce and the deliberations of LAFTA planners noteworthy for the absence of specific efforts to promote free enterprise, these regional associations of private industrialists provide a promising means for expanding markets and increasing productivity.

On Labor Relations

In much literature about the region, the Latin American industrialist appears as a paternalistic, authoritarian mogul, who expects government to guarantee him a docile, obedient labor force. But in fact, entrepreneurial practices are adapted to advanced labor laws and privileges. The private industrialist may prefer lower wages to higher wages; a conciliatory labor force to obstinate strikers; merit, skill, and modernization to job security; unilateral managerial decision making to collective bargaining; and lower costs to higher costs. But he must often obtain the sanction of the government, union leaders, or both, if he expects to increase his efficiency under existing legislation on minimum wages, maximum hours, social and job security, union organization, and collective bargaining.

The key to labor policy rests in the hands of government. When industry-wide circumvention of labor legislation passes unchallenged, the fact may usually be taken as evidence that it coincides with the government's labor and development policies. When organized labor persists in exceeding the boundaries of collective bargaining or otherwise enjoys favored treatment, it is almost certainly because the government sanctions such action. Governments lead; most businessmen and trade unionists follow. Both labor and private industrialists are subject to the mixed blessings of labor movements inextricably tied to politico-governmental machinery.

The cost structure of Latin American industry is automatically determined by certain basic labor rights and welfare legislation. These became well established in Brazil and Mexico in the 1930s, in Argentina in the 1940s and early 1950s, in Chile in the late 1930s, and in Colombia in the 1950s. They have proven difficult to alter. Severance payments, indemnities, and sometimes the requirement of prior court consent make it difficult and expensive to discharge employees. In most Latin American nations, even bankruptcy does not discharge an industrialist's liabilities to his workers, since employees may exercise prior rights in enjoining the liquidation and distribution of physical assets. Labor legislation is advanced even by U.S. standards, and presently enforced social welfare laws are decidedly more comprehensive and liberal than those of Western Europe and of virtually every country in Africa and Asia.

Latin American industrialists protest the constant pressure by industrial labor to extend the scope of social welfare measures. They believe too large a share of industrial output is already put aside for social security and other welfare benefits. Such "savings" are unconvertible into new private investment. Businessmen say they cannot finance extensive welfare measures and simultaneously provide new industrial investment to the extent required for accelerating the growth of national income and employment.

A considerable number of medium and large industrialists believe that the true interests of workers are advanced faster under a company union than through national or regional trade union affiliation. They feel that a closed shop subjects an industrial plant to the vicissitudes of predatory unionists and politics. They point for substantiation to the rarely matched privileges enjoyed in the company unions of the Garza Sada–G. Sada industrial complex in Monterrey, of the Ruiz Galindo industries in Mexico City, of Eugenio Mendoza industries in Venezuela, of the Bangu textile mills and Ypiranga paint factories in Brazil, and of the subsidiaries of several foreign corporations.

Viewpoints of local industrialists diverge on presumed behavior of workers in spending pay increases. Small and medium industrialists tend to believe that higher wages tempt laborers into working fewer hours and into spending pay increases on alcohol and mistresses, and at the race tracks. Large industrialists emphasize that higher wages are spent on the purchase of bicycles, automobiles, television sets, vacations, and education for children, or are set aside to finance business.

Perhaps the most serious shortcoming in the attitude of many Latin American businessmen on collective bargaining is their apparent inability to relate labor-management relations to real national economic growth. Pay increases, immediately accompanied by expansionist monetary policies, accomplish dubious advances in real income and output. A healthy private sector, as one recommendation at the end of the chapter indicates, requires greater consideration of the concept of the national interest by both management and labor than is the case today virtually everywhere in Latin America.

On Government Intervention and State Ownership

Latin American industrialists generally believe that private business deserves much better recognition, treatment, and encouragement from government than it has been receiving in recent years. Mistrust and misunderstanding on the part of both private and public sectors keep tempers continuously on edge, obstructing the cooperation between these two parties which is so necessary to achieving the goals of the Alliance for Progress.

The outlook of industrialists ranges from antagonism toward virtually all quarters of government to constructive assistance on much of what government is attempting under Alliance for Progress auspices. The commonest opinions include the following:

Industrialists believe government should not promote any new state industries at all, or at least not before eliminating weaknesses in existing government enterprises. Industrialists assert that some state enterprises enjoy too much freedom from central government control, while others have too little. Industrialists want a voice, which they contend is now rarely solicited and more rarely respected, in determining which economic activities should fall under state ownership and which under private or mixed ownership. Industrialists also contend that government indictment of private enterprise for its unwillingness to invest oftentimes overlooks the simple inability to invest because of political hindrances and lack of capital, technology, credit, infrastructure facilities, raw material supply, and marketing media. Industrialists seek maximum price, tax, and wage incentives; maintenance of law, order, and constructive political stability; tariff protection; and, in numerous cases, government loans, grants, contracts, and technical assistance. Industrialists further submit that arguments for higher and more effective taxation ignore the low morality of high public officials, such as the huge pilfering of public treasures by Perón in Argentina, Pérez Jiménez in Venezuela, and others whose cupidity is less well known but nonetheless large.

At the heart of the entrepreneurial outlook on government is a belief that business cannot flourish under political demagoguery and irresponsible officialdom; that leadership intent on establishing political stability is needed; that subversive elements should be removed from government; that freedom as well as investment is endangered by violence, sabotage, and terrorism.

On Political Activity

Local industrialists tend to participate actively in political parties where generally effective federalism, freely elected national legislatures, or both exist, as in Brazil and Chile. They participate on a fairly continuous and widespread basis, so long as the parties play an effective role within the political system. Conversely, as in the case of Mexico, they tend to abstain from party participation when effective articulation of interests centers elsewhere in the political system. Specialists in the science of government probably would agree that Mexico has not had a truly elected and representative national legislature since 1911. The Argentine, Colombian, and Venezuelan legislatures also displayed impotence before chief executives Perón, Rojas Pinilla, and Pérez Jiménez. To survive under these circumstances, industrialists have had to collaborate with political incumbents and make financial contributions to their political machines. Some industrialists assert that forced collaboration should not be mistaken for active support since blackmail, backed up by legally sanctioned armed might, can prove difficult to avoid. Generally, active political participation has held little appeal. As for national development planning, it is widely mistrusted.

However, under the different pressures of Castroism, economic statism, and the Alliance for Progress, Latin American industrialists are beginning to adopt more positive attitudes toward political activity and development planning. Progressive businessmen in Venezuela have organized a nationwide independent political association to support candidates for public offices. Four important national business chambers in Mexico have established an Institute of Private Enterprise Studies in order to evaluate the effects of development planning and other forces on private enterprise. Businessmen in Colombia, Ecuador, and Venezuela are supporting community development programs on a comprehensive scale. Colombian business leaders participate in the deliberations of their country's national advisory council on economic and social affairs.

On Foreign Investors

In general, foreign investors are welcomed by the most progressive Latin American industrialists. The tensions which arise usually relate to the extent, nationality, purpose, and performance of foreign enterprise, and not to the intrinsic merits and evils of foreign capital *per se*. From time to time, industrialists, like other occupational groups in Latin American countries, find themselves temporarily engulfed in the tides of excessive nationalism. Of late, small industrialists in Brazil appear especially susceptible to antiforeignism of virtually every mold. The largest business chamber of small Mexican manufacturers, the CONACINTRA, also emits regular blasts at foreign investment. But few big or medium industrialists persistently attack U.S. private investment.

Industrialists sometimes work in concert with government in influencing foreign subsidiaries to admit local equity capital, in preventing foreign industrialists from entering into competitive local manufacture in the first place, or in circumscribing foreign investment by other means. Local industrialists of one region may be more inclined than those of another to support foreign investment: those in Bogotá and Cali more than those in Medellín; those in Buenos Aires more than those in Mendoza or Rosario; those in Rio de Janeiro and São Paulo more than those in Porto Alegre or Recife; those in Mexico City more than those in Morelia or Puebla. In some instances—notably in the case of certain Brazilian and Colombian provincial centers—resistance arises not only when the potential investor is a foreigner but also when he is not a home town product. The relationship of local entrepreneurship and foreign private capital is examined in greater detail in Chapter IV.

Recommendations: What Latin American Industrialists Can Do to Strengthen Domestic Private Enterprise

The recommendations in this section, on how Latin American industrialists can help themselves and strengthen private enterprise, stem from the preceding assessment of their characteristics and attitudes:

- *Latin American industrialists should place greater emphasis on increased efficiency, lower unit costs, improved product, and lower prices.* Many of them have geared their operations to meet these requirements. Nonetheless, in Argentina, Brazil, and Mexico, where a relatively substantial consumer market already exists, prices in some branches of industry are so high and sales so low that even with a high duty it is cheaper to import. It is not always high import costs that keep prices high; rather, obsolescent industries in certain branches of manufacturing may enter arrangements making competitive effort unnecessary. Many medium-sized manufacturers still must learn that greater efficiency and greater volume can yield lower unit costs and higher total returns.
- *Every Latin American industrialist who manages his own firm should acquire basic competence in modern management techniques.* Lack of skill in elementary accounting, bookkeeping, inventory control, and merchandising is responsible for poor planning in unit costs and production schedules—shortcomings which in turn exert upsetting effects on suppliers and clients. The businessman has at his disposal the means for acquiring at least the basic techniques of industrial management: educational institutions, employer associations, productivity centers, and extension courses, as well as appropriate free literature available from foreign assistance programs.
- *Latin American industrialists should provide employees with greater opportunities for educational, managerial, and technical training.* Some domestic private enterprises, along with foreign firms and state industries, already sponsor comprehensive programs of in-plant training and outside instruction for employees. Many do not. While facilities for out-of-plant vocational and technical education are expanding in large metropolitan areas, this is not the case in most provincial centers of Latin America. Small and medium industrialists outside large metropolitan areas may need to take the initiative in setting up appropriate training facilites. They may discover that federations of industrialists, chambers of commerce, or employer associations will assume joint responsibility with them in setting up short-course programs on a continuing basis. Some industrialists will have to abandon the unrealistic notion that workers must find a way of financing their own training. Experience in companies that have carried on training programs in

Latin America for some years suggests that optimum results come from training financed wholly or at least in part by the company.

• *Latin American industrialists should accompany these training programs with encouragement of employees to take on increased responsibilities in management and in-plant supervision.* The native industrialist will profit from training programs only if the trained worker remains in his employ. The acquisition of new skills and techniques will sometimes place employees in an improved position for promoting their own industrial concerns. Argentine, Brazilian, and Mexican industrialists, in particular, have found that some of their most competent employees leave for employment in state enterprises, other government endeavors, and foreign firms. However, a survey of hundreds of factories revealed that the more progressive native manufacturers have retained competent, enterprising employees by bringing them into managerial and, at times, ownership positions. Liberal industrial procedures promise additional benefits in terms of labor relations. They also carry promising implications for political and social development within the framework of Alliance for Progress goals. The native entrepreneur need look no further than the encyclicals of Pope Leo XIII and Pope John XXIII for general guidelines on retaining his employees and improving their competence.

• *Latin American industrialists should join with responsible Latin American labor leaders in collective bargaining and other negotiations which explicitly take into account the concept of the national interest.* Labor-management relations should be negotiated in the context of their implications on productive growth, monetary stability, balance-of-payments equilibrium, and other essentials of national development.

• *Older, tradition-bound Latin American corporations should consider the gains of broadening stock ownership.* It is unlikely that many closed family corporations will make optimum contributions to progressive industrial growth unless they recapitalize and admit new stockholders with a modern outlook. Stock exchanges in each country offer securities in large private industrials to the general public. However, with the exception of Colombia, the percentages of total equity of high-yield industrials thus made available are low. Ownership of many enterprises is still restricted to family members. Big industrialists heading grossly undercapitalized but profitable firms argue that efforts to attract local investors are a waste of time as long as capital markets remain limited and the general public holds little savings. Therefore, they tend to rely on established financial institutions and public lending agencies. But their choice is not always related to the facts. Banks,[10] suppliers, customers, businessmen, professionals, and others with investment capital are often prepared to take up equity, but can only do so if it is offered.

• *Latin American industrialists should assume greater particpation in politics ana development planning* (see Chapter III).

[10] The banking system also must make available more medium- and long-term loans at lower rates; see discussion of *financieras* in Chapter III and of private banks in Chapter IV.

• *Latin American industrialists should spearhead an effort of the entire private sector aimed at correcting educational systems espousing doctrines antithetical to the concepts and practices of responsible private enterprise.* Antagonism toward private enterprise in Latin America stems in no small measure from outdated notions encountered in textbooks used at all levels of education, from primary schools all the way through postgraduate courses. If domestic private enterprise is to play an increasing part in Latin American development, as the Alliance for Progress envisages, then public education, no less than private education, must help by providing for proper instruction on the role of private initiative in mixed-ownership economies. Establishing small independent schools oriented in favor of private enterprise, or sending one's children for education abroad, are both inadequate to the task. Required, above all, is curriculum and textbook revision in public school systems, especially in schools of business, economics, and sociology at the large universities. Through federations of industrialists, employer associations, and chambers of commerce, industrialists should work together with trade unionists, professionals, and others to bring about improvements in course content. Long-range educational measures now under way in Latin America—literacy campaigns, teacher training programs, reforms of higher education, the build-up of scientific competence, etc.—will not necessarily strengthen political democracy unless economic democracy is stressed as well.

• *Latin American industrialists should recognize that pandering to popular emotions by leading or participating in the indictment of responsible foreign private investment may have eventual inimical consequences for domestic private capital.* It requires no prophet to envisage what state socialists have in store for domestic private enterprise after foreign firms are driven from the country. Latin American industrialists should establish closer relations with groups and associations in the private sector in the United States, Canada, Europe, and Japan. They should assume initiative in setting up binational committees dedicated to improvement in relations between nations. In short, Latin American industrialists as well as other native businessmen should work together with responsible foreign investment to improve the climate for private enterprise as a whole. Relationships of foreign and domestic private capital are discussed in Chapter IV.

• *Latin American industrialists should identify themselves and their industries with local community development, grasping the realities of the present moment in Latin American evolution and accepting the framework of the Alliance for Progress as the only probable alternative to state socialism and totalitarianism.* It is no longer possible to live by private enterprise unless it serves to improve community development and to enhance resolution of Latin America's social problems.

III

Government and Business

Recent studies of industry in a number of Latin American nations have emphasized the need for tax incentives, elimination of excessive business regulations, improvement in labor relations and educational, managerial, and technical programs, removal of bottlenecks in import and export controls, and expansion of government counseling and financing of small business.[1] Whether these measures will promote and strengthen private enterprise depends, however, not merely on the effectiveness of the measures themselves but on what happens in the entire social, political, and economic framework of a country. Specific business policies designed to strengthen local entrepreneurship must be consistent with the political culture and the economic system as a whole.

The role of private and public sectors in Latin American economic affairs has become increasingly ambiguous. With individual self-reliance accepted as a first principle of progress, specific programs at the local level, such as development counseling services and tax incentives for small private industries, hold promise. That promise may diminish if government itself is moving into extensive ownership and direct management of a nation's productive

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[1] Comprehensive coverage of these needs is available in assessments carried out under the auspices of the Agency for International Development and its predecessor, the International Cooperation Administration: Checchi and Company, *Expanding Private Investment for Ecuador's Economic Growth* (1961); Robert R. Nathan Associates, *Investment and Industrial Development in El Salvador* (1961); George Fry & Associates, *Industry in Panama Survey and Action Report* (1961); Wolf Management Engineering Company, *Costa Rican Industrial Crossroads* (1961); Continental-Allied Company, *Helping Honduran Industry* (1961); Barrington & Company, *Industrial Development of Colombia* (1961); Surveys & Research Corporation, *A Program for Encouragement of Private Industry in Chile* (1961); Arthur D. Little, Inc., *Industrial Development in Argentina* (1961); Howard Chase Associates, *Survey and a Program for the Further Industrial Development of Guanabara* (1961). Also, see the additional studies: Survey Team, *Northeast Brazil Survey Team Report* (1962); Stanford Research Institute, *Small and Medium Industry in Colombia's Development* (1962); Arthur D. Little, Inc., *Survey of the Institutional and Financial Requirements of Medium & Small Industry in Mexico* (1963); U.S. Congress, Subcommittee on Inter-American Economic Relationships of the Joint Economic Committee, *Economic Policies and Programs in South America* (1962).

plant, and if new and old state enterprises contribute to an enlargement of authoritarian bureaucratic engineering of social, economic, and human resources. It would seem that steps taken by government to promote and strengthen private ownership and decentralized economic decision making become less meaningful if self-reliance is not encouraged throughout the political and economic system.

The importance of these broad considerations makes difficult any intelligent investigation of the nature and extent of specific government programs required to strengthen local private enterprise. Implementation of measures outlined in the comprehensive studies noted previously will take place in societies with substantial government ownership, in societies characterized by mixed private and public ownership and by extensive development planning. It may be useful in this chapter, therefore, to reach policy recommendations on the broad considerations of ownership and development as well as on specific programs of private industry promotion.

Ownership of Productive Enterprise in Latin America: A Statistical Analysis

Discussions of national character, political life, and socio-economic change that are conducted with informed Latin Americans usually shift to some facet of the subject of capitalism and socialism. Doctrinaire approaches to capitalism and socialism, totally irrelevant to either of these theoretical schemes or to Latin American realities, often turn rational discussion into heated, unproductive debate. Nonetheless, a real issue is present: What is the effect of government ownership and operation of business enterprises on social, political, and economic development? Two difficulties compound this complex issue. First, universal guidelines to evaluate the comparative advantages of public and private initiative have not been established either in the United States or in Latin America. Second, reliable data on sales, profits, losses, subsidies, and taxes—the kind of statistical material necessary for measuring the performance of the individual firm—are simply nonexistent.

In an effort to bring the discussion into a more factual context, an inventory of individual business firms was undertaken to answer the question: "Who really owns Latin American enterprise?" Assistance in acquiring reliable data on enterprises not publishing financial statements was obtained from private and public institutions in the United States, Europe, Japan, Canada, and Latin America. Lists were compiled of the 30 largest business enterprises in the six Latin American countries with the highest national income—Brazil, Mexico, Argentina, Venezuela, Colombia, and Chile. The lists were restricted to the 30 largest firms since these enterprises appeared to exercise such a predominant influence on economic life. They constitute the key group of "big business" in several Latin American countries. With notable exceptions, particularly in the case of Mexico, virtually every industrial enterprise below this level is privately owned.

Several procedures were followed in compiling the lists and making statistical calculations. Size of firm was determined by capital and reserves or, as in the case of a few wholly state-owned enterprises using methods of bookkeeping which omit these two entries, by approximate equivalents of capital and reserves. Statistics on each firm represent accountings on January 1, 1963, or the nearest date for which reliable data were available. Necessary adjustments were made for devaluation in order to bring individual company balance sheets into line with one another. Wherever availability of data permitted, all branches of business activity were included—industry, finance, commerce, mining, and utilities. Because of the special position of copper and nitrates in the Chilean economy, two lists were compiled for that country, one including all investments and another excluding copper and nitrate exporters. Plans to compile two lists on both Colombian and Venezuelan enterprise, one inclusive of all investments and the other exclusive of petroleum companies, had to be abandoned when it was found that reliable data on private petroleum companies were not available. Hence, lists for these countries exclude petroleum companies. After compilation of the lists was completed, calculations were made to determine the proportion of ownership in the three categories of 10, 20, and 30 largest enterprises attributable to 1) the state, 2) domestic private investment, and 3) foreign private investment. Breakdown of private ownership ratios into domestic and foreign components seemed desirable in light of the significance of foreign investment in these Latin American countries and in anticipation of discussion in the next chapter on relationships between foreign and domestic private investment. It was impossible to obtain permission to publish statistics on the capital and reserves of several individual enterprises even though these financial data were made available for the purpose of reaching country totals. For this reason, publication of monetary amounts is omitted for all enterprises.

In the country studies that follow no effort is made to evaluate ownership patterns from the perspective of promoting and strengthening Latin American private enterprise. Interpretations in this vein are reserved for subsequent sections of this chapter and Chapters IV and V. It is relevant here, however, to take into account the fact that utilities and financial institutions, which are included in the lists, are subject to extensive government ownership in Western Europe no less than in Eastern Europe, and subject to considerable government control even in the United States. Many government-controlled financial institutions included in the lists make extensive loans to private companies. What is attempted in these country studies is a statistical presentation of the pattern of equity ownership as such.

Argentina

Excluding companies carrying out development and exploration contracts in the petroleum industry of Argentina (whose status is very uncertain at the moment), state ownership is already more extensive in Argentina than in Brazil, Chile, or Colombia. The proportions of capital and reserves of

TABLE 3

Ownership of the Largest Enterprises in Argentina*

Rank by Size	Name of Enterprise	Activity	Percent of Ownership: Government	Percent of Ownership: Private Argentine	Percent of Ownership: Private Foreign
1	Yacimientos Petrolíferos Fiscales (YPF)	petroleum	100	—	—
2	EFEA	railways	100	—	—
3	Servicios Eléctricos Gran Buenos Aires	electricity	100 †	—	—
4	Sociedad Mixta Siderúrgica Argentina (SOMISA)	steel	99 ‡	1	—
5	Banco Industrial	banking	100	—	—
6	Celulosa Argentina	paper	—	95	5
7	Cía. Italo-Argentina de Electricidad	electricity	—	20	80
8	Banco Hipotecario de la Nación	finance	100	—	—
9	Acíndar, Industria Argentina de Aceros	steel	—	90	10
10	Siam DiTella Ltd., Siam DiTella Automotores, and SIAT	consumer durables	—	100	—
11	Industrias Kaiser Argentina	automobiles	23 **	39	38
12	Shell, Cía. Argentina de Petróleo	petroleum	—	—	100
13	Fábrica Argentina de Alpargatas	textiles & footwear	—	75	25
14	Ledesma	sugar	—	82	18
15	Cía. General Fabril Financiera	printing	—	95	5
16	Empresa Nacional de Telecomunicaciones	telephones	100	—	—
17	Esso S.A. Petrolera Argentina	petroleum	—	—	100
18	Molinos Río de la Plata	foodstuffs	—	80	20
19	Corporación Argentina Productos de Carne	meat packing	—	100	—
20	Banco Provincial de Buenos Aires	banking	100	—	—
21	Gas del Estado	gas utility	100	—	—
22	Ducilo	synthetic fibers & chemicals	—	—	100
23	Ingenio y Refinería San Martín del Tabacal	sugar, alcohol, citrus fruits	—	100	—
24	Dálmine	steel pipes	—	2	98
25	Ford Motor Argentina	automobiles	—	—	100
26	Talleres Metalúrgicos San Martín	steel	—	90	10
27	FIAT S.C.C.C. Concord ††	farm tractors	25 ‡‡	—	75
28	Standard Electric Argentina	electrical equipment	—	—	100
29	Cía. Swift de la Plata ***	meat packing	—	—	100

* The list excludes Argentine private and foreign private companies exercising exploration and development contracts in the petroleum industry. Expenditures of 10 companies—Esso, Shell, Union, Continental, and Marathon (exploration contracts) and Pan American, Tennessee Gas, Cities Service, Astra, and Caclipsa (development contracts)—amounted to over $235 million as of April 1, 1963. The list also excludes the newly organizing Petroquímica company. † In process of transfer to the state. ‡ This includes participation of the autonomous public entity Fabricaciones Militares; private ownership in SOMISA may account for more than the percentage indicated here but government and SOMISA insist that the percentages listed are correct. ** Banco Industrial 15 percent and INVIA (Air Force) 8 percent. †† Excludes FIAT "600" plant in Buenos Aires and Fiat's two industries in Córdoba, Grandes Motores Diesel Fiat and Material Ferroviaria. ‡‡ DINFIZ (Air Force). *** Includes affiliate Cía. de Navegación Ganadera Comercial, Ganados S. A.

large enterprises in Argentina attributable to the public and private sectors, including the long-resident Shell and Esso but excluding recent development and exploration firms in the oil industry (for which reliable statistics were unavailable), are summarized in the following table:

	Top 10	Top 20	Top 29[a]
Argentine Government	84.5%	67.9%	61.3%
Argentine Private	10.7	20.4	20.5
Foreign Private	4.8	11.7	18.2

The Argentine government owns outright seven of the top 29 business enterprises in the nation, almost 100 percent of another, and is completing payments for 100 percent of a ninth. In addition, the Argentine Air Force holds a minority interest in Fiat S.C.C.C. Concord, the country's biggest tractor maker, and in Industrias Kaiser Argentina, the nation's largest auto maker. As the accompanying list of "Ownership of the Largest Enterprises in Argentina" indicates, private ownership is virtually shut out of Argentina's five largest enterprises. Four of the five largest are totally state owned and the other—fourth-ranked SOMISA steel—is 99 percent state owned. The combined capital and reserves of the big five (YPF petroleum, EFEA railways, Servicios Eléctricos Gran Buenos Aires, SOMISA, and Banco Industrial) surpass the entire investment of all private firms in the top 29. YPF alone is larger than the four biggest private complexes combined.

The nationality of foreign private investment is multifarious. Twelfth-placed Shell, the largest wholly foreign-owned investment, is a subsidiary of a British corporation. British capital is also represented in textile and footwear manufacturer Alpargatas, and in Ledesma sugar. U.S. capital accounts for 11.2 percent of Alpargatas equity. Italians have invested in five of the largest companies, with seventh-ranking Cía. Italo-Argentina de Electricidad accounting for the biggest single Italian investment. Belgian, Dutch, French, Spanish, and Swiss capital are each invested in at least one big enterprise. U.S. private capital retains a minority equity in five enterprises. The largest firm in which U.S. private capital holds a majority interest is seventeenth on the list—Standard Oil of New Jersey's Esso S. A. Petrolera Argentina. Four other firms in the top 29 are U.S. majority owned—Du Pont's synthetic fiber and chemical subsidiary Ducilo (22nd), Ford Motor Argentina (25th), Standard Electric Argentina (28th), and Swift's combined operations of Swift de la Plata and Cía. de Navegación Ganadera Comercial, Ganados (29th). Total U.S. capital represented in these firms, both in majority and minority equity capacities, is less than the investment in either the state's electric power utility or its steel mill and, of course, is much less than that in either the state petroleum company or the state railways.

[a] Reliable information on the resources of the next largest firm, an entity of the state, was unavailable.

TABLE 4

Ownership of the Largest Enterprises in Brazil

Rank by Size	Name of Enterprise	Activity	Percent of Ownership: Government	Percent of Ownership: Private Brazilian	Percent of Ownership: Private Foreign
1	Rede Ferroviária Federal	railways	100	—	—
2	Petróleo Brasileiro	petroleum	90	10	—
3	Banco do Brasil *	finance	56	44	—
4	Banco Nacional de Desenvolvimento Económico	finance	100	—	—
5	São Paulo Light †	electricity	15	25	60
6	Usinas Siderúrgicas de Minas Gerais	steel	60	—	40
7	Rio Light	electricity	—	—	100
8	Cia. Telefónica Brasileira	telephone	100 ‡	—	—
9	Cia. Siderúrgica Nacional	steel	91	9	—
10	Cia. Siderúrgica Paulista	steel	70	30	—
11	Cia. de Cigarros Souza Cruz	tobacco	—	20	80
12	Grupo Ermirio de Morais	industrials	—	100	—
13	Inds. Reunidas Francisco Matarazzo	industrials	—	100	—
14	Usinas Elétricas do Paranapanema	electricity	100	—	—
15	Cia. Vale do Rio Doce	mining	90.7	9.3	—
16	Centrais Elétricas de Urubupungá	electricity	100 **	—	—
17	Hidroelétrica do Rio Pardo	electricity	100	—	—
18	Siderúrgica Belgo-Mineira	steel	—	20	80
19	Pirelli	tires, cables	—	30	70
20	Mercedes Benz do Brasil	automotive	—	50	50
21	General Motors do Brasil	automotive	—	—	100
22	Industrias Votorantim	automotive	—	100	—
23	Willys Overland do Brasil	automotive	—	40	60
24	Centrais Elétricas de Minas Gerais	electricity	100	—	—
25	Anderson-Clayton	cotton & oils	—	—	100
26	Esso Brasileira de Petróleo	petroleum	—	—	100
27	St. John Del Rey Mining	mining	—	—	100
28	Soc. Algodoeira do Nordeste Brasileira	cotton	—	100	—
29	Cia. Cervejaria Brahma	beverages	—	100	—
30	Volkswagen do Brasil	automotive	—	20	80
31	Banco do Estado de São Paulo	finance	51	49	—
32	Cia. Paulista de Força e Luz ††	electricity	—	60	40

* Central banks are excluded from the listings on Argentina, Chile, Colombia, Mexico, and Venezuela. However, since Banco do Brasil engages so extensively in activities unassociated with characteristic central bank functions and since the central bank function in Brazil is dispersed among several entities, Banco do Brasil is included here. † São Paulo Light and Rio Light are both part of Brazilian Traction Light and Power Company. Listed as one, its rank would move up one place. ‡ "Intervened" by the Brazilian government since April 1962, although ownership status is still uncertain. ** Less than 1 percent held by private Brazilians. †† Cia. Paulista is the largest affiliate of American & Foreign Power's Brazilian Electric Power Company. If all AFP's holdings were listed under one heading, the entity would rank considerably higher.

Brazil

Ownership structure at the top of Brazilian business enterprise exhibits complexities unknown in Argentina, Chile, Colombia, Mexico, or Venezuela. Funds of the state governments intermix with those of the national government, private Brazilians, and private foreign investors in a hodgepodge of ownership patterns. Combinations of the four sources account for the equity in 16 of the 32 largest enterprises in Brazil.[8]

Government owns all or part of 15 enterprises out of the top 32; these include nine of the 10 largest enterprises in the nation. It retains majority control of 14 of the 15 enterprises in which it has invested, possessing 100 percent of seven of them. Its investment in the Rede Ferroviária Federal and Petróleo Brasileiro is substantially greater than the entire foreign private investment in the top 32 enterprises.

Foreign private capital has invested in 14 of the top 32, of which only five are wholly foreign owned. The largest wholly foreign-owned corporation is Rio Light, a Canadian investment. The largest totally U.S.-owned company is General Motors do Brasil, ranking twenty-first. Investors in the top 32 also include nationals of Japan, Great Britain, Luxembourg, Belgium, Italy, Germany, and France.

	Top 10	Top 20	Top 32
Brazilian Government	78.1%	68.2%	59.1%
Brazilian Private	10.5	16.5	20.0
Foreign Private	11.4	15.3	20.9

Chile

Copper and nitrate exporters are conspicuous among large enterprises in Chile. Combining every entity in the state development bank (CORFO) into one enterprise and dividing Anaconda's holdings into three separate companies would produce a list including Chile Copper, Andes Copper Mining, Santiago Mining, Braden Copper, Anglo-Lautaro Nitrate Co., and Mantos Blancos copper. Another list can be derived by listing Anaconda's three operations separately and dividing state development bank holdings into the state petroleum company (Empresa Nacional de Petróleo), state electricity company (Empresa Nacional de Electricidad), state sugar company (Industria Nacional de Azúcar), and CORFO's other holdings. Omitting copper and nitrate exporters altogether, but preserving the logical division of CORFO into four individual categories, yields yet a third list. Though these exporters provide a sizable share of the Chilean government's revenue, they are, in a fundamental sense, outside Chile's domestic economy.

For this reason, two sets of calculations have been prepared. One list (and its corresponding ownership ratios) includes copper and nitrate exporters

[8] The thirty-first and thirty-second firms are included because their capitalization is virtually equal to that of the thirtieth.

TABLE 5

Ownership of the Largest Enterprises in Chile: Including Copper and Nitrate Exporters

Rank by Size	Name of Enterprise	Activity	Percent of Ownership: Govern-ment	Private Chilean	Private Foreign
1	Chile Copper Company	copper	—	—	100
2	Ferrocarriles del Estado	railways	100	—	—
3	Braden Copper Company	copper	—	—	100
4	Empresa Nacional de Electricidad	electricity	100	—	—
5	Empresa Nacional de Petróleo	petroleum	100	—	—
6	CORFO *	finance	100	—	—
7	Cía. Chilena de Electricidad	electricity	2	—	98
8	Andes Copper Mining Co.	copper	—	—	100
9	Empresa Portuaria de Chile	docks & ports	100	—	—
10	Anglo-Lautaro Nitrate Co.	nitrate	—	—	100
11	Cía. de Teléfonos de Chile	telephone	—	2	98
12	Corporación de la Vivienda	housing	100	—	—
13	Cía. Acero del Pacífico	steel	35	40	25 †
14	Cía. Manufacturera de Papeles y Cartones	paper & cellulose	—	100	—
15	Banco del Estado de Chile	finance	100	—	—
16	Industria Nacional de Azúcar	sugar	100	—	—
17	Empresa Industrial El Melón	cement	—	100	—
18	Cía. Cervecerías Unidas	beer	—	100	—
19	Cía. Sudamericana de Vapores	shipping	—	100	—
20	Cía. de Petróleos de Chile	petroleum & gas	—	100	—
21	Cía. Carbonífera e Ind. Lota y Schwager	coal	—	100	—
22	Manufacturas Sumar	textiles	—	100	—
23	Bethlehem Chile Iron Co.	iron ore	—	—	100
24	Compañía Industrial	whaling, oils, detergents	—	90	10
25	Grace & Co. (Chile)	shipping, textiles, sugar, etc.	—	10	90
26	Empresas Yarur	textiles & finance	—	100	—
27	Cía. Explotadora Tierra del Fuego	wool & meat	—	50	50
28	Cemento Cerro Blanco Polpaico	cement	—	30	70
29	Esso Standard Oil Co. (Chile)	petroleum	—	—	100
30	Santiago Mining Co.	copper	—	—	100

* Excludes capital and reserves of 4, 5, and 16, which are administered under CORFO, and its 25 percent equity interest in 9.
† Includes equity investments by Chilean subsidiaries of foreign firms.

TABLE 6

Ownership of the Largest Enterprises in Chile: Excluding Copper and Nitrate Exporters

Rank by Size	Name of Enterprise	Activity	Percent of Ownership: Government	Private Chilean	Private Foreign
1	Ferrocarriles del Estado	railways	100	—	—
2	Empresa Nacional de Electricidad	electricity	100	—	—
3	Empresa Nacional de Petróleo	petroleum	100	—	—
4	CORFO *	finance	100	—	—
5	Cía. Chilena de Electricidad	electricity	2	—	98
6	Empresa Portuaria de Chile	docks & ports	100	—	—
7	Cía. de Teléfonos de Chile	telephone	—	2	98
8	Corporación de la Vivienda	housing	100	—	—
9	Cía. Acero del Pacífico	steel	35	40	25 †
10	Cía. Manufacturera de Papeles y Cartones	paper & cellulose	—	100	—
11	Banco del Estado de Chile	finance	100	—	—
12	Industria Nacional de Azúcar	sugar	100	—	—
13	Empresa Industrial El Melón	cement	—	100	—
14	Cía. Cervecerías Unidas	beer	—	100	—
15	Cía. Sudamericana de Vapores	shipping	—	100	—
16	Cía. de Petróleos de Chile	petroleum & gas	—	100	—
17	Cía. Carbonífera e Ind. Lota y Schwager	coal	—	100	—
18	Manufacturas Samur	textiles	—	100	—
19	Bethlehem Chile Iron Co.	iron ore	—	—	100
20	Compañía Industrial	whaling, oils, detergents	—	90	10
21	Grace & Co. (Chile)	shipping, textiles, sugar, etc.	—	10	90
22	Empresas Yarur	textiles & finance	—	100	—
23	Cía. Explotadora Tierra del Fuego	wool & meat	—	50	50
24	Cemento Cerro Blanco Polpaico	cement	—	30	70
25	Esso Standard Oil Co. (Chile)	petroleum	—	—	100
26	Chiprodal	food processing	—	100	—
27	Manufacturas de Cobre	copper manufactures	—	85	15
28	Cía. Consumidores de Gas de Santiago	gas	—	100	—
29	Línea Aérea Nacional	airline	100	—	—
30	Cía. Refinería de Azúcar	sugar	—	100	—

* Excludes capital and reserves of 2, 3, and 12, which are administered under CORFO, and its 25 percent equity interest in 6.
† Includes equity investments by Chilean subsidiaries of foreign firms.

and divides the Anaconda holdings into three parts and the CORFO portfolio into four parts. The other list (and its corresponding ratios) excludes copper and nitrate exporters and retains the logical separation of CORFO holdings.

List 1: Including Copper and Nitrate Exporters

	Top 10	Top 20	Top 30
Chilean Government	48.7%	46.4%	43.2%
Chilean Private	0.0	7.6	10.6
Foreign Private	51.3	46.0	46.2

List 2: Excluding Copper and Nitrate Exporters

	Top 10	Top 20	Top 30
Chilean Government	75.9%	68.3%	63.3%
Chilean Private	5.6	14.7	18.0
Foreign Private	18.5	17.0	18.7

Excluding copper and nitrate exporters not only reveals the relatively huge investment made in Chilean copper but yields ownership ratios strikingly similar to those in Argentina and Brazil. While the state acquires a single additional place in the second set of calculations, namely LANIA airlines, its percentage of net worth increases at least 40 percent in each of the three groupings. Chilean private entrepreneurship is completely excluded from the top 10 in the first list. In the second, the Chilean government is involved in a total of 11 enterprises, in nine of which it owns 100 percent. Eight of the nine wholly state-owned enterprises are found in the top 12 enterprises.

Unlike Brazil, the Chilean government has entered only two large joint venture enterprises—with U.S. capital in Cía. Chilena de Electricidad, and with U.S. and Chilean private investment in Acero del Pacífico steels.

Foreign private investment in the list excluding copper and nitrate exporters holds 100 percent ownership in only two enterprises, in sharp contrast to the 11 wholly owned by Chilean private capital. Excluding Acero del Pacífico, the percentage of foreign investment in joint ventures and the investor identities vary from U.S. participation of 98, 98, and 90 percent of ownership to British investments of 50 and 10 percent, a German holding of 70 percent, and an Italian interest of 15 percent.

Colombia

Domestic private investment (excluding petroleum)[4] is more extensive in Colombia than in Argentina, Brazil, Chile, Mexico, or Venezuela. Local private investment controls 17 of the top 32[5] enterprises in the nation,

[4] Data on petroleum companies, permitting the drawing up of a list inclusive of all investment in Columbia, were unavailable. A large investment in a single petroleum entity is represented in the wholly state-owned Empresa Colombiana de Petróleos, which is also the largest state enterprise in the nation. This enterprise is omitted from the list along with private companies in petroleum.

[5] Capital and reserves of the thirty-first and thirty-second are virtually identical with those of the thirtieth.

TABLE 7

Ownership of the Largest Enterprises in Colombia Excluding Petroleum Companies*

Rank by Size	Name of Enterprise	Activity	Percent of Ownership: Government	Percent of Ownership: Private Colombian	Percent of Ownership: Private Foreign
1	Ferrocarriles Nacionales	railways	100	—	—
2	Acerías Paz del Río	steel	4	96 †	—
3	Bavaria	beer	—	100	—
4	Instituto de Fomento Municipal	municipal works	100	—	—
5	Caja de Crédito Agrario, Industrial y Minero	finance	100	—	—
6	Empresas Públicas Municipales de Medellín	utilities	100	—	—
7	Empresa Nacional de Telecomunicaciones	telephone & telegraph	100	—	—
8	CCT (COLTEJER)	textiles	—	100	—
9	Flota Mercante Grancolombiana	shipping	80 ‡	0.7	[19.3]**
10	Puertos de Colombia	ports & docks	100	—	—
11	Productora de Papeles	paper	—	—	100
12	Banco Comercial Antioqueño	finance	—	100	—
13	Banco de Bogotá	finance	—	100	—
14	Colombiana de Tabaco	tobacco	—	100	—
15	Banco de Colombia	finance	—	100	—
16	Empresa Colombia de Fertilizantes	petro-chemicals	100	—	—
17	CFCDI (COFINANCIERA)	finance	—	80	20
18	Central Hidroeléctrica de Anchicayá	electricity	100	—	—
19	FHTH (FABRICATO)	textiles	—	100	—
20	Abonos Colombianos (Abocol)	petro-chemicals	—	33	67
21	Banco del Comercio	finance	—	100	—
22	Celanese Colombiana	chemicals & textiles	—	55	45
23	Esso Investment Corp.	finance	—	—	100
24	Manuelita	sugar	—	100	—
25	Banco Central Hipotecario	finance	—	100	—
26	Instituto de Fomento Industrial	finance	100	—	—
27	Cervecerías Barranquilla y Bolívar	beer	—	100	—
28	Banco Industrial Colombiano	finance	—	100	—
29	Aerovías Nacionales de Colombia (AVIANCA)	airline	2	60	38
30	Icollantas	rubber	—	10	90
31	Cementos Samper	cement	—	100	—
32	Cauca Valley Commission	electricity	100	—	—

* The list also excludes two state enterprises, Instituto de Aprovechamiento de Aguas y Fomento Eléctrico and Empresas Municipales de Cali, for which reliable information was unavailable in order to rank them by size.

† Includes equity investments by Colombian subsidiaries of foreign companies and 15 percent temporarily held by Banco de la República for sale to local taxpayers.

‡ Includes investment of coffee growers association.

** Approximate holding of the government of Ecuador. This equity participation is omitted from calculations on ownership in Colombia.

owning 13 outright. It accounts for almost 30 percent of total investment in the top 10 and over 39 percent of that represented in the top 32.

Foreign investment patterns reflect the dominance of the joint equity venture. Five of the seven firms in which foreign private capital has invested are ventures in partnership with Colombian private investors. Only one firm, Esso Investment Corp., is totally owned by a single foreign corporation, and its principal activity is minority equity investment in partnership with Colombians. A second wholly foreign-owned company, Productora de Papeles, is owned in equal shares by W. R. Grace & Company and International Paper. Unlike the composition of foreign private investment in southern South America, European capital plays a very minor role in the largest enterprises of Colombia.

Notwithstanding the dynamic growth of the private sector in Colombia [a] and the relatively broad ownership participation in Colombian business, the Colombian government still accounts for in excess of one half of the total nonpetroleum investment represented in the top 32 enterprises. This is summarized in the following table on the proportions of ownership of large enterprises in Colombia:

	Top 10	Top 20	Top 32
Colombian Government	69.4%	58.9%	54.1%
Colombian Private	29.6	36.3	39.1
Foreign Private	0.0	4.0	6.1

Note: Percentages do not total 100 because of the omission of the Ecuadorian government's ownership in Flota Mercante Grancolombiana.

Mexico

Government in Mexico has steadily acquired equity in one sector of economic activity after another. From before the Revolution of 1910 to the present day, public investment has extended to the telegraph; railroads; petroleum industry; chemical plants; banks and related financial institutions; steel, textile, and lumber mills; airlines; electric power; basic consumer goods distribution; mining and smelting; warehousing; and telephones. One consequence is indicated by statistics on ownership of the largest enterprises in Mexico.

	Top 10	Top 20	Top 30
Mexican Government	100%	88.5%	82.2%
Mexican Private	0.0	8.7	13.9
Foreign Private	0.0	2.8	3.9

[a] The growth of private business centering in the Medellín area was described in Chapter II.

Among the big countries of Latin America, Mexico alone exhibits an ownership structure in which the 11 largest enterprises are exclusively state owned. Even excluding investment of petroleum companies in Colombia and Venezuela, petroleum development and exploration companies in Argentina, and copper and nitrate exporters in Chile, the proportion of state ownership in Mexico in each of the three categories (top 10, top 20, top 30) is considerably higher than that in Argentina, Brazil, Chile, Colombia, or Venezuela. Mexico's two largest enterprises, Ferrocarriles Nacionales de México and the Comisión Federal de Electricidad, each account for greater financial resources than that represented by total private investment, Mexican and foreign, in the top 30 enterprises combined. Government equity is found in 19 of the top 30 enterprises, of which the state owns 14 outright, a majority interest in two, and a minority interest in the rest.

The company breakdown presented in the accompanying table reveals statistical information valuable in making a comparative analysis of Mexican private investment; yet it omits important data on big private businesses in Mexico. Mexican private capital is invested in 14 of the 30 largest enterprises, of which it holds 100 percent ownership of eight firms and majority control of three of six joint ventures. The proportion of domestic private investment in Mexico approximates that in Chile for each of the three separate categories. However, the Mexican ratio is decidedly below the Brazilian and, excluding petroleum company investments as noted in the respective country lists, also much below the Argentine, Colombian, and Venezuelan. What the company breakdown fails to reveal (as in the case of other country lists also) is the concentration of ownership in single families and small groups who own no individual business corporation large enough to rank in the top 30, but who in fact account for holdings which, if combined, would exceed the capital and reserves of firms on the list. The extensive Banco de Comercio financial complex—central bank, affiliated banks in the provinces, insurance company, *financiera,* mortgage bank, etc.—does not appear because each enterprise is incorporated separately. Banco Nacional de México does appear on the list but without inclusion of capital and reserves of its several individually incorporated financial affiliates. Resources of the García family represented in sugar and banking firms would also reach a total figure requiring inclusion among the top financial complexes. A similar situation would apply to consolidation of enterprises of the Garza Sada–G. Sada families not entered on the accompanying list and to those of Ruiz Galindo, Azcárraga, and a few other families.

Foreign investment in the top 30 enterprises is relatively meager. Only two corporations are wholly foreign owned: Cía. Minera ASARCO and Anderson-Clayton, and the former has been ordered by the government to place majority ownership in Mexican hands. The only additional company in which foreign private capital holds majority equity is the Italian-dominated steel pipe maker, TAMSA. European or U.S. capital is represented in four additional joint ventures, including Celanese Corporation's successful venture in the synthetic fiber producing firm, Celanese Mexicana.

TABLE 8

Ownership of the Largest Enterprises in Mexico

Rank by Size*	Name of Enterprise	Activity	Percent of Ownership: Government	Percent of Ownership: Private Mexican	Percent of Ownership: Private Foreign
1	Ferrocarriles Nacionales de México	railroad	100	—	—
2	Comisión Federal de Electricidad	electricity	100	—	—
3	Petróleos Mexicanos	petroleum	100	—	—
4	Cía. Mexicana de Luz y Fuerza Motriz	electricity	100 †	—	—
5	Banco Nacional de Crédito Ejidal	finance	100	—	—
6	CONASUPO	consumer goods distribution	100	—	—
7	Ferrocarril del Pacífico	railroad	100	—	—
8	Banco Nacional de Crédito Agrícola	finance	100	—	—
9	Industrial Eléctrica Mexicana	electricity	100 ‡	—	—
10	Nacional Financiera	finance	100	—	—
11	Ferrocarril Chihuahua al Pacífico	railroad	100	—	—
12	Teléfonos de México **	telephone	20	71	9
13	Altos Hornos de México	steel	66.8	33.2	—
14	Celanese Mexicana	textiles	0.5	51.3	48.2
15	Fundidora de Monterrey	steel	—	100	—
16	Sociedad Mexicana de Crédito Industrial	finance	83 ††	12	5
17	Banco Nacional de Comercio Exterior	finance	100	—	—
18	Hojalata y Lámina	steel	—	100	—
19	Compañía Minera ASARCO	mining & smelting	—	—	100 ‡‡
20	Cervecería Moctezuma	beer	—	100	—
21	"La Nacional" Cía. de S.S.L. Vida	insurance	—	100	—
22	Tubos de Acero de México (TAMSA)	steel pipe	13.5	35.5	51
23	"Monterrey" Cía. de Seguros	insurance	—	100	—
24	Banco Nacional de México	finance	—	92	8
25	BNHUOP	finance	100	—	—
26	Cervecería Modelo	beer	—	100	—
27	Seguros La Comercial	insurance	—	100	—
28	Anderson-Clayton	foodstuffs, cotton	—	—	100
29	Cervecería Cuauhtémoc	beer	—	100	—
30	Almacenes Nacionales de Déposito	warehouse	100	—	—

* Rank is determined by capital and reserves (*capital social pagado* and *superávit*) or its approximate equivalent in the case of several state enterprises employing different accounting methods.

† In the second half of 1963, the total assets of CMLFM passed to the new state entity, Compañía de Luz y Fuerza del Centro.

‡ This entity is the new counterpart of the former holdings of American & Foreign Power; purchase of AFP holdings is still not paid in full.

** In September 1963, this company formulated a new capital structure which, between common and preferred shares, would rank Teléfonos de México several places higher. Government equity in preferred shares more than doubles under the new plan.

†† Status in May 1963, after completion of prolonged reorganization initiated in 1962.

‡‡ According to legal stipulations, 51 percent of ownership must become Mexican.

Venezuela

Petroleum companies are very conspicuous among large enterprises in Venezuela. The two giants, Creole Petroleum Corp. and Cía. Shell de Venezuela, are accompanied by Sinclair, Mene Grande, Mobil Oil, Richmond Exploration, and smaller companies. The peculiar role of the petroleum industry in the Venezuelan and world economies makes it useful to omit petroleum companies from a list prepared for purposes of focusing on the domestic market. While these firms provide a majority share of total Venezuelan government revenue, in a fundamental sense they are outside Venezuela's domestic economy. Moreover, precise data on capital and reserves of petroleum companies were unavailable.

Excluding petroleum companies in Venezuela, the proportion of government ownership of big business is considerably higher in that country than in Argentina, Brazil, Chile, or Colombia. It is striking to discover that government investment accounts for seven out of every eight bolívares invested in the top 10 enterprises, and almost three fourths of the total investment in the 30 largest enterprises. As the footnote to the accompanying list of ownership in Venezuela suggests, these ratios would be even higher if reliable data had been available on other holdings of the state. The structure of ownership in Venezuela illustrates dramatically the shortcomings in evaluating private enterprise in Latin America without devoting serious attention to the mixed ownership nature of the national economies in which it operates.

Equally striking is the discovery that foreign investment in nonpetroleum enterprises is so meager. Only three companies of this type appear in the top 30. One of the three, U.S. Steel's Orinoco Mining Company, is basically an iron ore exporter. Arrangements have been concluded to transfer another, American & Foreign Power's Luz Eléctrica de Venezuela (which already is a joint venture in partnership with local investors) to Venezuelan investors. The third, Chase Manhattan Bank's joint equity venture Banco Mercantil y Agrícola, is of recent origin.

The proportions of ownership of large enterprises in Venezuela, excluding petroleum companies, are summarized in the following table:

	Top 10	Top 20	Top 30
Venezuelan Government	87.7%	77.8%	74.0%
Venezuelan Private	12.3	19.3	22.9
Foreign Private	0.0	2.9	3.1

Statistics on the Six Countries Combined

Government ownership is highest in Mexico, lowest in Chile (including copper and nitrate exporters) and Colombia (excluding petroleum companies). Latin American private ownership is highest in Colombia (excluding petroleum companies), lowest in Mexico. Excluding petroleum investments

TABLE 9

Ownership of the Largest Enterprises in Venezuela, Excluding Petroleum Companies*

Rank by Size	Name of Enterprise	Activity	Percent of Ownership: Govern-ment	Percent of Ownership: Private Venezuelan	Percent of Ownership: Private Foreign
1	Instituto Nacional de Obras Sanitarias	municipal works	100	—	—
2	Instituto Nacional del Hierro y del Acero	iron & steel	100	—	—
3	Instituto Venezolano de la Petroquímica	chemicals	100	—	—
4	Centro Simón Bolívar	real estate	55	45	—
5	La Electricidad de Caracas	electricity	—	100	—
6	Electrificación del Caroní	electricity	100	—	—
7	CADAFE	electricity	100	—	—
8	Cía. Nac. Teléfonos de Venezuela	telephones	100	—	—
9	Banco de Venezuela	finance	—	100	—
10	Banco Agrícola y Pecuario	finance	100	—	—
11	Venezolana de Cementos	cement	—	100	—
12	Luz Eléctrica de Venezuela	electricity	—	20	80
13	Banco Nacional de Descuento	finance	—	100	—
14	Orinoco Mining Company	mining	—	—	100
15	CVF Centrales Azucareros	sugar	100	—	—
16	Banco Unión	finance	—	100	—
17	Cervecera Nacional	beer	—	100	—
18	Seguros La Previsora	insurance	—	100	—
19	Banco Industrial de Venezuela	finance	100	—	—
20	Banco Venezolano de Crédito	finance	—	100	—
21	Banco Mercantil y Agrícola	finance	—	51	49
22	Banco de Maracaibo	finance	—	100	—
23	Fábrica Nacional de Cemento	cement	—	100	—
24	FOMTUR	tourism	100	—	—
25	Terminales Maracaibo	servicing	—	100	—
26	Venezolana de Navegación	shipping	100	—	—
27	Venezolana de Pulpa y Papel	paper	—	100	—
28	VICA	real estate	—	100	—
29	Seguros La Nacional	insurance	—	100	—
30	Línea Aeropostal Venezolana	airlines	100	—	—

* List also excludes the following, for which reliable information was unavailable: 1) substantial capital of the wholly owned state development bank Corporación Venezolana de Fomento not represented by investment in companies listed; 2) the prodigious capital of the Corporación Venezolana de Guayana not represented in the independently incorporated Electrificación del Caroní (No. 6), which is wholly owned by the CVG; 3) the newly organizing ALCOSA aluminum plant, jointly owned by the CVG and foreign investment; and 4) the joint private-state investment bank, VCD, now in process of organization.

in Colombia and Venezuela, foreign private ownership is highest in Chile, lowest in Mexico and Venezuela.

The individual country ratios also provide a basis for calculations on ownership structure for the six nations combined. It would be possible to calculate means weighted by population, national income, and additional considerations, but all that is contemplated here is calculation of unweighted means of the ownership ratios for the six countries. Even averages of this nature tend to distort and lead to oversimplification—huge foreign investments in Chilean copper averaged with preponderant state investments in Mexico obviously result in statistical injustice to both countries. As indicated in the individual country studies, ratios for Argentina exclude petroleum exploration and development companies while those for Colombia and Venezuela exclude all petroleum companies. Column A in the table below includes Chilean copper and nitrate exporters. Column B excludes these Chilean business enterprises. Subject to these qualifications and others noted in the individual country lists, the unweighted means for ownership ratios of large enterprises in Argentina, Brazil, Chile, Colombia, Mexico, and Venezuela combined are as follows:

	Top 10		Top 20		Top 30	
	A	B	A	B	A	B
Latin American Government	78.2%	82.7%	68.1%	71.7%	62.4%	65.8%
Latin American Private	10.5	11.5	18.1	19.3	21.2	22.4
Foreign Private	11.3	5.8	13.8	9.0	16.4	11.8
	100.0	100.0	100.0	100.0	100.0	100.0

Policies of Latin American Governments on State Ownership

An obvious effort is being made in Latin American countries to get foreigners in particular, and private enterprise in general, out of the extraction of subsoil resources and utilities. This effort may stem from historical trends, economic nationalism, xenophobia, or inefficiency of private ownership. Typical Latin attitudes about rates and amortization may enter. Leadership of Latin America, since it is predominantly of native and southern European origin, may think that it is time to adopt the usual southern European pattern in utility ownership, based on the philosophy that utilities should and could be government owned. In this perspective, state ownership is less a question of being *anti* private business and more a question of Latin America settling down to what is considered as normal.

The ownership problem is important in the consideration of measures to promote and strengthen Latin American private enterprise because state ownership remains a major symptom of attitudes of distrust and lack of confidence on the part of private entrepreneurs. The lists presented in the preceding section included utilities, extractive industries, and financial institutions. These enterprises, it may be argued, are subject to extensive government ownership in many countries outside Latin America. In the United States many utilities are municipally owned. Government development banks, also included in the lists, may promote private businesses by extending them low-interest loans. While rationale for state enterprises does exist, to be sure, distrust and lack of confidence persist.

Distrust and lack of confidence are not necessarily manifestations of dogmatism and doctrinaire assumptions on the ownership question. There is justification in contending on nondoctrinal grounds that improving the contribution of Latin American government to self-reliance and private entrepreneurship requires substantial reforms in the present administration of state enterprises, a halt to further socialization, and perhaps even divesting the state of some of its holdings, particularly in manufacturing industry. Observing that deficit financing and inflation—the fiscal and monetary twins of much Latin American economic policy—have advanced hand in hand with the expansion of state enterprise, local entrepreneurs inquire whether larger doses of the same medicine will not result in increased state ownership which, in turn, will exacerbate inflationary problems and absorb scarce resources needed to raise the direct output of private industry. Involved here is serious examination of the cause and effect of burgeoning bureaucracies, of whether political expediency and doctrinaire socialism in government—rather than alleged practical necessity or the oft-quoted "tradition of state ownership" in Latin America—lie at the root of socialization of the means of production.

Additional queries can be made. Is it easier for the state to control a monopoly in the hands of private investment or one run by an autonomous state entity? While utilities are owned by the state in Western Europe and elsewhere outside Latin America, is there any parallel to the characteristic inefficiency and politicking of state enterprises in Latin America, to the interference of state enterprises in foreign policy or interference of government officials in the routine management of state enterprises for personal financial and political gain? Have state enterprises proven more socially conscious or socially responsible than private enterprises? Will workers now in private enterprises work better if these enterprises are placed under state ownership? Beset by nagging problems of raw material, fuel, and power supplies provided by state enterprises, no less than by shortcomings in normal transportation and communications media run by the state, many Latin American entrepreneurs understandably express doubt about whether the presumed advantages of state ownership are not outweighed in numerous instances by the lack of efficiency, controllability, responsibility, and social consciousness of government enterprises.

Local governments are assuming different approaches to the ownership question. Brazil, for example, has exhibited inclinations toward increasing state ownership. Several politicians of national stature have been outspoken in leading the Brazilian people to believe the erroneous concept that expropriation creates new resources, and that mere substitution of government ownership for private ownership will improve the economy. At the same time, private companies, beset by hyperinflation, multiple business regulations, low returns on investment, acute labor problems, and political instability, have in some cases been reluctant to undertake the new investments required for Brazilian industrial expansion.

These and other economic and political considerations led President Goulart to sign a decree on May 24, 1962, authorizing expropriation of private utilities. The decree provides for the establishment of a commission empowered to select companies to be expropriated, as well as to negotiate terms of expropriation, with the approval of the cabinet. The decree further provides that only 10 percent of the negotiated compensation is to be paid at the time of expropriation, with the remainder payable in installments out of company earnings. At least 75 percent of the compensation paid a former owner must be invested in Brazilian enterprises to be specified by another government board. On October 12, 1962, the Brazilian government established a schedule of priorities for expropriation. Singled out for early state takeover were four industries: telephone, telecommunications, electric power production and distribution, natural gas production and distribution. Strict enforcement of the decree would invest the state with exclusive ownership control of the 10 largest enterprises in Brazil.

In Argentina, in contrast, the official national and regional planning group had in readiness for the incoming government in July 1963 a set of comprehensive proposals on possible divestment of certain state holdings to achieve relief from chronic public deficits. Stock in the wholly state-owned Servicios Eléctricos Gran Buenos Aires could pass, they suggested, into the hands of electricity consumers by means of a surcharge on electricity rates. The same procedure could apply in the case of the government's gas utility, Gas del Estado. A new surcharge on shippers, an outright public offering, or a combination of the two were recommended for shifting the ownership of the state shipping line, Empresa Líneas Marítimas. The government could also put up for sale that part of the national railways involved in replacement stock and repairs. Finally, the group proposed the division of the functions of the state petroleum company (YPF) into extraction, refining, distribution, and retail sales to prepare the way for public stock purchase of each activity separately, beginning with retail sales. However, recent events in Argentina indicate that no concrete steps are being taken to implement these proposals.

Prospects for even the drawing up of such plans for executive consideration in Mexico are very dim. Mexican policy has rarely departed from the dogma: "once a state industry, always a state industry." On December 22, 1962, the Mexican government made effective a new "law for control of federal investment and resources in decentralized agencies and enterprises with state participation which produce goods or services for the market." The law is designed to improve management of state enterprises and to bring these entities under closer supervision of the president (an objective which enlightened entrepreneurs acquainted with the intricacies of Mexican statecraft regard as a mixed blessing). But it contains an interesting clause restricting change of ownership:

> When a state enterprise incurs losses for three consecutive years, or three periods of economic activity greater than one year, the executive branch will either plan its reorganization if so required by the necessities of the Mexican market or order its dissolution; however, in no case may the enterprise be sold as a unit to the private sector.

The Colombian and Chilean governments, in contrast, offer concrete examples of less dogmatic approaches to the ownership question.[7] In both, the state actively participated in the initial establishment of a steel mill—Acerías Paz del Río in Colombia and Compañía Acero del Pacífico in Chile—lent political support to the projects, and qualified the mills for the external financing that required government guarantee. Once the mills began production on a relatively sound basis, government reduced its equity by selling its shares to private companies and the general public. The Colombian ownership transfer was carried out by offering the taxpayer the choice of either acquiring Acerías Paz del Río securities to the extent of a set percentage above his normal taxes or otherwise of simply paying additional taxes. By 1964, the government was sharing ownership with some 180,000 individuals. This method of transfer emphasized equitable stock ownership and made tens of thousands of new stockholders while it also made new funds available to the government.

Variations on the Acerías Paz del Río procedure may offer Latin American governments a practical way of avoiding greater socialization and possibly even of divesting themselves of some enterprises in order to concentrate their efforts on building roads, schools, and public housing. Given existing conditions, there is little likelihood that private capital will invest voluntarily in more than a few select utilities. In fact, much private investment already in utilities is probably considering how to get out with some compensation. Under the two procedures mentioned above, a "government of the people" can take credit for placing ownership of selected enterprises directly in the hands of the people. Although these enterprises may not yield stock dividends for some years, the market value of their securities should increase gradually.

Public Financing of Private Industry

Latin American governments tend to regard state financing of private industry as a right and an obligation. A common justification is the inability or presumed unwillingness of private financial systems to supply the business community with sufficient credit on favorable terms. It is certainly true in Latin America, as numerous studies of industrial development have indicated, that long-term credit for industrial loans is virtually nonexistent and that

[7] Examples offered here should not imply, however, that strong state ownership forces are absent in either of these nations.

short-term and medium-term loans can be obtained in most cases only under high collateral requirements and at relatively high interest rates. Small and medium industrialists, particularly, lack access to ample, timely credit.

We are not questioning here the need of native industrialists for more extensive credit and investment funds; various ways of satisfying this need are examined in some detail in the next chapter. Nor are we questioning the right of the government to finance private industrialists. We are concerned, however, with the capacity of government to meet its felt obligation of providing credit to private industrialists. And we are also concerned about the effect of public financing on the business climate.

The major institutional channel that Latin American governments utilize to finance private industrialists is the development bank. Every Latin American country has a government development bank offering credit to private industrialists. In the six countries with the highest national income, on which this assessment focuses, the corresponding banks are: Banco Industrial de la República Argentina, Banco Nacional de Desenvolvimento Económico in Brazil, Corporación de Fomento de la Producción in Chile, Instituto de Fomento Industrial in Colombia, Nacional Financiera in Mexico, and Corporación Venezolana de Fomento–Banco Industrial de Venezuela.

The Banco do Brasil (56 percent government owned), which performs some functions common to a central bank, also lends extensively to private industrialists. Several public and quasi-public autonomous institutions financing private industrialists exist at a regional level. Brazil employs this type of mechanism more than the other five countries. Included in the financial institutions operating at the regional level are the Bank of Northeast Brazil and autonomous provincial banks owned totally or partially by the states, such as those of Guanabara, Minas Gerais, and São Paulo.

State development bank financing of private industry is favored by many, perhaps most, of the native industrialists. Among the entrepreneurs interviewed for this survey, few opposed public financing in principle for small industrialists, artisans, and cooperatives. Opinion was more evenly divided on its use for medium-size and large industries. Their basic argument in support of public financing is that state development banks, unlike private banks, *financieras,* and moneylenders, make medium-term loans available at relatively low interest and without stiff collateral or renewal requirements. This practice attracts the small and medium industrialist in particular, for he suffers from the unavailability of sufficient short-term (primarily, working) capital, and the absence of medium- and long-term capital. In practice, small and medium industrialists tend to use relatively high interest short-term funds for essentially long- and medium-term purposes.

Industrial development banks exhibit a wide variety of orientations and procedures. Three cases have been selected to illustrate the differences. The first, Nacional Financiera in Mexico, provides an example of a development bank that has continuously placed relatively low priority on loans to private industry in contrast to its large commitment of resources to state enterprises. The second, Corporación Venezolana de Fomento–Banco Industrial de Venezuela, presents evidence of a substantial shift in development bank policy from promotion of state enterprises to direct financing of private industry. And the third case, Companhia Progresso do Estado de Guanabara in the state of Guanabara, Brazil, offers an unusual example of a state bank working almost exclusively in the field of lending to private enterprises.

Case 1: Mexico. Nacional Financiera, Mexico's central development bank, is one of the oldest and most comprehensive (industrial) development banks in Latin America. Established in 1934, NAFIN was characterized by exceedingly limited funds and lack of direction until about 1942, the year in which it obtained a substantial loan from the Export-Import Bank of Washington. Eximbank's loan tended to bestow international respectability on NAFIN's activities and paved the way for future loans from abroad and increased appropriations from the Mexican government. In the last two decades, NAFIN has acquired hundreds of millions of dollars from international financial agencies and private banking institutions abroad. In 1960, for example, a large insurance company in the United States made NAFIN a single loan of $100 million. Little by little, NAFIN has acquired a powerful equity position in Mexico's total industrial plant, so much so that by 1963 it held a majority or strong minority position in more than 60 individual enterprises. Total outstanding financing of NAFIN– in loans, guarantees, and investments—amounted to over $1.5 billion at the beginning of 1963.

In addition to its direct investments in industry, NAFIN engages in other activities in the industrial realm. It is authorized to furnish industry with technical assistance in the fields of business organization, staffing, and accounting. It may participate in and support manpower training programs. It may conduct market surveys. It may assess natural resources for regional economic development projects and for the promotion of employment opportunities. It may guarantee loans from abroad. And, it may make loans to either private or state industries for the purpose of creating or expanding productive capacity.

NAFIN utilizes two administrative channels in processing loans to private industrialists. Loans to industries of all sizes are ruled on and serviced by its regular administrative organization. Development loans to small and medium industries are handled by a special Guarantee and Development Fund for Small and Medium Industry (Fondo de Garantía y Fomento a la Industria Mediana y Pequeña). The Fund is administered by NAFIN with the counsel of a technical committee composed of two representatives appointed by the government, two by private industry, and one each (also government) by NAFIN and the central Bank of Mexico. The purpose of the Fund is "to provide ample and timely credit on medium terms and low interest rates to small and medium private industry, working exclusively through private credit institutions." Fund credits are designed to reach private industrialists at interest rates of 10 percent, comprising 6 percent to the Fund and 4 percent to private financial institutions discounting loans at the Fund. From the beginning of operations in December 1953, until January 1963, the Fund authorized 4,347 loans to 2,474 different industrial firms at a total outlay of 781.9 million pesos (U.S.$62.5 million at current exchange rates). Direct lending by NAFIN to private industry pushed total loans considerably higher. However, total loans to private industries in which NAFIN possesses no equity participation represent only a small fraction of its $1.5 billion total financing outstanding.[8]

Case 2: Venezuela. The principal government development banks involved in direct financing of private industry are the Corporación Venezolana de Fomento (CVF) and the Banco Industrial de Venezuela (BIV). CVF holds 98 percent of the equity capital in BIV. CVF concentrates on loans exceeding four years for acquisition of fixed assets, while BIV concentrates on short-term and medium-term loans, primarily for working capital needs. Both institutions aim at promoting private industry by financing new firms, assisting expansion of existing industries, and providing technical assistance on management, accounting, and engineering.

Policies on development financing have varied substantially since the establishment of CVF in May 1946. Financing of state enterprises was given priority until 1958, at which time emphasis shifted to private industry development. Included in the CVF portfolio today are 100 percent ownership of CVF Centrales Azucareros, 98.6 percent of CADAFE electricity, 96.7 percent of Minas de Lobateria, and 59.57 percent of Venezolana de Navegación; CVF also owns 55.1 percent of the downtown Caracas real estate complex, Centro Simón Bolívar. By May 1963, it had also provided 532 million bolívares in long-term (10 years or more) loans to private industries.

CVF, together with BIV, has exerted some effort to promote private industry. In 1960, CVF entered an arrangement with commercial banks whereby the latter grant credit for working capital needs to private industrial firms designated by CVF to receive loans. The private banks make credit available in amounts equal to three times that of demand deposits placed with them by the CVF. Private entrepreneurs have profited immeasurably from the scores of millions of bolívares of credit extended to them under the CVF–commercial bank cooperative venture.

With financial assistance from the Agency for International Development, the CVF contracted with a team of Electric Bond & Share Services (EBASCO) experts to complete a comprehensive survey of industrial opportunities and related matters, looking toward increased private investment. CVF further expanded the scope of its assistance to private industry by inaugurating in early 1963 two programs to finance industrial exports. The first emphasizes loans for the purchase of raw materials for industrial exports. The second, aimed at facilitating foreign sales of "basic or manu-

[8] Nacional Financiera, *El mercado de valores*, Vol. XXIII, No. 7 (1963); also, see *Survey of the Institutional and Financial Requirements of Medium and Small Industry in Mexico* (Prepared for Centro Industrial de Productividad by Arthur D. Little, Inc., Preliminary Report, 1963).

factured goods" of exclusively Venezuelan origin, provides for refinancing of exported merchandise. Both programs involve the collaboration of Venezuelan private banks.

A unique device for promoting private industrial development is the "fixed assets lease and purchase option plan" initiated by CVF in late 1961. The plan provides for CVF financing of land, buildings, machinery, and installations leased to a private industrialist with an option to buy at a later date. The entrepreneur supplies working capital and evidence of his administrative and technical know-how. Applications for credit are evaluated for their prospect of producing "articles of proven need, that substitute for equal or similar imports, that utilize domestic raw materials or plan to do so as soon as feasible, and that take into account the need for industrial decentralization" in Venezuela. In its first year of operation, the plan gave birth to 17 new industries employing 655 persons, with CVF financing 14.6 million bolívares and private capital 5.4 million bolívares. In 1962, apparently only a limited number of local entrepreneurs found industrial investment, the CVF plan, or both, sufficiently attractive.

Case 3: Guanabara (Brazil). The forthright position of the governor of the state of Guanabara (which includes the city of Rio de Janeiro) lies behind the state industrial development bank's strong encouragement of local private industrialists. Unlike the centralism of Mexico and Venezuela, the relatively effective federalism of Brazil gives wide autonomy to state governors. Running counter to the trend in recent Brazilian federal legislation, Guanabara's governor has argued that private initiative is the shortest path to Brazilian prosperity, greater individual freedom and dignity, and political and financial stability. This philosophy is reflected in the policies and programs of Companhia Progresso do Estado de Guanabara (COPEG), a relatively small financial institution founded in early 1962 for the purpose of promoting private industrial development in the state.

COPEG's unique outlook on development bank lending has been accompanied by administrative procedures suitable to small and medium local industrialists. The director of COPEG knows local industrial problems from experience in private business as a successful manufacturer of automobile parts. In sharp contrast to conventional development bank policy, which finds the industrialist visiting central bank offices and waiting hours for an often unsympathetic young economist assigned to the interview, COPEG sends its industrial specialists to factories requesting assistance. This procedure not only tends to cut down on paper work but expedites credit precisely when the industrialist needs it. Also, in contrast to development bank conventions, COPEG stresses the importance of recapitalization of firms in need of expansion capital. Following its own advice, COPEG is converting much of its own financial operations into a mutual fund open to the general public. COPEG aspires to facilitate the establishment of 250 new industrial concerns and the expansion of 75 existing industrial firms before 1965.

The cases of NAFIN, CVF-BIV, and COPEG, in the context of the experience of other Latin American development banks, lead to several questions on public financing of private industry. To encourage private relationships up and down the line, it might be preferable to enlarge and improve facilities for private, rather than public, financing of private industry. Where private industrialists lack access to ample credit at low interest, state supervision or control of special funds to be made available through the private banking community may bring together capital and small and medium industrialists, and at the same time develop working relationships between private industry and private banking. Inasmuch as government banks professedly engage in lending to private industry primarily to overcome inadequacies in capital markets and not to compete with private banks, the channeling of special funds through private banks should achieve the government objective while strengthening private banking and entrepreneurship. Decentralization of the credit process should also reduce the risk of making public funds available to questionable enterprises.

Public development banks are frequently confronted by the problem of acquiring competent personnel in sufficient numbers. This problem is particularly acute in the case of the dozen new state development banks set up since the Alliance began. No disbursements have been made in nine of the 34 "development loans for relending to private enterprise" which the Inter-American Development Bank (IDB) had made available to Latin American state development banks as of September 30, 1963. To upgrade the competence of bank personnel, IDB, CEMLA, and the World Bank are conducting training courses for development bank employees; meanwhile, funds remain idle. Lack of competence in servicing loan applications and preparing new projects by no means constitutes the sole barrier to reaching private business. Among other impediments is the reluctance of entrepreneurs to commit themselves to loans in foreign currencies.

There are additional considerations. Is it wise for government officials to have continuous access to private company files on suppliers and markets, when development bank equity investments are found in competing firms? Will government control of funds made available to private industries supplying state enterprises tend to weaken the self-reliance of the private concerns? With heavy responsibilities in the fields of infrastructure and social reforms, would government employ its resources more judiciously by concentrating on these activities and staying out of the financing of private enterprise? In those instances where a development bank has large-scale direct investment in business enterprises, would the economy as a whole benefit more if bank personnel concentrated on improving the enterprises in its own portfolio?

The example of COPEG seems to suggest that public development banks can strengthen private enterprise. But COPEG is unique; no equivalent of it is discovered elsewhere in the relatively advanced industrial nations of Latin America. And COPEG was established not to justify state enterprise but to illustrate what private enterprise can do in proper conditions.

National Development Planning

Voluntary cooperation in the preparation and implementation of national development plans has proven one of the most promising ways for governments and business to work together. Many nations have engaged in national planning for some time—France, Norway, Sweden, and the Netherlands for two decades; Japan for more than 10 years; Belgium, Italy, Portugal, Spain, and the United Kingdom for shorter periods. Specialists generally agree that planning in these countries has not resulted in a weakening of private initiative; on the contrary, they typically contend that it has been a major factor in making private enterprise more dynamic. It would seem appropriate in this chapter on government and business to examine relationships between planning and these two sectors.

In most Latin American countries, attempts at planning during the first two years of the Alliance have proven ineffective.[9] Commentators blame both government and business. They contend that: governments have erred in not properly explaining the nature of planning and its role in economic development; planners themselves often expressed narrow doctrinaire views on the planning function, setting forth targets mainly involving substantial expansion of state enterprise; formulation of country plans usually took place with little if any consultation with private businessmen, trade union leaders, and other elements directly interested in private enterprise; local businessmen stubbornly regard planning as a novel, intrinsically bad exercise; planning is a forced effort to make an intelligent allocation of foreign capital contributions.

Efforts to convince businessmen of the need for national development planning have not been very fruitful to date. Progress has been particularly slow where detailed information on the scope of public investment schedules has been revealed for the first time. Many entrepreneurs have never had access before to detailed information on government enterprises and they profess shock at the extent of state involvement in the economy.

Some entrepreneurs, who are not opposed to planning in principle, become vocal in pinpointing their difficulties with professional government planners. They cite the public record of individual planners whose writings, speeches, and political affiliations reveal their preference for state ownership. They point out that many planners never worked in private enterprise, while the performance of those who did was generally unsatisfactory. They complain that faulty statistics in the hands of inexperienced planners are an unlikely source of sound projections. Being highly informed on specific sectors of industrial activity, it is easy for industrialists to accuse the planners of having failed to analyze their sectors correctly and thus cast doubt on the validity of other sectoral analyses and of the plan as a whole. How the plan is to be controlled and how it can be revised for their own sector are the questions uppermost in their minds.

Improved relations between development planners and Latin American

[9] See Appendix VI, "National Planning Institutions and National Plans in Latin America."

entrepreneurs depend in the first instance on understanding and acceptance of the essential features of the planning process. Some definitions and examples may help. Development plans usually take the form of 1) a statement of public policy, incorporating projections of institutional and other changes required in order to achieve economic growth at a specified rate over a period of two years or more; and 2) implementation of the plan, including carrying out specific projects, inducing private entrepreneurs and state agencies to fulfill plan expectations, and evaluating and revising plans and programs according to needs and performances. To shed further light on the nature of the planning process, we can identify the essence of national development planning as "defining the goals of the national development effort; determining and mobilizing the necessary domestic and foreign resources of money and skills; and allocating them to those specific uses which seem likely to make the greatest contributions to achieving the national goals." [10]

Private industrialists who tend to equate the genesis of development planning in Latin America with the Alliance for Progress fuse the two into the combined cause of their current business ills. It is pertinent to remember, however, that Latin American countries used planning long before the 1960s. Although less explicit and formalized than it is in Latin America today, development planning appeared decades ago in Chile, Mexico, and Uruguay. Planning in a wide variety of forms and at different levels in the community was conspicuous in Argentina under Perón, Brazil under Vargas, Colombia under Rojas Pinilla, and Guatemala under Arbenz Guzmán. The origins can be traced deeper into the Latin American past—to the 19th and early 20th centuries. Political leadership in those days carried out "planning" under the labels of "order and progress," "scientific governance," or "progressive political economy."

The evolution of planning in Mexico has spanned many decades. While historians may differ on the impact of Porfirio Díaz's policy of "progress and order" on his own and later periods of Mexican history, the Díaz epoch of 1876–1910 is widely credited with initiating the material progress of Mexico and establishing a base for industrialization. His systematic policies and programs clearly constituted more than mere economic policy; they contained the essential features of development planning.

A score of years after Díaz, the Revolutionary leadership appointed special government and party commissions to formulate a Six-Year Plan for economic and social development during the years 1934–40. The plan contained such major shortcomings as discrepancies between objectives and projects, lack of sound logic on financing, and absence of a central agency

[10] Gerhard Colm and Theodore Geiger, "Public Planning and Private Decision-Making in Economic and Social Development," *Organization, Planning, and Programming for Economic Development*, United States Papers Prepared for the United Nations Conference on the Application of Science and Technology for the Benefit of the Less Developed Areas (Washington, D.C.: Government Printing Office, 1963), Vol. VIII, p. 16.

for implementation, control, and revision. Nonetheless, it served as a guideline for the Cárdenas administration, which undertook virtually every major project outlined in the plan. After a three-year experiment with a plan coordinating body that was created in 1935 and then abolished, Cárdenas designated an agency of the *gobernación* ministry to author a second Six-Year Plan for national development during 1940–46. Since this plan was not revised in the light of the exigencies of World War II, or of the shifts in Mexican leadership ideology, it became obsolete.

The Alemán Administration (1946–52) authored numerous community development plans that grew out of round-table discussions between officials and municipal leaders. It also inaugurated the large development programs for the Papaloapan and Tepalcatepec basins. Ruiz Cortines continued implementation of the two big regional development programs initiated by Alemán and started new regional and municipal development programs based on advice received from a national investment commission attached to the executive office. In December 1958, the new Ministry of the Presidency assumed direction of planning for Mexican economic and social development. An intergovernmental commission, with representatives of the Finance and Presidency Ministries, was established in March 1962 for the purpose of formulating short- and long-term economic plans and of determining appropriate financing of state investments. This group is preparing a development plan for 1965–70 by projecting the policies and programs set forth in Mexico's immediate action plan for economic and social development in 1963–65.

Few Latin American governments have given sufficient recognition to the potentialities of planning as a device for strengthening private and decentralized economic decision making. As experiences in the mixed ownership economies of Western Europe would seem to indicate, planning can become an effective means for increasing the initiative and efficiency of private business. But it is important to keep in mind that business in Latin America is rarely organized in a way that could permit it to function in the planning process as do the specific employer groups in Western European countries. Private enterprise there does not suffer at the hands of planning because the highly organized business and trade associations take an active part in the formulation of plans and in providing data on company expansion programs. More strongly organized business associations are a prerequisite to adoption of European planning models.

Of the few attempts of Latin American governments aimed at bringing private enterprise into the development planning process, procedures in Colombia offer interesting possibilities. That nation's Ten-Year Plan (1961–70) early obtained the guidance of a top-level policy group that met weekly with former President Alberto Lleras Camargo. In early 1963, after an interim of six months during which the policy planning group had virtually no contact with Lleras' successor and the planning agency itself was without a director, President Guillermo Valencia set up a national advisory council on economic and social affairs. The purpose of the council is to advise the Colombian government in the study of socio-economic problems and in the coordination of proposals designed to resolve them. The new council is composed of the national leaders of important political groups; members of standing committees in the legislature; representatives of industry, commerce, finance, and agriculture; and of labor and cooperative movements. The council in turn is backed by an advisory board consisting of top officials of the central bank and various economic institutions. The importance of the Colombian experiment is not that the planning process is working more smoothly there than elsewhere; it is rather that Colombia is exerting serious efforts to discover ways of adapting planning to stimulation of domestic entrepreneurship through the direct participation of private entrepreneurs in the planning process. Recommendations on utilizing planning as a means of strengthening self-reliance are made in the final section of the chapter.

The Alliance charter provided for the appointment of nine high-level experts in economic and social development. This "Council of Nine Wise Men" is essentially a panel of experts. Attached to the Inter-American Economic and Social Council, it has enjoyed virtually full autonomy in carrying out its duties.[11] Any Latin American government may present its development plan for consideration by an *ad hoc* committee appointed by the Organization of American States and made up of one or more, but no more than three, of the "Nine Wise Men" plus an equal number of outside experts. This *ad hoc* committee evaluates development plans and communicates its conclusions to the Inter-American Development Bank (IDB) and to other agencies in a position to extend financial and technical assistance for implementation of the plan. The IDB may initiate negotiations seeking financial help in connection with carrying out the plan, but the Latin American government will retain complete autonomy to call upon other sources of financing. In no instance is the *ad hoc* committee permitted to interfere with the right of a government to set its national goals and priorities or to make reforms in its national plans. The inter-American community generally recognizes that operational procedures of the panel of experts require improvement. Proposals to this effect are pending before the OAS.

A triumvirate of international financial institutions, Alliance for Progress programs, and U.S. aid policy has exerted influence for the adoption of long-range planning. The IMF and World Bank have recommended adoption of comprehensive national approaches to economic development in several Latin American countries. In March 1961, President Kennedy stated in his Special Message on Foreign Aid to the Congress that "long-range planning is the only way to make meaningful and economical commitments." The U.S. Congress mirrored this approach in the Act for International Development of 1961 by specifying that emphasis should be placed "upon assisting long-range plans and programs designed to develop economic resources and increase productive capacities." In August 1961,

[11] The council of nine has become subject to the supervision of the recently established Inter-American Committee for the Alliance for Progress (CIAP).

at Punta del Este, every American republic (except Cuba) signed the "Declaration to the Peoples of America" which provided that ". . . countries of Latin America will formulate . . . national programs for the development of their own economies," assisted by "independent and highly qualified experts" to be made available by the inter-American community.

Adoption of the principle and procedures of development planning in Alliance for Progress programs is largely a response to locally felt needs for more rational mobilization and allocation of resources. As a requisite for external aid, planning remains a voluntary procedure as, for that matter, does acceptance of outside assistance. Planning is not an end in itself, but a device highly adaptable to the promotion of private initiative and the limitation and control of state enterprises if properly used. Planning and private initiative, as many Latin American industrialists must learn, are not an either-or proposition, especially in the mixed ownership economies of Latin America or Europe. Nor, as some Latin American businessmen claim, does development planning as such constitute intervention in Latin American affairs by foreign governments, regional agencies, or international organizations on behalf of *anti* private initiative forces.

Recommendations: What Latin American Governments Can Do to Strengthen Domestic Enterprise

• *Latin American governments should become increasingly aware of probable short- and long-term effects of the total ownership mix on entrepreneurship, self-reliance, individual freedom, and economic growth.* For political and economic reasons, some enterprises must remain in the hands of the state. This would not seem to be the case with other state enterprises and additional economic activities for which the government in some countries is contemplating public ownership. In considering the ownership mix, governments should attempt to answer four questions: Has government ownership of productive enterprises proven more socially responsible than private ownership? Has government monopoly proven less difficult to control than private monopoly? Has government enterprise proven more efficient than private enterprise? Can government better fulfill objectives of the Alliance by applying its limited resources to purposes other than investment in enterprises which private entrepreneurship is capable of managing?

• *Latin American governments should place greater emphasis on improving the management, social responsibility, and efficiency of state enterprises, and on exploring advantages of ownership transfer to the general public.* The inseparable twin motives for efficient enterprise—the reward of profit and the penalty of bankruptcy—usually are absent in state industries in Latin America. This absence increases the burden on the government to improve the management, responsibility, and efficiency of state enterprises. Financing the subsidies and deficits of state enterprises in several Latin American countries is imposing such heavy strains on public revenue that government is left without resources to pay for indispensable new measures. A modern industrial society, as J. K. Galbraith observes, is like an iceberg; "it is its invisible part [ensuring that capital plant once built is efficiently used] which has the greatest capacity for causing shipwreck." [12] Governments should devote increasing attention to the "invisible" dimensions of industrial activity—sound management, lowering unit costs, improving product, and providing for expansion and replacement of plant.

Governments should consider the advantage of following the example of Acerías Paz del Río and of Compañía Acero del Pacífico in a gradual transfer of ownership to the general public. Advantages would include acquisition of new funds to meet growing obligations, elimination of continuing drains on the budget, and reversal of centralization trends.

• *Latin American governments should improve development planning concepts and procedures, enlisting the energy and resources of private enterprise.* During the first two years under the Alliance for Progress, Latin American governments gave insufficient attention to publicizing the nature of development planning and its role in economic development within the Alliance framework. The following points deserve emphasis: 1) Planning should seek to release the full creative powers of which free society is capable by striving for an efficient and productive combination of the public and private sectors. 2) While political leadership of a nation has the ultimate responsibility for defining national goals, policies, and programs, it can share this responsibility beneficially with private business, labor, and other groups. 3) Responsibility in the planning process should extend from the small village to the large metropolis, from small private businesses to the largest private concerns. 4) Representative participation of the above kind holds promise of promoting simultaneously the institutions of democracy at the community level, of strengthening progressive entrepreneurship, and of forging ahead with the job of nation building without excessive state ownership. 5) Plans should define the roles of specific branches of industry in achieving development goals. 6) Procedures should be improved for the implementation and revision of plans. 7) Development planning should be reorganized as a means, not an end. 8) Competent personnel should be retained to evaluate the probable short- and long-term effects of plan implementation on private and decentralized economic decision making. Outside consultants, supplied by independent associations and institutes free to publish objective evaluations of planning implications, appear preferable to consultants supplied by foreign governments or international organizations.[13]

• *Latin American governments should take initiative in dealing with the shortage-of-capital problems of private industry, but should avoid solutions tending substantially to displace private banking communities.*[14]

[12] John Kenneth Galbraith, *Economic Development in Perspective* (Cambridge, Mass.: Harvard University Press, 1962), p. 41.

[13] See related proposal in Recommendations of Chapter IV.

[14] See sections in Chapter IV on financing private industrialists.

• *Government controls of business should be aimed at strengthening, not weakening, the operation of private, decentralized economic decision making.* Government enjoys a key position in the realm of correcting monopolistic practices. Government correctives should accomplish their objective without reducing the attractiveness of the economy for private entrepreneurship as a whole.

• *Latin American governments also can promote and strengthen domestic entrepreneurship by making improvements in several additional sectors.* Government can improve: education systems; vocational, managerial, and technical training programs; tax incentive programs; import and export policies; labor laws; business regulations; industrial counseling and information services; infrastructure; monetary and exchange policies; industrial location programs.[15]

[15] Education systems; vocational, managerial, and technical training programs; infrastructure; and monetary and exchange policies are discussed in some detail in Chapter V.

IV

Foreign Private Investment and Latin American Enterprise

In many ways, foreign private enterprise contributes more assistance to Latin American entrepreneurs than does any other external instrumentality. Foreign manufacturers are a direct channel for the transfer of productive, managerial, and marketing techniques. Foreign banks play a significant role in financing the growth of local enterprise. Private instrumentalities which bring these groups together also do much to influence the policies and programs which affect the business climate. This chapter contains a discussion of each of these forms of activity and a set of recommendations for their improvement and expansion.

The Contribution of Foreign-Owned Manufacturing Firms

Foreign and native industrialists in Latin America generally agree on broad objectives; yet there are important differences which raise barriers to understanding between them. The two groups generally concur on the need for foreign capital, technology, and skills,[1] although divergencies of opinion are encountered in extent and form. Small industrialists are prone to express less tolerance of foreign investment than do medium and large ones. However, ardent supporters of foreign capital are found among small entrepreneurs supplying foreign firms, such as those who supply the subsidiaries of the largest U.S. merchandising firm operating in Brazil, Mexico, and Venezuela.

[1] The technical know-how transmitted by U.S. business firms in Latin America is important to economic progress in that area. See the series of studies prepared by the National Planning Association on (1) "Technical Cooperation in Latin America," particularly the surveys *How U.S. Business Firms Promote Technological Progress* by Simon Rottenberg and *Recommendations for the Future*, a Statement by the NPA Special Policy Committee on Technical Cooperation, and on (2) "United States Business Performance Abroad"; also, see the reports on industrial development carried out under the auspices of the Agency for International Development and its predecessor, the International Cooperation Administration (titles of these reports are listed on page 50).

Both parties recognize the importance of strengthening and promoting responsible Latin American enterprise, although conflicting notions are voiced on the degree of responsibility. Industrial expansion is increasingly viewed by both groups primarily in terms of lower costs and larger markets. Both foreign and local industrialists shudder at any prospect of territorial expansion by Castro communism, Kremlin communism, or Chinese communism. Both parties generally frown on terrorism, looting of public treasuries by government officials, and gross inefficiency in state enterprises. They also dislike national planning as it has evolved so far under the Alliance for Progress, and the apparent early preference of Alliance agencies for increasing statism.

Concurrence in these considerations still leaves ample room for difference. In contrast to his Latin American counterpart, the foreign industrial investor generally anticipates lower profits, less tariff protection, and minimum direct assistance from state financial institutions. He usually places greater faith in interest group and collective group action, relying less on personal political contacts or on his ability to manipulate legal regulations. He normally exhibits less fear of competition. He extends supplier and customer credit more freely. He adopts technological advances, external professional advice, and new marketing techniques more readily. He observes sound bookkeeping practices and the letter of the law in paying his taxes more frequently.

Companies with foreign equity support numerous nonprofit educational institutions, management institutes, and vocational schools, frequently supplying instructors from company staffs in addition to scholarships and special teaching aids. They also encourage plant visits by students. Their industrial labor policies are relatively enlightened in contrast to the average local firm, and their wage scales generally higher. Initial programs of the American Institute for Free Labor Development to enlist cooperation of Latin America's free labor movement have received generous contributions from private foreign capital. Donations from foreign and local firms are financing extensive community projects in several Latin American countries. On the cultural side, one exceptionally active foreign firm in Colombia publishes monthly and quarterly cultural reviews, sponsors a weekly radio program on cultural themes, and awards annual literary prizes for novels and dramas. Although these activities need to be multiplied, they are already being carried on at a greater rate than by native-owned firms.

Attitudes and practices differ in other fields. Foreign investors want financial stability. (U.S. investors express greater antipathy for state utilities than do their European and Japanese counterparts, but increased numbers of the latter are becoming aware of the price of growing state ownership in terms of costs, taxes, and inflation.) Less encumbered by need for profit remittances abroad, the local industrialist can and usually does conduct his own enterprise with more anticipation of inflation and currency devaluation. Inflation also influences his attitudes on investment in utilities. This factor, rather than any tradition of statism, explains why Latin American industrialists may sympathize with the plight of expropriated foreign capital and at the same time refuse to join organized opposition to expropriation; they had avoided investment in utilities in the first place because legal and political impediments prevented quick rate adjustment in the face of inflationary rises in costs.

These differences point up the need for better communication between foreign industrialists in Latin America and their native counterparts. Foreign industrialists might take counsel from the views of Latin American businessmen. Attitudes naturally vary between and within Latin American countries, but generally agree with the following condensation of guidelines for foreign enterprises drawn up recently by a group of progressive Colombian and Venezuelan business leaders:

1. Conduct the business in the local language, including the name of the company, and insist that foreign personnel learn and use the local language.
2. Place responsible, free enterprise minded nationals on management boards making final company decisions on local operations.
3. Send only personnel sincerely interested in going abroad; develop long-range management programs for stationing a company's foreign officials on a long-term basis and for replacing them ultimately by local personnel.
4. Promote broad stock distribution through increasing capitalization in ways that permit stock purchases by company employees and the general public.
5. Avoid discrimination between nationals and foreigners in remuneration and job opportunities, permitting and publicizing the fact that nationals may rise to any position in the company.
6. Improve the corporate image by public relations programs that include publication and wide distribution of annual statements and reports.
7. Purchase goods, services, engineering, and subassemblies from local enterprises, and assist in the establishment of such local businesses.
8. Set up training programs for management, technicians, and skilled workmen.
9. Insist that foreign personnel engage in local social and civic affairs as a means of integrating them and the company into the local community.
10. Exercise prudence in advertising, neither supporting publications contrary to democratic principles nor using advertising as a weapon to influence editorial policy.
11. Support scientific and technical educational institutions fostering private enterprise.
12. Contribute financially to scholarship programs for promising students to study locally or abroad in institutions with a modern private enterprise outlook.
13. Lend moral and financial support to responsible, private enterprise minded local groups challenging organizations incompatible with democratic principles.
14. Assist business associations in the formulation and enforcement of codes of business ethics.
15. Give careful consideration to proposed changes in tariffs and other restrictions that may drastically affect local Latin American business.

One of the more effective means of carrying out the foregoing recommendations is the joint venture form of international investment. The intrinsic advantages of the joint venture in sharing financial, legal, technical, and human responsibilities between advanced industrial and less industrialized countries are common knowledge. They require no restatement here. Less known, perhaps, is its extensive distribution in Latin America. Foreign and domestic capital are combined in basic industries of all six countries examined in this study—in primary iron and steel, electric power, vehicles, cement, paper, machinery and equipment, chemicals, tires and rubber products, textiles. They appear in small and medium as well as large industries. Yet the dearth of reliable statistical material makes estimates on the true extent of joint ventures highly conjectural. The researches of Professors Friedmann and Kalmanoff of the Columbia Law School conducted in the late 1950s suggest that the largest number of joint ventures in the world are to be found in Latin America.

After a foreign company decides that the joint equity venture suits its needs and those of the local community, an immediate question arises about the extent of equity participation; should it capitalize on a majority, equality, or minority basis? "The position of stock ownership," as Emery N. Cleaves of Celanese Corporation of America once observed, "should reflect the contribution made by the respective partners." Cleaves also noted that "if you don't get along with your associates, it doesn't make much difference what proportion of the stock you own." Joint ventures entered without first reaching a consensus of the parties involved on major considerations of industrial operation have often created sticky tensions, too frequently translated, perhaps unjustifiably, into antiforeignism.

But the joint venture is not the only way of putting foreign capital to work. Some foreign investment simply cannot find local capital to cooperate with, either because of relatively low returns or because of other features unattractive to the local investor. Nonetheless, Latin America needs these industries. Given the need for thousands of new local plants, Latin America must find ways to attract and absorb more foreign venture capital in other than strictly joint venture arrangements.

A great deal of material is available on the relationship of incentives to improvement in the flow of foreign investment in the framework of the Alliance for Progress. A meticulous evaluation of this material was made by the Commerce Committee for the Alliance for Progress (COMAP), a group of U.S. business executives brought together at the request of the U.S. Department of Commerce. The major report [2] of COMAP proposes changes in four sectors:

> A. *Local currency financing:* provide assistance to meet the problem of currency devaluation by the creation of a substantial pool of local currency funds for loans to the private sector to be available to both U.S. and locally owned enterprises.
>
> B. *Taxation:* (i) provide an investment incentive tax credit to encourage U.S. private investment in countries of the Western Hemisphere similar to the recent incentive credit to U.S. business; (ii)

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[2] *Proposals to Improve the Flow of U.S. Private Investment in Latin America,* March 1963, submitted to the U.S. Department of Commerce. Indispensable assistance from the Economic Research Department, W. R. Grace & Company, permitted the updating of COMAP schedules on the profitability of U.S. direct investment in Latin America. These revised schedules are found in Appendix X.

provide a tax certificate permitting a minimum return on capital of 5% after tax to be used by U.S. companies in selected enterprises as a credit against their U.S. income tax liability when such minimum return is not achieved; (iii) to encourage and stimulate new investment in Latin America amend U.S. tax law to provide for tax sparing where the host countries offer tax incentives as part of a program to attract new basic industries; (iv) assist in meeting the problem of currency devaluation by allowing a tax deduction against current taxable income for losses due to currency devaluation; (v) provide for a special type of U.S. corporation to hold investments in, or conduct operations on its own behalf in, the less developed countries of the Western Hemisphere, and which would be allowed deferral of taxes on income until distributed to its shareholders so long as earnings were reinvested in the less developed countries of the Western Hemisphere; (vi) losses arising from worthless stock or securities of companies operating in less developed countries in the Western Hemisphere be allowed as deductions from ordinary income regardless of the amount of stock held by the U.S. investor and regardless of whether the investor is a corporation or an individual; (vii) all losses on liquidation of stock or securities of companies operating in less developed countries in the Western Hemisphere be allowed as deductions from ordinary income even where the stock or securities are not entirely worthless, and that losses on sale of such stocks or securities also be allowed as deductions from ordinary income.

C. *Investment guarantee program:* (i) extension of investment guarantees to all less developed countries of the Western Hemisphere; (ii) broadened application of extended risk coverage; (iii) extension of war risk coverage, including revolutions and insurrection, to also include damages resulting from riots and civil disturbances; (iv) revision of present contract procedures and fee schedules to provide for a multi-risk contract where an investor elects to take two or more specific-risk guarantees; (v) standardization and simplification of contract language; (vi) increase in the authorized statutory limits of different kinds of guarantees; (vii) processing fee, if adopted, be credited against initial fee payable by investors entering into final contract.

D. *Other methods of private investor participation:* in selective cases the use of management contracts, cost-plus contracts, leasing arrangements, equity financing and consortia arrangements for multi-project developments.

The COMAP report also noted the "critical needs in the field of low-cost housing throughout Latin America." It concluded that "the bottleneck in the problem is the lack of knowledge of the technique of large scale housing construction, and the absence of adequate credit machinery for the financing of low-cost housing."

Steps to implement these recommendations are reflected in activities of the U.S. Department of Commerce and the Agency for International Development. Proposals now pending before the U.S. Congress would enlarge guarantee programs and grant credit against U.S. taxes equal to 30 percent of the amount of a taxpayer's new direct investment in developing countries. The availabilities of investment guarantees in each country of Latin America are indicated in Appendix VII.

Decisions of foreign investors now in Latin America bear a fundamental relationship to new investment by foreign firms not presently in Latin America. The confidence shown by foreign-owned manufacturing plants in Latin America encourages new investment by native industrialists and new foreign investors. Alliance mechanisms frequently overlook this relationship. At the level of small and medium-size industry promotion, abundant information on investment opportunities is available through chambers of commerce, banks, *financieras*, and commercial attachés. At the large venture level, new investment is rarely delayed because of lack of information on opportunities. The indispensable element for linking new foreign capital and Latin American opportunities is business confidence in Latin America, and this is determined in large measure by the outlook for and the treatment of foreign private investment already in Latin America.

In assisting Latin American industrialists to increase their contribution to the area's economic, political, and social progress, foreign investment can also exert greater effort toward accelerating regional economic integration. Scores of foreign firms have had enterprises in at least half a dozen Latin American countries for a generation. Tens have had productive enterprises in several countries for a period longer than the life span of four out of five domestic industrial firms. While these firms form that part of the multinational or world corporation usually distinguishable as the Latin American division, they exhibit uniquely autonomous characteristics. By being as regionally oriented as the exigencies of nationalism permit, their outlook, performance, and personnel transcend the narrow connotations of "foreign investment." Besides operating separate firms in each of several countries, a few are already integrating investments into the Central American Common Market and Latin American Free Trade Area. Such business firms are singularly well equipped for supplying counsel and projecting markets on Latin American regionalism. In essence, they represent the closest approximation in existence to *regional* Latin American corporations.

The progress made by these regional corporations on the road to healthy, full-grown regional markets is far ahead of that implicit in the efforts to date of planners of the national coordinating bodies of LAFTA. However, these corporate entities, though natural harbingers of integration, can hardly allocate technical, financial, and managerial resources on a regional basis until Latin American governments erect a common outer tariff, negotiate across-the-board internal tariff reductions, and establish a permanent LAFTA consulting board.[3] But they can assume initiative in designing workable arrangements based on compensatory reciprocity of trade, a fundamental principle of LAFTA—arrangements that in turn promise to expedite progress toward integration. Specific complementarity agreements appear forthcoming in certain lines of manufacturing as a result of the consensus reached at various regional meetings held since April 1963, specifically, in the manufacture of glass, textiles, tool and office machines, canned foods, and possibly in fine chemicals, pharmaceuticals, steel, and basic chemicals. Negotiations

[3] See comments on markets in Chapters II and V.

along the same lines in the automobile, petrochemical, heavy machinery, and steel products industries could lead to the signing of agreements placing a premium on establishment and promotion of government plants. In view of the fact that resources are already scarce and the deliberations of LAFTA have not been particularly noteworthy for stimulating private enterprise, foreign corporations operating on a region-wide basis should make an effort to assist local manufacturers in drawing up proposals that incorporate the best interests of Latin American private industrialists.

What Foreign Private Banks Can Do

There are channels both public and private through which the supply of capital and credit for private enterprise in Latin America can be increased. What can be done by public agencies is discussed elsewhere.[4] This section deals with the role of private banking institutions in providing financial assistance both for the needs of the domestic market and for Latin American exports and imports.

Internal Financing

Foreign experience in financing Latin American business is uneven. A French bank has held equity in one of Mexico's largest commercial banks for three quarters of a century, but it appears that no U.S. commercial bank acquired equity in an established Latin American commercial bank before 1961. Only one U.S. private bank has commercial banking offices of its own throughout Latin America; an English, a French, and an Italian private bank have similar facilities throughout much of South America. A score of other U.S. and European private banks maintain two or more local Latin American offices.

Foreign financial groups interested in mutual funds may discover valuable lessons in the pioneering efforts of the International Basic Economy Corporation, a U.S. based company. DELTEC, another firm in which U.S. capital is heavily represented, already possesses 15 years' experience in promoting widespread stock distribution in Latin America. Foreign capital has also had long experience with Latin American mortgage banks, home finance companies, housing development builders, and direct construction of homes in the moderate price range.

It is doctrinaire to maintain that totally domestic-owned enterprises will or should rely exclusively on local banks, or that firms totally foreign owned will not or should not seek local financing. Nor should a joint venture of half local and half foreign equity necessarily draw equally on local and foreign banks.

Reliable statistics are unavailable in most countries on the extent to which foreign companies operating in Latin America have been drawing on local

[4] Chapter III reviewed the activities of local government agencies and state development banks. Chapter V will contain suggestions for international aid programs and lending agencies.

credit institutions since the beginning of the Alliance for Progress. Colombia is an exception. In August 1962, the U.S. Embassy in Bogotá conducted a survey of some 90 firms (excluding oil companies) in which U.S. investment accounted for over 95 percent of the equity. Though some companies abstained from local financing as a matter of policy, the survey revealed that seven out of 10 firms actually had debts outstanding with local financial institutions. However, capital brought into Colombia by these firms exceeded their local borrowing by eight to one. At the same time, U.S. banks had made credit available to hundreds of Colombian businessmen.[5]

The success of the relatively new form of private development bank known as the *financiera* makes its future look particularly promising. The *financiera* is modeled on practices employed decades ago in Germany and Spain. Insofar as its activities touch upon industry, the *financiera* is usually authorized to engage in two principal activities: equity investment and medium-and long-term loans. Effective operation of private *financieras* in Latin America dates back to 1941 in Mexico, 1959 in Colombia, and, as a predominantly industrial investment entity, 1961 in Venezuela.

French and Spanish banks acquired minority equity shares in Mexico's first private *financiera* from the outset, but it appears that none of the four largest U.S. banks purchased shares in a Latin American *financiera* before 1959. Indeed, the largest single U.S. equity participation in a financial institution of this sort is held by an oil company, not a bank, and its investment is small, amounting to only one tenth the value of a single loan made by a U.S. insurance company to Mexico's state-owned industrial development bank. As a rule, U.S. private banks have not wished to jeopardize relations with local banking communities by becoming identified too heavily with one local financial institution.

Some *financieras* have vegetated, while others, designed primarily to finance an existing industrial complex, have grown larger but not as fast as the industries they financed. A few have acted chiefly as intermediaries between domestic and foreign investors, developing new industries in equity partnership with foreign companies.

From 1941 to 1961, Sociedad Mexicana de Crédito Industrial (SMCI), Mexico's first private *financiera*, had French and Spanish equity, along with the Mexican majority equity (and, indirectly, through a related mutual fund, U.S. and other foreign capital as well). SMCI concentrated on financing new industries to be placed under its own control, promoting 86 new enterprises in the 20-year period. The Mexican government, through the central Banco de México, recently acquired an 85 percent equity participation in SMCI. Moreover, the *financiera* has lost attractiveness in Mexico by virtue of a new regulation prohibiting this form of financial institution from holding more than 25 percent equity in any single business enterprise.

Enthusiasm and promise are higher in Colombia, where six private *financieras* are engaged in industrial financing. The greater optimism is

[5] U.S. Ambassador Fulton Freeman's speech to the Colombian-American Chamber of Commerce on August 16, 1962 (mimeo).

explained only partly by the difference in legal regulations. It is also due to the newness and increasing successes of the Colombian *financieras,* to the relative absence of statism and of doctrinaire approaches to foreign investment in that country, and to the rarity there of great private fortunes like those characteristic of individual Mexican industrialists. Five of the six Colombian *financieras* have Colombian majority equity. Each is headquartered in a different city (Bogotá, Medellín, Barranquilla, Valle, and Caldas—the latter two maintain close ties with the Bogotá and Medellín *financieras*). U.S. private banks have a small participation in two of the *financieras.* Equity in the first and largest *financiera,* Corporación Financiera Colombiana de Desarrollo Industrial (COFINANCIERA), is distributed among Colombia's largest banks, insurance companies, and industries, with minority shares held by 11 European (principally German) financial and industrial firms, one U.S. bank, a Mexican *financiera,* and the International Finance Corporation. IFC and the Inter-American Development Bank have also provided substantial loans. In collaboration with private capital in every Central American country and assisted by multinational agencies, COFINANCIERA is now promoting a *financiera* in Panama, the Financiera Centroamericana de Desarrollo, for purposes of operating in CACM.

The sixth *financiera* in Colombia, Inversiones de Esso Colombia, is an investment of the International Petroleum Company. It offers financing outside the petroleum and chemical industry and will make investments by means of equity finance, preferably in a minority position, utilizing, if feasible, the managerial and technical talents of its parent company.

Promising ventures in Venezuela include the Creole Investment Corporation (CIC) and the emerging Venezolana Corporación de Desarrollo (VCD). A subsidiary of Creole Petroleum Corporation, CIC came into being in 1961, just when Venezuelan private enterprise was suffering in so many ways—from the excesses of Castroism, Kremlin communism, and local radicalism; from a collapse in the construction industry; from excessive capital flight and a paucity of new investment; and from a general loss of business confidence. In its first year of operation, 10 of CIC's 16 investments involved industrial ventures in partnership with Venezuelan capital, all 10 on a minority equity basis. VCD is still in the organizational stage, capitalized at approximately the same amount as CIC. By February 1964, between subscriptions and tentative pledges, stockholders included Shell Oil and CVF (Venezuela's state development bank), which originally promoted VCD, plus two U.S. oil companies, three U.S. banks, the IFC, and scores of local insurance companies, banks, utilities, and industries. CIC, and presumably VCD, will pursue a policy of helping to assure good industrial management. But, by providing not more than 49 percent of the equity finance in new or expanding industries, they will lodge major responsibility for a company's administration squarely with the Venezuelan industrialist.

There is room for additional foreign capital in creating and expanding *financieras.* Not only is greater private capital needed for strengthening this particular financial institution, but the Alliance for Progress and international lending agencies should channel increased funds into the *financiera*. As a rule, the smallest new enterprise that existing U.S. public agencies and Edge Act corporations are willing to consider for investment purposes is bigger than the size of plant that makes economic sense in most Latin American countries. In contrast, the local *financiera* can reach all sizes of industrial firms. Outside funds channeled into the private *financiera*, accordingly, may make an inestimable contribution to small and medium industries.

Latin American industry can also utilize other forms of financing by foreign capital. Foreign bank representatives resident in Latin America could find responsible entrepreneurs in need of assistance unavailable locally. It is difficult to understand why U.S. private banks will make capital available to small, unreliable private banks in Latin America yet steadfastly refuse to extend credit directly to highly responsible indigenous industrialists. Latin American development also would be served if acquisition of longer-term funds by U.S. subsidiaries and joint ventures did not hinge on the necessity of collateral pledges from home corporations.

Assembling capital from U.S., European, Latin American, and public sources is within the legal scope of Edge Act investment corporations. These financial organs are just beginning to realize their true potential. Investing in Latin American banks, they are in a good position to provide financial and managerial assistance; they can also facilitate greater contributions by the international departments of parent banks. Edge Act corporations without equity investment in Latin America could develop competent staffs and a system of correspondents there.

Recent changes in regulations under the Edge Act, perhaps prematurely viewed as steps toward liberalizing U.S. investment and commercial bank operations overseas, are encouraging newcomers to consider Latin American undertakings. The changes have, at least, motivated an exodus of U.S. bankers to Latin America, who appear as anxious to begin work there as new arrivals of the Peace Corps. The effectiveness of these newcomers may depend on the pooling of their limited resources in order to maintain competent staffs. With competent staffs, they could also become active in other fields of local finance.

This observation leads to a recommendation: the establishment of private Latin American investment banks serving private investment and regional economic integration.[6] Mobilizing its own resources in partnership with Latin American and foreign private capital, an institution of this type could promote

[6] The Atlantic Development Group for Latin America (ADELA) is in process of setting up an institution of this type. It is seeking equity commitments from U.S. and European corporations, preferably not to exceed $500,000 from any single source. As soon as ADELA has $10 million in commitments, which may come to include equity participation of Canadian and Japanese private sources, it hopes to begin operations. The initial goal for its capitalization remains $40 million. It will emphasize creation of medium-size industries in partnership with domestic and foreign private or foreign public capital. A typical equity venture: ADELA 50 percent, domestic private capital 25 percent, foreign private capital 25 percent. Legal headquarters of ADELA probably will be established in Luxembourg or Switzerland.

both national and international industries. It may find ready associates in Latin American private *financieras*. It may discover potentialities in proposals for converting inefficient state enterprises into efficient joint venture enterprises. It may encourage repatriation of Latin American flight capital. Some Edge Act investment corporations and similar entities in Europe are becoming increasingly aware that keeping abreast of local and regional developments requires personnel beyond their financial resources and may find that such an institution meets their requirements. It may not be too optimistic to hope that institutions of this type could succeed in unlocking the portals of U.S. trust and pension funds and insurance companies, and surely of Alliance for Progress funds. They would, however, require direction by outstanding leaders in international finance.

The day that small, medium, and big Latin American industrialists walk into private banks at the local, national, and international level *before* approaching public banks, embassies, and international agencies, "government in business" will be giving way to "government and business."

Financing Exports and Imports

Latin American industrialists depend on substantial outside assistance for financing their purchases and sales abroad. Their dependence will persist as long as local capital markets remain poorly developed—indeed, as long as underdevelopment itself persists. The local industrialist needs financing to cover imports of machinery, industrial raw materials, intermediate goods, and technical services, as well as export of his manufactures.

Foreign capital is already contributing a great deal to these short-term needs: U.S. capital involved fluctuates around $2 billion; other non-Latin American capital committed to financing Latin American short-term needs approximates $600 million. The four largest private commercial banks of the United States [7] reportedly account for 75 to 80 percent of total U.S. bank financing of Latin American imports and exports. The smaller U.S. banks have discovered that making financial operations with Latin America worthwhile requires employment of bank personnel beyond their capacity.

Financial institutions of non-Western Hemisphere nations notably increased their share of short-term financing of Latin American imports in the 1950s, although today their percentage contribution is still much below pre-World War II levels. French financing has concentrated on trade with Mexico; Japanese on trade with Argentina, Brazil, Mexico, Peru, Venezuela, and the Central American countries; British, German, and Italian on trade with South America generally; Belgian, Dutch, and Swiss with diverse countries; and U.S. financing has spread across the entire region.

Recent Eximbank policy changes are giving a powerful impetus to private bank financing of exports to most Latin American countries. Innovations in foreign credit insurance and financial guarantees to U.S. private banks are quickly replacing Eximbank's direct exporter credit program. By virtue

[7] Bank of America, Chase Manhattan Bank, First National City Bank of New York, and Manufacturers Hanover Trust.

of joint Eximbank–Foreign Credit Insurance Association programs, the U.S. manufacturer today is more willing to seek buyers in Latin America than he was in 1960 and 1961, before the birth of FCIA. He is now relieved in large measure of political risks ("actions taken by governments which prevent consummation of or payment for the sale, such as currency inconvertibility, war and civil strife, expropriation, and import restrictions") and credit risks on short-term sales (up to 180 days) and medium-term sales (181 days to 5 years). With proceeds of export credit insurance policies assignable by insured exporters, U.S. commercial banks may readily assist in financing these insured exports.

Latin American financing has also become more attractive by reason of Eximbank's financial guarantee program for medium-term export transactions in which a private bank's share of the financing involves no recourse to the exporter. Under this program, Eximbank issues guarantees against political risks on early maturities (up to 18 months) and against political and credit risks on longer maturities, provided the transaction includes a down payment of between 10 and 20 percent by the foreign buyer, participation by the exporter in at least 15 percent of the credit, and willingness of a bank to assume credit risks on the earlier maturities. Industrial exporting nations of Europe offer similar exporter guarantees and insurance, through such agencies as the Compagnie Française d'Assurance pour le Commerce Exterieur, Hermes-Kreditversicherungs, and the British Exports Credit Guarantee Department.

Both Eximbank and FCIA programs are new and will require time to realize their full potential. FCIA exporter insurance for Latin America so far has concentrated excessively on short-term coverage, much of it on accounts previously serviced by U.S. commercial banks. The U.S. exporter and Latin American industrialist need extensive coverage in the three-year to five-year range and longer. Unfortunately, most U.S. private banks lack trained personnel for carrying out responsibilities under Eximbank's program for medium-term guarantees to U.S. private banks. Only a very few U.S. financial institutions, long experienced in Latin American finance, are sufficiently familiar with the character of local industry. Old members of the fraternity and new initiates might serve U.S. exporters and Latin American industrialists better by taking a more active part in official U.S. trade missions.

The paucity of medium-term exporter guarantee and insurance operations in trade with Brazil points up the need for reappraisal of these programs in a situation where they are faced with serious financial instability, convertibility difficulties, and foreign exchange shortages. Many Brazilian industrialists cannot operate without industrial imports. Inaction characterized both the exporter guarantee and insurance programs during the first years of the Alliance, when statism was markedly aggressive, official banks notably unsympathetic to local entrepreneurs, and private Brazilian industry seriously in need of outside financial assistance. In the six-month period that ended December 31, 1962, no FCIA medium-term insurance was made available for U.S. exports to Brazil. The exporter guarantee program could not operate without approval of both the Eximbank and a private financial institution, and the former's approval became most difficult to obtain at the time when U.S. banks faced the greatest risks. Of course, the situation in Brazil was such as to justify special caution on the part of the Eximbank. Nonetheless, there are indications that U.S. banks and suppliers would have been willing to assume their share of the risk on a reduced volume of Brazilian purchases. Under medium-term comprehensive guarantees to U.S. financial institutions, Eximbank approved only nine guarantees on products destined for Brazil during the same six months in which it approved 27 for Uruguay, 37 for Argentina, 46 for Mexico, and 47 for Peru. The population of Brazil is greater than that of these four countries combined.

Brazil is too important a country to be omitted from either Eximbank programs or the Alliance for Progress. Inconvertibility and lack of foreign exchange persist like a nagging toothache for thousands of medium and large Brazilian industrialists. External financial aid packages—such as the provision for dollar credit to be distributed by the Banco do Brasil—are not necessarily the best way to help private enterprise. Without assuming improbable financial improvements in Brazilian domestic affairs, there is still room for revision of the medium-term export guarantee and insurance programs which will lead to more effective operation in Brazil. A recommendation on these programs is presented in the final section of this chapter.

The new exporter guarantee and insurance programs were not designed to satisfy, and by no means are satisfying, the entire import needs of Latin American private industrialists.[8] Industrialists everywhere suffer from the shortage of long-term and extended medium-term financing (exceeding five years). The reluctance of U.S. and European private financial institutions to engage intensively in the longer-term credit field grows partly out of the twin fears of inflation and of exchange controls. Foreign private banks do participate in portfolio loans made by international financial agencies and guaranteed by Latin American governments. Thus, they underwrite imports destined for state enterprises. By omitting provision for longer-term coverage in this category, however, the new U.S. programs effectively favor state enterprise over private enterprise.

In addition to helping to finance the trade of Latin America with the rest of the world, foreign private financing should aid the development of inter-Latin American trade. Latin American governments complain that there is little practical financial assistance available to those native industrialists who wish to increase exports into the LAFTA region. This contention should not obscure the fact that for decades U.S., European, and Latin American private banks have been financing inter-Latin American trade for medium and short terms. Beginning January 1, 1964, Latin American manufacturers wishing to export to other countries in the area could avail themselves of new funds, appropriated by the Inter-American Development Bank, for medium-term (six months to five years) financing of industrial exports.

[8] The relationship of import capacity and balance of payments to native industrialists is analyzed in Chapter V.

Additional Foreign Private Instrumentalities

Businessmen and firms from different countries can and do cooperate through common institutions to improve the climate for private enterprise in Latin America. Some of the possibilities of improving this private international cooperation are briefly reviewed here.

Foreign private capital supports a number of voluntary business advisory groups to promote improved relations with Latin American businessmen. Resident businessmen of the same foreign nationality share membership with their Latin American counterparts in chambers of commerce dedicated to advancing mutual interests of the respective foreign and national groups; business chambers corresponding to U.S., British, French, German, Italian, Belgian, Dutch, and Japanese interests are extensively organized from one Latin American country to the next. Several private associations established in the United States and in Europe seek improved trade and commerce with specific Latin American countries. Businessmen of individual states in the United States maintain regular institutional ties for this purpose with their Mexican counterparts.

Other appropriate private associations are representative of wider business interests abroad. The Inter-American Council of Commerce and Productivity —represented on one side by Latin American business chambers and on the other by the United States Inter-American Council (USIAC)—promotes interchange of ideas on private enterprise through its biennial meetings (held at Montevideo in 1960 and Santos in 1962) and through regular staff activities. The Business Council for International Understanding finances several programs aimed at upgrading managerial competence in Latin America. The European Committee for Cooperation with Latin America (CECAL), organized through the initiative of the International Union of Christian Business Executives, held a meeting at São Paulo, in November 1963, to promote the formation of a corresponding "Latin American Committee for Cooperation with Europe." The Development Assistance Committee of the Organisation for Economic Cooperation and Development is exploring ways of improving relations between investors of the entire North Atlantic area and Latin America. Pooling the capital and talents of Latin American, European, Japanese, and U.S. businessmen, the newly organized Atlantic Community Development Group for Latin America should tend to improve relations between foreign and Latin American capital.

Enlightened business leadership in Latin America is, of course, also served by world-wide private associations in which Latin Americans participate along with businessmen of other nations, such as the International Chamber of Commerce, the International Junior Chamber of Commerce (recently presided over by a Mexican business executive), and the International Committee for Scientific Management (CIOS).

While these organizations have done much to improve relations between foreign and Latin American private capital, they have found it difficult to establish a basis for cooperation with national governments and with agencies of the Alliance for Progress. They are very seldom consulted by Alliance organs on decisions vital to the present and future role of private initiative. With little if any consultation with the private sector, governments set national goals, decide national plans, and determine disposition of foreign assistance.[9] It may be added that free trade unions, private agriculture, and the professions usually receive similar treatment. In consequence, business groups and responsible individual entrepreneurs inside and outside Latin America find it hard to support the Alliance wholeheartedly. They feel that its attitude toward private enterprise is at best passive. They believe that it exhibits insufficient interest in providing institutional means for the expression of private initiative's perspective on Alliance policies and programs.

However, it should be noted that the predicament of private enterprise is partly self-inflicted. The private business community inside and outside Latin America unrealistically expects governments to solicit views of groups that are likely to censure the very governments that provide them with these opportunities. This expectation applies even to enlightened business leaders who have promoted the constructive measures mentioned earlier, and to other entrepreneurs who obviously have learned a great deal from the dialogue on past mistakes and future development needs sparked by Castroism and the Alliance for Progress. But their attitude is unrealistic in the context of Latin American politics and inter-American relations. Latin American political elites know that foreign public assistance from hemisphere agencies imposes few conditions with respect to treatment of private enterprise. They know that provision for satisfactory payment for expropriated properties is really the only prerequisite concerning protection of U.S. private investment that the U.S. government normally places on its loans and grants to Latin American governments. Extremists can manipulate Alliance mechanisms for special purposes and arouse the belief that the tide of history is running against private enterprise. These pressures are effective in part because private business communities inside and outside Latin America have been reluctant to engage in *constructive* discussion within Alliance organs. In short, private capital, foreign and local, has been centering its attention too much on how the Alliance works against private enterprise and too little on devising practical institutional means for making private investment contingent on a voice in Alliance processes. "Tides of history" may be unchecked because of a lack of constructive dikes and the willingness to take initiative in building them.

The private business community can take a positive step to acquire the voice it desires and should have in Latin American development by launching an autonomous Latin American development institute aimed at strengthening and promoting enlightened private enterprise within the framework of the Alliance. Details of the projected organization and operation of the institute are spelled out at the end of this chapter.

A final proposal for strengthening the contribution of foreign private capital to Latin American private investment is the creation of a series of

[9] Improvements in development planning are proposed in Chapter III.

binational committees composed of business, labor, agricultural, and professional leaders of the United States and individual Latin American countries. Businessmen on both sides of the Rio Grande have placed too much reliance in the past on policy statements reached without consultation of other sectors who have a stake in enlightened private enterprise. Details of this proposal are also explained on the following pages.

Recommendations: Improving the Contribution of Foreign Private Capital to Latin American Private Industrialists

- *Better understanding between foreign-owned manufacturing plants in Latin America and their domestic counterparts should result from adherence to the 15 guidelines on conduct of foreign firms enumerated in this chapter* (page 84).
- *Further implementation of the proposals to improve the flow of U.S. private investment in Latin America submitted by the Commerce Committee for the Alliance for Progress (COMAP) would help U.S.-owned manufacturing plants in Latin America to improve their contribution to promoting and strengthening native-owned industrial enterprise.*
- *Establishment of a special* ad hoc *Brazilian Fund within the Eximbank program of medium-term export guarantees to U.S. financial institutions (adjustable to the exigencies of Brazilian conditions, and possibly within its medium-term exporter insurance program as well) would appear to be an important step toward improving the contribution of U.S. private capital to Brazilian private industrialists.* Implementation of the *ad hoc* fund may require the channeling of U.S. government assistance funds for Brazil through the Eximbank. U.S. government assistance tied to repayment of credits extended to Brazilian private industrialists would assist them, yet would avoid the burden of additional dollar exchange.
- *Liberalization of the Eximbank short-term and medium-term export guarantee and insurance programs and introduction of an extended medium-term exporter guarantee program would help the flow of import requirements for Latin American private industrialists.*
- *Foreign private banks and other private corporations should participate in the establishment and expansion of private investment banks serving private industrial investment and regional economic integration in Latin America.*
- *The U.S. business community should assume initiative in establishing an "executive service corps" or "industrial peace corps" that will recruit businessmen to serve as management consultants to small and medium industries in Latin America.* Latin American industrialists welcome the idea of hiring a volunteer business executive from the United States on a consultant basis. They need skilled administrators possessing firsthand experience in small and medium enterprises and who are capable of suggesting improvements on the spot. A nongovernmental organization, such as the Business Council for International Understanding, would seem admirably suited to coordinate

recruitment in cooperation with counterpart organizations in the respective Latin American countries. Volunteers should be recruited especially from among middle-aged U.S. businessmen managing enterprises that basically can run themselves. The volunteer should receive compensation in the form of local currency charged against the Latin American company employing his services and supplementary grants from the nonprofit organizational sponsor or perhaps even from a U.S. government aid agency.

- *Foreign private investment can do a great deal more in financing low-cost housing for industrial workers throughout Latin America.*
- *Latin American divisions of multinational private corporations and Latin American private manufacturers should formulate for official government action proposals applying the principle of compensatory reciprocity of trade to regional economic integration.*
- *Foreign private banking institutions and manufacturing companies should take the initiative in setting up a series of binational committees made up of business, labor, agricultural, and professional leaders of the United States and individual Latin American countries.* Businessmen on both sides of the Rio Grande have placed too much reliance in the past on policy statements reached without consultation of other sectors who have a stake in enlightened private enterprise. Such committees should aim at increasing public understanding of the outlook and programs believed mutually beneficial. A hemisphere-wide committee probably would prove less adaptable to developing solutions for problems in the common interest of two countries since conditions and problems differ so markedly among Latin American countries. These binational committees could meet twice a year, once in the United States and once in the Latin American country involved. Financing the work of these committees should be shared by private sources and foundation grants. Duplication of U.S. membership on the several committees is less important than attracting leaders of stature, competence, and interest. The experiment may begin fruitfully with the establishment of a Brazil–United States Committee, a Mexico–United States Committee, and an Argentina–United States Committee. A model of successful collaboration is provided by the Canadian-American Committee sponsored jointly by two nonprofit research organizations, the Private Planning Association of Canada and the National Planning Association of the United States.
- *Private business communities both in Latin America and abroad can take a positive step in acquiring the voice they desire and should have on Latin American development by launching an autonomous Latin American development research institute aimed at strengthening and promoting enlightened private enterprise within the Alliance.* Endowed from the outset by private groups and foundations in a way that would ensure independence from the pressure of private interests, such an institution should seek consultative status with organs corresponding to Alliance programs. Its sponsors—including representatives of industry, commerce, trade unions, professions, and other groups dedicated to responsible private enterprise—and a permanent staff of highly professional personnel should lend sufficient continuing prestige to

make its deliberations carry authority in Latin America and abroad. Its major function should consist of evaluating national and regional development plans in relation to possible contributions from and impacts on private economic decision making. Foreign and domestic private investment already in Latin America, as well as potential new investment and public agencies, are in real need of competent evaluations of Alliance programs.

The proposed institution should engage in other activities. It could collect and publish basic statistical data on the region, introducing research materials normally unavailable to governments. It should collaborate with business, labor, agricultural, and professional groups directly concerned with Latin America, whether exclusively Latin American, or foreign, or mixed. It could lend competent professionals to assist the local Alliance business advisory committees proposed in Chapter III. Staff members should deliver lectures at Latin American universities, armed forces institutes, trade union federations, professional societies, and wherever else opportunities are created for appropriate lectures on economic development and political sociology. Ongoing research should: appraise the progress of regional economic integration in terms of impact on private initiative; explore feasible measures by which state enterprises and private enterprises can work more effectively together; examine the role of international agencies in shaping Latin American economies in ways affecting the ownership mix; analyze true causes and effects of expropriation; and correct false and misleading interpretations of the historical role of foreign private capital in Latin American development, with special attention to basic textbooks in Latin America no less than U.S. texts on Latin American history, economics, and political sociology. Above all, it should elaborate policies and programs devised to help private investment increase its participation in the development of Latin America.

V

Recommendations for Foreign Governments and International Agencies to Strengthen Latin American Private Enterprise

The success of policies and programs of the U.S. government, other governments, and international aid agencies that would give promise of materially strengthening the growth of Latin American private enterprise within the framework of the Alliance for Progress depends on three major considerations. First, it depends on the amount and type of aid provided by foreign governments and international agencies. Next, it requires a cooperative attitude on the part of Latin American governments regarding the acceptance and use of such assistance. These considerations in turn interrelate with the capacity of Latin American recipients to utilize assistance effectively. In this chapter, as in preceding chapters, analysis of private entrepreneurship centers on industrial development.

The amount of anticipated assistance from foreign governments and international agencies is suggested by a provision in the Alliance Charter for "a supply of capital from all external sources during the coming ten years of at least $20 billion." Subsequent to signing the charter at Punta del Este, U.S. officials have asserted that the $2 billion annual average in external assistance should be apportioned among U.S. public funds ($1.1 billion); funds from international aid institutions, such as the IBRD, IMF, IDB, and the UN ($300 million); U.S. private capital ($300 million); aid and investment from Europe and Japan ($300 million). Some Latin American governments anticipate, or are receiving, additional assistance from outside public sources—from Japan, the governments of European countries, other Latin American countries, and even from the Soviet Union and its satellites. However, except for Cuba and a few colonial dependencies, total Latin American expectations on the amount of assistance from the U.S. government and international agencies clearly exceeds the amount of assistance anticipated from other external sources.[1]

[1] Statistics on U.S. economic assistance to Latin America for 1960–63 are given in Appendixes XIV, XV, and XVI.

The amount of resources forthcoming from the U.S. government and international agencies is clearly important to the fulfillment of the objectives of the Alliance, but there are also qualitative considerations. By setting a higher priority on immediately productive enterprise, foreign assistance programs can accelerate growth in ways that could lead to diminishing the reliance of several Latin American countries on foreign assistance.

Private initiative may benefit less from the initiation of new aid projects than it would from elimination of some existing assistance programs. Eugenio Heiremans, Chilean industrialist, emphasized this point at the third meeting of the Board of Governors of the IDB, April 1962. He contended that Latin America, "with its heavily subsidized government-owned enterprises, consumes resources and virtually throttles the development of private enterprise," and that this and other "evils are frequently encouraged by the credit policies of international banks which, perhaps seeking the greater formal security of loans to a state, neglect private enterprise." Their policies suggest to Heiremans that the "flow of foreign credit has become another powerful artificial incentive in the process, leading state activity to displace private enterprise." This sort of problem in aid administration cannot be resolved by a simple quantitative formula.

The second important factor is the degree to which Latin American governments support a climate favorable to private enterprise. An upswing of public support for private initiative in any one of several Latin American countries could reduce the need for foreign assistance.

Curiously, Latin American entrepreneurs often ignore the origin of the controls and limitations placed on foreign assistance by their own governments. From time to time, they assail the source of foreign assistance for conditions that should be attributed to their own governments or even to themselves. Private enterprise in Latin America can and should do a great deal more in shaping foreign assistance programs by increasing its participation in the determination of domestic government policies. The outcome of issues explored in Chapter III on government and business in Latin America will be a fundamental determinant of the need for and effectiveness of foreign assistance.

The third major consideration is the capacity of Latin American recipients for effective absorption of external assistance. In this connection, it is worthwhile to refer to a recent report of the IDB in which needs are reviewed:

> It [the $2 billion figure] is less than 2.5 percent of the most recent estimate of the gross national product and about 12 percent of gross capital formation of Latin America as a whole. It may be compared to the net flow of foreign long-term capital and grants to Latin America which averaged about $1.4 billion during the last 5 years and to a gross flow which seems to have reached approximately $1.7 billion per year. It is substantially less than most projections of the need for foreign capital support. For example, if it is assumed that the achievement of a 2.5 percent annual growth rate in per capita income requires an increase in the rate of capital formation from 17 to 19 percent of the region's gross national product and it is further assumed that 12 percent of

annual capital formation would come from abroad, the requirements for external resources would amount to about $23 billion over the next ten years. The first over-all country programs submitted to the Committee of Nine experts as provided for in the Charter of Punta del Este contain estimates of foreign exchange requirements that would seem to indicate that the $2 billion figure is modest. Finally, that figure can only be regarded as reasonably adequate if a further substantial deterioration in Latin America's terms of trade can be avoided through new forms of inter-American and international collaboration in the field of commodity stabilization.[3]

There is a growing body of opinion that contends that the effective use of capital in any country is largely determined by the stock of appropriately skilled manpower. It follows that industrial development is impossible without progressive specialization and broadening of the educational system. The precise relationship between education and entrepreneurship is much less evident. Why is entrepreneurship more pronounced in one society than in another? Why has greater education not always led to greater private initiative and decentralized economic decision making? Numerous studies help us understand the role of education and technology. None tell us how to create an entrepreneur, much less how to accelerate creativity in mixed-ownership economies.

This is at once a dilemma and a challenge facing international agencies and foreign government aid programs. It should also concern private foundations providing assistance for manpower improvements in Latin America. Education should not be propaganda, nor should it be indoctrination, though at times these may become confused with education. Education should be aimed at encouraging individual thought and developing individual skills to provide a much wider range of opportunities for persons to express their desires and actions and in so doing assist their country's development. Raising the level of education is indispensable for supporting a dynamic, expanding private sector. A supply of trained manpower, from top management to technicians and semiskilled workers, is the core of entrepreneurial activity.

All three of the foregoing considerations—the capacity of foreign governments and international agencies to assist domestic private enterprise, the attitudes of Latin American governments toward such assistance, and the absorption capacity of Latin American recipients—affect the future of domestic private enterprise in each of the countries of Latin America. The recommendations that follow cannot do justice to these considerations in a way that is equally valid for all the countries, or even for the six countries on which this assessment focuses. Neither can they do justice to all fields of activity in which foreign governments and international agencies show promise for strengthening private enterprise. They do draw together proposals made in previous chapters and treat in some detail actions

[3] Inter-American Development Bank, *Proposal for an Increase in Resources of the Inter-American Development Bank, Report of the Board of Executive Directors to the Board of Governors* (Washington, D.C., 1963), pp. 4–5.

necessary to the promotion of Latin American private enterprise in the areas of development of human resources, infrastructure and industrial raw materials, regional economic integration, and inflation and payments balances.

Recommendations of Previous Chapters

Foreign governments and international agencies can assist local entrepreneurs, Latin American governments, and foreign private enterprise in strengthening private initiative. These outside agencies should encourage the financing of small and medium-size industries by relatively low-interest, medium- and long-term loans; the broadening of stock ownership; improved managerial techniques; greater emphasis on lower unit costs, lower prices, improved products, and increased efficiency; the identification of local entrepreneurs with local community development; and greater overt participation of entrepreneurs in politics and development planning.

An awareness of the support which foreign governments and international agencies can give to domestic business in Latin America may grow through new approaches to the machinery for development planning. The Alliance for Progress could secure increased support for its plans for economic and social progress by providing more effective channels for the expression of the views of business. At the same time, the plans themselves would benefit from the excision of unrealistic elements and provision for alternative courses of action. These improvements should appear at the stages of both initial planning and subsequent modification.

Another approach is to undertake a continuing effort to prevent public corporations from swamping the private ones. Outside agencies need to ask themselves the kinds of questions suggested in Chapter III: What are the probable effects of the total ownership-mix on entrepreneurship, self-reliance, individual freedom, and economic growth? What improvements are required in the management, social responsibility, and efficiency of state enterprises? How can the shortage-of-capital problems of private industry be reduced without solutions tending substantially to displace local private banking communities? What changes are required to make government controls of business aim at strengthening—not weakening—the operation of responsible private initiative?

In collaboration with Latin American governments, outside agencies can support industrial counseling and information teams, productivity centers, and management training institutes. A recently released AID study has called for establishment of an Executive Service Corps to send U.S. businessmen to developing nations, including Latin American countries. The Corps would recruit men 55 or older, whose experience fits them for the task of imparting managerial and accounting skills.

Foreign governments and international agencies can also work with foreign private capital in improving its contribution to strengthening Latin American private initiative. They can foster better relations between foreign-owned manufacturing plants in Latin America and their domestic counterparts.

Further implementation of the proposals to improve the flow of U.S. private investment submitted by the COMAP Committee to the Department of Commerce would help U.S.-owned manufacturing plants in Latin America improve their contribution to promoting domestic industrial enterprise. Implementation of these proposals would also help U.S. private institutions expand low-cost housing projects for industrial workers, relieving in the process some pressures on local industrialists to divert funds from directly productive purposes. Exporter credit and insurance procedures of the Eximbank should increasingly facilitate the import trade on which Latin American private industrialists are dependent.

Several additional sectors of activity in which foreign governments and international agencies can facilitate the growth of private initiative received little treatment in previous chapters. For this reason, and because these additional sectors also appear to be crucial to strengthening local private enterprise, the remainder of the chapter is devoted to them.

Development of Human Resources and Private Initiative

While the volume of material on educational, managerial, and technical requirements in Latin America is rapidly expanding into avalanche proportions,[8] very little of it is related directly to strengthening private, decentralized economic decision making. Drawing upon responses elicited during the survey described in Chapter II and Appendix IV, the following steps are recommended:

• *Design assistance programs to encourage Latin American educational systems to adopt programs of instruction which stimulate creativity on the*

[8] See Special Commission for the Programming and Development of Education, Science and Culture in Latin America (OAS Task Force on Education), *Development of Education in Latin America—Prospects for the Future, Final Report* (Washington, D.C.: Pan American Union, 1963). Several of the 15 supporting studies commissioned by the Task Force deal with subjects appropriate to private entrepreneurship: Institute for the Study of Economic and Social Development of the University of Paris (IEDES), *Development Prospects for Education in 19 Latin American Countries, 1960/1970*; J. Shearer and M. Glazer, in cooperation with ECLA, *Estimate of Latin America's Needs for High-Level Manpower in 1970*; E. Babino, *Technical Education and Professional Training;* I. Rodríguez Bon, *Higher Education in Latin America;* I. Raw and J. Tola, *Science Education in Latin America.* In addition, there are reports of the meetings of the OAS Conference on the Exchange of Persons in the Americas (San Juan, Puerto Rico); Seminar on Educational Travel (Bogotá); the Second Meeting of Directors of Programs of Technical Cooperation in the Western Hemisphere (Washington); Latin American Directors of Planning Programs for the Development of Human Resources, Conference on Education and Economic and Social Development in Latin America (Santiago, March 1962); and of the Joint UNESCO-OAS Committee. Material on the training of manpower in Latin America regularly appears in annual reports of the Inter-American Meeting of Ministers of Education, Social Progress Trust Fund, Agency for International Development, Council for Higher Education in the American Republics, Inter-American Economic and Social Council, UNESCO, ECLA, UN Technical Assistance Program, Latin American Institute for Economic and Social Development Planning, and of the Secretary-General of the OAS.

part of students and a recognition that worthwhile accomplishments can be made by individuals at all social and economic levels of society. The traditional Latin American educational system is not career oriented. It does not emphasize that a person goes to school in order to do something constructive and worthwhile by improving his earning power. It also tends to neglect the importance of the many different ways by which an individual can make a contribution to the community or nation in which he lives. To raise a good crop, repair an automobile, or operate a machine in a factory have in them elements both of personal satisfaction and of contribution to the country which are as necessary and sometimes as valuable as becoming a lawyer, a poet, or a government bureaucrat.

• *Make room in exchange-of-persons programs for the training of potential entrepreneurs in factories and business offices abroad.* Exchange programs emphasize formal qualifications in selecting candidates for further study in colleges and universities outside the applicant's home country. Much as this emphasis may advance other objectives of economic and social development, it precludes training abroad for young factory and office workers who lack formal education yet exhibit high potential for entrepreneurial activity. Any number of tomorrow's entrepreneurs are working in factories and offices today; they are not college students. Carefully devised programs aimed at enhancing the abilities of this group through on-the-job training abroad would seem just as fruitful as liberal education of formally qualified students. Colleges and universities in Latin America rarely combine education with simultaneous direct participation in industry.

• *Improve research and training in economics in order to promote understanding of the forces engendering economic and industrial growth.* The economics and business administration curricula in Latin America are woefully out of date and much too rhetorical. Economists do not equip their students with the tools they might use for such purposes as determining the optimum size of a farm or a business firm, deciding where firms should be located, evaluating the returns versus the costs of adopting new technologies or adding new enterprises, expanding markets for products, or answering the hundreds of other questions which make up a good portion of today's microeconomics. Much less do they teach their students the guiding principles for managing the nation's monetary supply. Economics in Latin America—and this is equally true of other subjects in the curriculum—is not a problem-posing and problem-solving discipline. Social scientists of Latin America live in mixed economies and should be thinking about how to operate them efficiently and encourage them to grow rapidly. Therefore, a fundamental task facing external agencies providing assistance to Latin American social scientists is encouraging them to train their students to think about problems on which managers of firms must make decisions and assisting the social scientists themselves in acquiring the modern analytical tools which will help in answering some of these problems.

• *Help ascertain future requirements for skilled and unskilled industrial manpower in the several Latin American countries.* It is easy for local educational planners to overemphasize literacy programs at the expense of technical and vocational training. With limited financial resources available for education, planning must set high priorities on technical and vocational training, particularly at the secondary level. Assessments of future requirements for skilled workers and technicians will provide a sound basis for determining expenditures on education by external agencies and local authorities. Technical, industrial, and trade schools under predominantly or exclusively state auspices should coordinate instruction with the basic needs of the private and public sectors of the nation. It is extremely important that Latin Americans become cognizant of their future manpower needs and the opportunities which vocational and higher education and applied industrial research offer to the development of their countries. This suggests the importance of integrating literacy campaigns with programs for manpower training and community development.

• *Use incentives to encourage Latin American students to concentrate on technical and scientific studies.* Problems created for Latin American development by low student enrollments in relation to school-age populations are further compounded for Latin American industrialization by the amazingly high proportion of students enrolled in law, social sciences, and the humanities. Statistics on the 19 Latin American countries that belong to the OAS indicate that in 1960 enrollment in industrial schools (technicians and skilled workers) accounted for only 9 percent of the 3,837,000 students enrolled in secondary schools while enrollment in law, social sciences, and the humanities accounted for almost 50 percent of total enrollment in the universities.[4]

• *Promote applied research programs promising direct benefits to the industrial sector of the economy.*

• *Select aid program industry officers and industrial consultants having expertise in industrial management.* Industrialists virtually everywhere in Latin America share a common desire for the kind of in-plant assistance which management consultants sent out under foreign aid programs have been attempting to provide. Latin American industrialists want personnel who possess intimate knowledge of manufacturing, preferably those having firsthand experience in small and medium-sized enterprises. They seem to prefer skilled technicians and skilled administrators who will suggest improvements orally instead of consultants who prepare lengthy written recommendations after returning home. The consultant firm, trade association contingent, and productivity team appear less attractive than the individual trouble shooter. Preferences of local industrialists thus would seem admirably suited to the "industrial peace corps" recently proposed by David Rockefeller.

[4] *Development of Education in Latin America—Prospects for the Future, Final Report,* pp. 41, 47. Enrollment at Latin American institutions of higher learning in 1960, according to this report, was distributed among various areas of specialization as follows: agriculture 2 percent; fine arts 3 percent; exact and natural sciences 4 percent; education 4 percent; humanities 11 percent; social sciences 17 percent; engineering 18 percent; law 20 percent; medical sciences 21 percent.

Infrastructure, Industrial Raw Materials, and Private Industry

Industrial development is impossible without power resources, raw materials, and transportation media. Despite the notable progress of Argentina, Brazil, and Mexico in manufacturing heavy equipment, Latin America must import much of the machinery required for road building, railroad transportation, mineral extraction, and electric power generation. Impediments placed on private investment in basic utilities and the extractive industries of several Latin American countries limit the scope of help available from private sources. In the larger Latin American countries, much of the basic economic plant is owned and managed (and usually inadequately financed) by government. Hence, consideration of basic services and raw materials for industry, whether for private or state manufacturing enterprises, involves questions about the relationship of private enterprise to government (reviewed in Chapter III). Foreign aid is unavoidably involved in decisions which affect this relationship. There are several ways in which foreign aid programs can strengthen the role of domestic private enterprise in the framework of Alliance for Progress objectives.

• *Build roads, generally in preference to railroads.* Construction of a national system of highways, feeder roads, and penetration roads usually promises greater proportionate returns to private enterprise and the economy as a whole than does parallel investment in further extension of railroads. It is necessary for Latin America to import rails and rolling stock. (The exceptions to this are Argentina and Brazil in the case of rails, and Argentina in the case of most rolling stock. Mexico constructs some rolling stock but not power locomotives, and Brazil has closed its sole plant making boxcars.) In most parts of Latin America, railroads are a monopoly, and rail freight transportation is exceedingly slow in contrast to truck transit. Government must finance both roadbed and equipment in the case of railroads, whereas private entrepreneurs could finance the bulk of equipment for highways. Road building utilizes domestic resources and spurs domestic automobile manufacture and assembly. Roads also offer opportunities for vigorous trucking competition, which favors producers and consumers, and for the encouragement of thousands of small independent entrepreneurs running filling stations, garages, and construction firms.

A case in point is the proposal to acquire outside financing for the establishment of a unified, coordinated, uniform-gauge railway system to facilitate Central American regional rail transportation. A "uniform, coordinated railway system" is certainly preferable to a chaotic and uncoordinated one. Nevertheless, external public agencies contemplating provision of credits for such a monumental undertaking should consider the effect of their loans: exacerbating the foreign debt of the region more than would be necessary for construction of an extensive system of national highways and penetration roads; continuing drains on the foreign exchange necessary to purchase rolling stock and rails abroad, in contrast to mainly local purchase of materials required for building and maintenance of roads;

channeling scarce resources into the purchase of railway equipment for a state enterprise in contrast to purchase of automobiles, trucks, and buses to be owned by private individuals and private companies; constructing a means of transport invariably costlier than road transport except where heavy, low-cost bulk freight is hauled (Central American trade would seem to promise minimal freight of this sort); operating an isthmian railway which would probably incur higher costs, because of the mountainous terrain, than generally prevail elsewhere; and on the basis of experience in Argentina, Brazil, and Mexico, bringing into existence powerful labor syndicates that may promote featherbedding, in contrast to the encouragement of thousands of small independent firms auxiliary to a road system.

Improving transportation facilities and lowering costs by extension of either roads or railroads will benefit both industrialists and transport, for lowered transport costs can be reflected in lower industrial costs, increased sales, and enlargement of the commercial traffic needed to support transport. However, an extensive network of highways and feeder roads promises much more in the way of economic development and responsible private entrepreneurship per unit of expenditure than does a network of railroads.

• *Make loans to railroads conditional on prior financial, administrative, and labor reforms.* If Latin American railways, now almost totally owned by governments and administered by quasi-autonomous authorities, were to subsidize private shippers as much as they do passenger fares and freight traffic of state enterprises, railways and private industry might prove more complementary. Year after year, Latin American railways pile up huge deficits with their discriminatory rates.[5] Charges of inefficiency include the fostering or condoning of featherbedding, managerial ineptness, inordinate delays in delivery schedules, and widespread issuance of free passes to government and trade union officials as well as to railroad employees and their families and friends. Cooperation of foreign and international aid agencies with local government authorities in establishing stiffer conditions on loans to these semi-autonomous entities might be effective and might in the process perform a great service to private enterprise.

• *Improve and extend facilities for transmission of electric power and increase generating capacity.* In those countries of Latin America where state ownership of electric utilities prevails, negotiations of local governments with foreign and international aid agencies set decisive limits on the scope and location of power-using industries. Enterprising businessmen outside the big industrial areas who are interested in promoting a new industrial venture are often unable to carry out their plans in the provinces without electric power. The ready access of Latin American governments to the credit lines of external public lending agencies, along with economic nationalism, inflation, and other factors, have doubtless assisted in gradually pushing privately owned utilities out of Latin America. Whatever and whoever are the causes, the significant point is that foreign governments and

[5] For examples, see Chapter I.

international financial institutions have been increasingly displacing foreign and domestic private capital in the determination of Latin America's power needs.

This shift is associated with the extensive financial assistance provided by external public sources. Up to March 31, 1963, the World Bank--the biggest single international agency financing electric power facilities—had made 48 electric power loans in 13 Latin American states to a total value of $936.5 million. The Eximbank, AID and its predecessor agencies, and the IDB have also provided substantial credits. Since July 1961, these four financial sources have made loans exceeding $500 million for electric power development in Latin America—the World Bank $406 million, IDB $48 million, AID $28 million, and Eximbank $25 million. European governments have also financed electric power facilities in Latin America. There is also direct financing by the Soviet bloc of an electric power project outside Cuba—the $26 million credit (for seven years at 3 percent interest) recently extended to Brazil by Copek, Poland's state enterprise, for constructing a 200,000 KW thermoelectric power plant in Rio Grande de Sul.

Despite this assistance and equally impressive though diminishing outlays by private utility companies, demand for electricity persistently exceeds generating capacity. Small and medium industrialists, in particular, complain virtually everywhere in Latin America about the frequency and length of interruptions of power supply, stressing the adverse consequences on industrial equipment, goods in process, and labor costs. Interruptions quite commonly last for days in provincial areas and the outlying districts of metropolitan centers. To meet these emergencies, some industrialists install their own power-generating equipment, incidentally raising overhead costs. The prohibitive cost of duplicating distribution lines in order to provide a greater margin of safety against interruptions emphasizes the necessity for improvement in existing facilities.

A comprehensive assessment of the interrelation of electricity, population, and ownership would require deeper reflection and field research than this study permits. However, one may wonder whether the apparent preference of external agencies for financing giant public electricity projects, instead of a series of smaller, decentralized power developments, does not restrict private enterprise, just as it discourages a wider geographical distribution of industrial entrepreneurship and a broader ownership distribution of electric utilities. Decentralization of electricity supply can be achieved both by installation of small units in the interior and by installation of large generating projects in new provincial areas. These would strengthen small local utility companies owned, or to be owned, by municipalities, immediate users, cooperatives, private sources, and joint private-local government ventures. Implementation of this approach will require initiative on the part of external agencies. The IDB, on its own or as executing agency for the OAS, AID, and Eximbank, may meet this challenge by improving its competence in the field of smaller electricity facilities, just as the World Bank, on its own and/or as executing agent for the UN Special Fund, amply qualifies for the evaluation and promotion of big electric power plants.

External agencies may provide additional stimulus to private and decentralized economic decision making by inducing Latin American governments to adopt more realistic policies on private electric companies. The unwillingness of private utility companies to expand generating and distribution facilities stems directly from unrealistic regulation of rates by local governments. Manufacturing plants typically adjust prices to inflation, whereas electric utilities are often prohibited from doing so. Outside agencies may help by inducing Latin American governments to arrange for escalation of power prices in step with the cost of living or the exchange rate. The successful utility laws and contracts which Chile and Peru have with private companies offer an appropriate model. These contracts permit rate adjustment and remittance of profits at an agreed upon rate of return on invested capital. In contrast to the general trend in Latin America, private capital is invested in electric power expansion in Chile and Peru.

• *Promote extractive industries and industrial undertakings using domestic raw materials.* A supply of industrial raw materials on a continuous, reliable basis is indispensable to strengthening private industry. Resource inventories, such as the ECLA study of forest resources in Latin America and AID's survey of Colombia's mineral resources, alert industrialists to availability, location, and quality of raw materials, and sometimes lead to investment. External public agencies may also encourage local entrepreneurship by conducting feasibility studies aimed directly at promoting investment in industries using local natural resources, such as AID's project assisting Venezuela to identify new industrial opportunities utilizing natural resources other than petroleum. External agencies may find it useful to support such inventories, surveys, and studies with financial assistance to local producers.

Small and medium industrialists, in particular, suffer as much from poor quality domestic raw materials as from insufficient and irregular deliveries. Private industry increasingly requires standardized agricultural and mineral commodities. Dependable crushing, concentrate, and separation installations are in short supply in mining. The need for industrial raw materials includes nonmetallic minerals—a sector especially neglected in some Latin American countries—no less than metallic minerals, a sector long beset by unattractive mining laws and political maneuvering.

Regional Economic Integration

Activity along two lines is proposed to foster economic growth in Latin America by accelerating regional economic integration and at the same time encouraging private initiative.

• *Any strategy of Latin American economic integration developed for industry as a whole or for industrial subsectors should incorporate the interests of private entrepreneurial activity.* Unlike the steady advances toward bringing about a common market in Central America, the LAFTA nations are progressing very slowly with the industrial integration of their economies. Awareness of the general benefits of regional integration has proved insufficient to overcome economic nationalism. Although convinced that wider markets are increasingly important in sustaining growth, each member of LAFTA must still be convinced of the particular benefits which will accrue to it from integration of specific industrial subsectors.

ECLA has made an excellent start on appraising the feasibility of integration by completing surveys on the pulp and paper, chemical, textile, iron and steel, electric equipment, automotive products, railway equipment, and naval heavy equipment industries. Additional sectoral studies of this quality are desirable. Related studies now under way by the OAS and the Brookings Institution (Washington, D. C.) should provide further sectoral inventories. However, some of these studies lack the desired policy orientation and also leave unanswered the questions of precisely which member country should build a new industrial enterprise, what would be the probable effects on the individual economies of other LAFTA members, and, above all, what would be the probable consequences for private initiative. There is a need for studies projecting realistic alternatives for governments and private enterprise.

Developing comprehensive integration strategies would require analysis of those products which cannot be produced for the domestic market of any single LAFTA nation before the conclusion of the Alliance 10-year program because minimum economic plant size exceeds the local market. It is estimated that annual investment in capital goods in Latin America will triple during 1960–75, increasing from $2.6 billion in 1960 to over $8 billion in 1975. With proper attention to comparative economic advantages and complementarity, such an analysis could lead to investment schedules proposing the assignment of specific industrial projects to specific Latin American countries. Such schedules should indicate probable economic gains and losses to each LAFTA member. Integration strategy might also include tariff concessions by Argentina, Brazil, and Mexico not only to Ecuador and Paraguay (as the case is today) but to Chile, Colombia, Peru, and Uruguay as well. For purposes of promoting private initiative, however, any integration strategy should invite the views of representatives of the Association of Latin American Industrialists, of its affiliated chambers, and of multinational corporations operating in Latin America.

• *Encourage and devise imaginative projects supporting economic and industrial growth that hold promise of drawing Latin American nations, and regions within countries, closer together while respecting the aspirations and capacities of private initiative.* Economic integration can also be served without direct reference to LAFTA and CACM. One step in this direction is the provision of refinancing for inter-Latin American industrial exports. Procedures for this program already have been approved by the IDB, and an initial fund of $30 million was earmarked for this purpose from the IDB's regular resources, starting January 1, 1964. Another step is the IDB loan for studying the feasibility of linking Bolivia, Colombia, Ecuador, and

Peru by a 3,720-mile highway bordering the Amazon jungle. Still another is the support of economic integration of regions within nations, such as the Cauca Valley in Colombia, the Grijalva River basin in Mexico, the Guayana region in Venezuela, and Northeast Brazil.

A regional multilateral payments clearing mechanism may also be needed. As long ago as 1949, ECLA requested the IMF to prepare a report on the feasibility of establishing such a mechanism. At that time, the IMF evaluation was unfavorable, stressing that "the effort involved would most certainly be out of proportion to the benefit received." At the request of LAFTA, the IMF is now preparing a new study on prospects of a regional payments mechanism; and the IDB, CEMLA, ECLA, and organs of the OAS also have expressed interest in the establishment of such a mechanism.

Alliance mechanisms, particularly the IDB, should encourage and devise regional projects. The obviously advantageous position of Venezuela for building an extensive petrochemical complex serving Latin American markets has been insufficiently explored on a regional basis. External agencies should increasingly support the program of accelerating the integration of border regions—Colombia-Venezuela, Argentina-Paraguay, etc. Much assistance from outside agencies will also be necessary to bring about greater integration in the Caribbean. Further examination of national development plans submitted to Alliance organs may reveal opportunities for the creation of binational industries. To repeat an earlier observation, planning of new regional projects should respect the views and interests of private enterprise.

Inflation, Payments Balances, and Private Industry

High on any list of problems that U.S. public and international agencies must be prepared for in South American countries are inflation and balance-of-payments deficits. In the first year of the Alliance, roughly 40 percent of all public funds made available to Latin America by U.S. and international agencies went for direct support of payments and budgetary deficits. This application of aid has reduced its effectiveness in financing productive enterprise.[6] Emergency stopgap programs, geared to national survival, fit neatly into the traditional behavior patterns of Latin American political leaders. They provide front-page headlines praising the personal dedication of individual government officials who are credited with acquiring new foreign credits. They put off programs requiring self-discipline until some indefinite future date, preferably until a new administration enters office.

In Argentina and Brazil, during the first two years of the Alliance, efforts aimed at improving payments balances and at keeping inflation within reasonable bounds should have included more than stopgap measures. A program of financial self-discipline and cooperation with international monetary

[6] It is traditional to assume that inflation is a deterrent to savings and investment; however, some specialists present a strong case for the reverse in Brazil. See Chapter II and Appendix XVII.

institutions would have been useful. From a perspective of promoting real industrial growth in Latin America, allocations for emergency survival purposes should be increasingly conditioned on measures to improve payments balances and the monetary situation.

Several policy guidelines are proposed, with the understanding that their relevance to any specific country may vary substantially:

• *Measures on balance of payments should be devised to bring about:* expansion of exports to the rest of the world; import substitution; increase in short-term capital inflows that support productive investment; increases in foreign public assistance for productive activities, especially those which yield foreign exchange savings or earnings in excess of foreign debt service; increases in foreign private investment in productive enterprise yielding foreign exchange savings or earnings in excess of investment income remitted abroad; and increases in inter-Latin American trade.

• *Steps to control inflation should be devised which will avoid industrial stagnation and provide adequate incentives and institutional procedures to attract savings into private industry and agriculture.* Despite pledges to international financial institutions and foreign governments, Latin American governments continue to temporize in controlling rampant inflation. So long as this situation exists, Latin American private industrialists will continue to pass through severe crises. There is a real need for Alliance mechanisms to coordinate outside assistance with programs designed to keep inflation within reasonable bounds. If the IMF did not exist, a substitute conscience for fiscal sanity in Latin America would have to be invented. But it is not enough for the IMF to keep plugging away at the problem of inflation; assistance from foreign governments, regional organs, and other international agencies is needed. National development plans should be subjected to independent reviews by personnel competent to consider their relation to the control of inflation and the support of private entrepreneurial activity. An instrumentality such as the nonprofit private institute proposed in Chapter IV might be suitable.

• *Consolidation of the short-term debts of Argentina and Brazil appears to be a necessary prelude for new foreign credits and foreign private investment, especially from Western Europe.* The "Paris Club" has arranged such consolidations in the past. A high-level industrial conference held at Berlin in June 1963 proposed the consolidation of all Latin American debts with Europe. U.S. private financial institutions and the Eximbank await constructive action in the case of Brazil. Without consolidation of the large short-term foreign debt of Brazil, domestic political forces advocating a moratorium may have their way and, in the process, bring on disastrous consequences for Brazilian private enterprise. Realistic treatment of Brazil's foreign debt is needed—accompanied by necessary additional programs, including supervision of efforts to restrict expansionist monetary tendencies.

Although the IMF heretofore has abstained from proposing procedures for comprehensive service of Latin American short-term foreign debts, it is recommended that AID and the Eximbank jointly request the IMF to examine ways and means of consolidating Latin America's short-term foreign debt and the probable consequences of this for domestic private enterprise. The appraisal should evaluate consolidation of the short-term foreign debts of Argentina and Brazil separately from the rest of Latin America. AID may wish additionally to request representatives of the Eximbank, the U.S. Treasury Exchange Stabilization Fund, and the Federal Reserve Board to undertake a complementary evaluation restricted to the question of Latin American short-term debts with the United States.

• *Export earnings should be increased by all practical means.* Whether or not the terms of trade are unfavorable to Latin America depends upon the base year selected. Certainly in the years between the end of the Korean War and the second half of 1962, the ratio of prices of primary products—which make up the bulk of Latin America's exports—to those of manufactured goods declined considerably. In the second half of 1962 continuing through 1963 and early 1964, however, prices for most Latin American commodities experienced a decided upturn, resulting in trade balances favorable to Latin America. It is also important to observe, as a recent report [7] points out, that a decline in the buying power of primary products is overstated in the decline of commodity export prices because a considerable proportion of Latin American imports consists of primary products other than those which each country individually exports. Prices of primary products affect imports as well as exports; hence, a drop in an export commodity price may also benefit a Latin American private industrialist who imports the commodity.

Further progress in stabilization of world commodity prices depends on the joint deliberations of producer and consumer nations. Advanced industrial importing nations must be willing to pay reasonable prices. At the same time, excess world production should encourage Latin American countries to bring supply down to demand levels, as Mexico is attempting to do in the case of 20 percent of its sugar crop by diverting lands to crops yielding higher returns. Meanwhile, the new compensatory financing program of the IMF does provide facilities for obtaining loans whenever an economy suffers from temporary declines in export earnings through forces beyond its control. Although the program is unhampered by the IMF's normally stringent requirement for domestic corrective policies, it is not automatic. The $60 million drawing by the Brazilian government in June 1963 represented the first instance of compensatory financing under the new program.

There is still no suitable substitute, however, for increased efficiency and comparative export advantage. U.S. assistance should promote productive enterprises with high foreign exchange savings per unit of investment cost. The fishmeal industry in Peru offers a good example of the kind of enterprise desired. Petroleum and petrochemical products in Venezuela,

[7] International Monetary Fund, *Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1963* (Washington, D.C., 1963), pp. 57–59.

copper products in Chile, and meat products in Argentina and Brazil may also have high potential.

• *The new IMF training program in central banking, budget, and fiscal procedures, together with its plan to make monetary experts available to member countries should go far in providing the kind of expertise that is in such short supply in Latin America. Alliance organs should encourage Latin Americans to avail themselves of these services.* Domestic private entrepreneurship may also profit from greater emphasis in present course offerings and course content of the parallel training program conducted under the joint auspices of CEMLA and the IDB, or from initiation of new programs aimed at this goal.

Actions by governmental, international, and foreign organizations are necessary to the promotion of private enterprise in Latin America, but all may prove ineffective unless private entrepreneurs also take measures of the sort described in Chapter II and elsewhere. Today, native businessmen dominate small and medium industry and still hold a small proportion of large industry. Their current prevalence gives them a large part of the responsibility for future developments. Whether or not they make a real contribution toward realizing the social and economic aspirations of their communities is likely to determine not only their own future but also that of freedom itself in Latin America.

Appendixes

APPENDIX I

Basic Economic Data for Latin America

Country	Population: 1963 (thousands)	Population: Rate of Growth 1961 (percent)	Total Area (thousands of sq. miles)	Agricultural Land, 1961: As Percent of Total Area	Agricultural Land, 1961: Acres per Capita	GNP, 1961* ($ millions)	Per Capita Income* 1961 (dollars)	Literacy 1960 (percent)
Argentina	22,117	1.7%	1,084	52%	17	$ 7,700	$379	86%
Bolivia	3,966	2.3	424	13	9	437	113	31
Brazil	77,800	3.1	3,280	15	4	13,546	186	50
Chile	8,184	2.3	286	8	2	3,506	453	80
Colombia	16,821	2.9	440	16	3	4,300	283	62
Costa Rica	1,298	3.9	20	19	2	420	344	88
Dominican Republic	3,318	3.5	19	26	1	680	218	43
Ecuador	4,726	3.0	112	12	2	810	182	60
El Salvador	2,684	2.6	8	58	1	550	220	43
Guatemala	4,096	3.0	42	19	1	680	175	30
Haiti	4,432	2.1	11	31	1	300	71	10
Honduras	2,161	3.0	43	25	4	395	207	35
Mexico	38,279	3.1	760	48	6	11,280	313	56
Nicaragua	1,638	3.4	57	10	2	325	213	40
Panama	1,145	3.0	29	13	2	460	416	83
Paraguay	1,906	2.4	157	3	2	236	130	68
Peru	11,854	2.3	514	11	3	2,062	181	50
Uruguay	2,917	1.6	72	83	14	1,290	450	88
Venezuela	8,128	3.4	352	23	7	5,290	692	51

* GNP data not adjusted for inequalities in purchasing power among countries.

Source: For population, Economic Commission for Latin America (United Nations), *Boletín Económico de América Latina, Suplemento Estadístico*, Vol. VII, No. 1, 1962, pp. 6–7. For other data, Agency for International Development and Department of Defense, *Proposed Mutual Defense and Assistance Programs FY1964* (Washington, D.C.: Government Printing Office, 1963).

APPENDIX II

Estimates and Projections of Latin American Population

(thousands of inhabitants at mid-year)

Country	1940	1950	1960	1961	1962	1963	1965	1970	1975	1980
Argentina	14,169	17,189	20,956	21,338	21,725	22,117	22,909	24,937	27,068	29,334
Bolivia	2,508	3,013	3,696	3,778	3,863	3,966	4,136	4,658	5,277	6,000
Brazil*	41,114	51,976	70,600	72,900	75,300	77,800	82,900	96,700	111,400	126,800
Chile	5,063	6,073	7,627	7,810	7,995	8,184	8,576	9,646	10,882	12,300
Colombia	9,094	11,334	15,468	15,908	16,360	16,821	17,787	20,514	23,774	27,691
Costa Rica	619	801	1,171	1,212	1,254	1,298	1,390	1,651	1,960	2,327
Cuba	4,566	5,508	6,797	6,933	7,078	7,224	7,523	8,307	9,146	10,034
Dominican Republic	1,674	2,131	3,014	3,098	3,216	3,318	3,554	4,221	5,013	5,954
Ecuador	2,466	3,197	4,317	4,455	4,579	4,726	5,036	5,909	6,933	8,080
El Salvador	1,633	1,868	2,442	2,520	2,601	2,684	2,859	3,346	3,917	4,585
Guatemala	2,201	2,805	3,765	3,868	3,980	4,096	4,343	5,053	5,906	6,942
Haiti	2,983	3,380	4,140	4,234	4,330	4,432	4,645	5,255	6,001	6,912
Honduras	1,146	1,428	1,950	2,017	2,088	2,161	2,315	2,750	3,266	3,879
Mexico	19,815	25,826	34,988	36,091	37,166	38,279	40,602	47,022	54,485	63,231
Nicaragua	825	1,060	1,477	1,529	1,583	1,638	1,754	2,083	2,474	2,938
Panama	620	797	1,055	1,084	1,114	1,145	1,209	1,387	1,591	1,823
Paraguay	1,111	1,397	1,768	1,812	1,858	1,906	2,007	2,296	2,645	3,065
Peru	7,033	8,521	10,857	11,180	11,511	11,854	12,585	14,681	17,238	20,371
Uruguay	2,155	2,407	2,827	2,860*	2,889*	2,917*	2,970*	3,104*	3,231*	3,355*
Venezuela*	3,710	4,974	7,331	7,588	7,853	8,128	8,707	10,320	11,600	13,355
Total	**124,450**	**156,130**	**206,246**	**211,762**	**218,326**	**224,583**	**237,798**	**273,830**	**313,797**	**358,976**

* Excludes jungle population.

Source: Economic Commission for Latin America (United Nations), *Boletín Económico de América Latina, Suplemento Estadístico*, Vol. VII. No. 1, 1962, pp. 6–7.

APPENDIX III

Index Numbers of Industrial Production in Latin America*
(1958 = 100)

Activity	1938	1955	1960	1961	1962
Manufacturing, Total	35	83	112	120	122
Light manufacturing	44	90	109	115	116
Heavy manufacturing	25	76	116	125	131
Food, beverages, tobacco	40	85	107	111	112
Textiles	46	99	112	116	112
Clothing, footwear and made-up textiles	—	—	—	—	—
Wood products, furniture	—	—	—	—	—
Paper and paper products	27	77	109	122	127
Chemicals, petroleum, and coal products	24	76	118	128	138
Nonmetallic mineral products	23	85	114	119	124
Basic metals	35	82	112	117	124
Metal products	21	68	116	129	131
Electricity and gas	22	75	114	126	132
Mining, Total	33	84	112	114	122
Coal	50	89	96	107	107
Metal	59	95	117	114	114
Crude petroleum and natural gas	24	81	112	115	126
Manufacturing, electricity and gas, and mining industries, Total	34	83	112	119	123

* Central and South America and the Caribbean Islands.

Source: United Nations, *Monthly Bulletin of Statistics*, Vol. XVII, No. 8, 1963. "The index numbers for major groups of the International Standard Industrial Classification (ISIC), or combinations of these major groups were computed as weighted arithmetic averages of the corresponding indexes for the constituent countries. The base years of the index numbers are 1958 for 1955 and thereafter, 1953 for 1950—1954, and 1948 for 1949 and earlier years; and value added, generally at factor cost, during each of these base years was utilized in weighting."

APPENDIX IV

Sources for Survey (used in Chapter II)

The discussion of Latin American industrialists in this chapter is based primarily on a survey carried out as part of the research for this study. A total of 506 entrepreneurs in Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela were interviewed by the author, and were asked to respond to a questionnaire.

Initial lists of potential interviewees in each of the nations to be visited were assembled in the United States from suggestions of businessmen, and government, university, and international agency specialists. Final lists emerged after consultation in each country with acknowledged business leaders, local and foreign, with personnel of U.S. missions, and with local government, labor, and university specialists. The sample was distributed equally among industrialists of the three sizes of industrial enterprise. A special effort was made to include industrialists believed to exhibit pronounced qualities of dynamic entrepreneurship. Interviews were extended by visits to the industrial plants associated with 346 of the interviewees.

Additional sources are mentioned in the Preface. These include: unpublished case studies accumulated from university seminars conducted by the author over the past six years in Mexico; biographical data supplied by private and public financial institutions; preliminary findings of an unpublished OAS study on social matrices in Brazil; and a survey of Argentine businessmen carried out by the DiTella Foundation in Buenos Aires. Further assistance came from studies of individual firms and, as noted in footnotes to the text of the chapter, from three studies on private entrepreneurship in Latin American countries.

APPENDIX V

Firms Included in the Assessment of After-Tax Net Profit as Percentage of Total Capital Employed of 41 Locally Owned Business Firms in South America, 1958–62

Inclusion of firms in the sample depends on the availability of reliable data. Firms included in the sample are: *Argentina*—Atanor, Alpargatas, Cía. Química, Bagley, Celulosa Argentina, San Martín del Tabacal; *Brazil*—Brahma, Cia. Nitro-Química Brasileira, Kibon, Matarazzo, Orquima, Quimbrasil; *Chile*—Yarur, Textile Viña, Fábrica de Panos, Cía. Industrial, Cía. Sudamericana de Vapores, Manufacturera Sumar, Azúcar de Viña del Mar, Distribuidora Nacional, Galletas Mac-Kay, Hucke Hnos., Farmo-Química del Pacífico, Manufacturera de Papeles y Cartones, Chilena de Navegación Interoceánica; *Colombia*—Nacional de Chocolates, Fábrica de Galletas Noel, Sintéticos, Manuelita, Avianca, Ingenio Providencia, Coltejer, Fabricato, Tejicondor; *Peru*—Industrias Químicas Básicas, Rayón Peruana, Minera Atacocha, Volcán Mines, Fábrica de Tejidos "La Unión," Empresa Agrícola Atacocha, Industrias Reunidas.

APPENDIX VI

National Planning Institutions and National Plans in Latin America

Country	Central Planning Institution	Year Established	Name of National Plan	Period of Execution
Argentina	Grupo Nacional y Regional de Planeamiento*	1963	(four-year plan in preparation)	—
Bolivia	Secretaría Nacional de Planificación y Coordinación	1963	Plan Nacional de Desarrollo Económico y Social	1962–71
Brazil	Asesoria Técnica de la Presidencia	1963	Plan Trienal de Desarrollo Económico y Social	1963–65
Chile	Corporación de Fomento de la Producción†	1941	Programa Nacional de Desarrollo Económico	1961–70
Colombia	Consejo Nacional de Política Económica y Planeación	1958	Plan General de Desarrollo Económico y Social	1961–70
Costa Rica	Oficina de Planificación de la Presidencia	1963	(various sectoral plans in preparation)	—
Dominican Republic	Junta Nacional de Planificación y Coordinación	1962	(two-year and four-year plans in preparation)	—
Ecuador	Junta Nacional de Planificación y Coordinación Económica	1954	Plan General de Desarrollo Económico y Social	1964–73
El Salvador	Consejo de Planificación y Coordinación Económica	1962	(five-year plan for 1965–69 in preparation)	—
Guatemala	Consejo Nacional de Planificación Económica	1954	(five-year plan for 1965–69 in preparation)	—
Haiti	Conseil Permanent d'Action de Liberation Economique	1963	Le Demarrage (an emergency plan)	1963–64
Honduras	Consejo Nacional de Economía	1955	(five-year plan for 1965–69 in preparation)	—
Mexico	Dirección de Planeación Nacional de la Secretaría de la Presidencia	1961	Plan de Acción Inmediata	1962–64
Nicaragua	Oficina Nacional de Coordinación y Planeamiento Económico y Social	1961	(five-year plan for 1965–69 in preparation)	—
Panama	Dirección General de Planificación y Administración	1959	Plan de Desarrollo Económico y Social	1963–70
Paraguay	Secretaría Técnica de Planificación del Desarrollo Económico y Social	1962	(short-range plan in preparation)	—
Peru	Instituto Nacional de Planificación	1962	(five-year plan for 1965–69 in preparation)	—
Uruguay	Comisión de Inversiones y de Desarrollo Económico	1960	(two-year investment program for 1964–66 in preparation)	—
Venezuela	Oficina de Coordinación y Planificación Económica	1958	Plan de la Nación	1963–66

* Coordinating body of the separate Consejo Nacional de Desarrollo (1961) and Consejo Federal de Inversiones (1959).

† Plan implementation is in the hands of the Comité de Programación Económica y Reconstrucción (COPERE) established in 1960.

APPENDIX VII

Availability of Investment Guarantees in Latin America, March 15, 1964

Country	Convertibility	Expropriation	War Risk
Argentina	Yes	Yes	Yes*
Bolivia	Yes	Yes	No
Brazil	No	No	No
Chile	Yes	No	No
Colombia	Yes	Yes	Yes*
Costa Rica	Yes	Yes	No
Dominican Republic	Yes	Yes	Yes*
Ecuador	Yes	Yes	Yes*
El Salvador	Yes	Yes	No
Guatemala	Yes	Yes	No
Haiti	Yes	Yes	No
Honduras	Yes	Yes	No
Mexico	No	No	No
Nicaragua	Yes	Yes	Yes
Panama	Yes	Yes	Yes
Paraguay	Yes	Yes	No
Peru	Yes	No	No
Uruguay	Yes	Yes	No
Venezuela	Yes	Yes	Yes*

* Includes guarantees against loss due to revolution and insurrection.

Source: Investment Guaranties Division, Office of Development Financing, Agency for International Development.

APPENDIX VIII

Net Capital Flow of Direct U.S. Private Investment to Latin America ($ Millions)

Activity	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
Manufacturing	-71	27	69	96	102	63	54	125	77	114
Mining and smelting	124	3	-4	58	131	76	73	-73	32	-3
Petroleum	69	-23	56	363	862	147	24	-7	30	-115
Other	15	63	46	101	68	13	67	50	34	-28
Total	137	70	167	618	1,163	299	218	95	173	-32

Source: U.S. Department of Commerce.

APPENDIX IX

Sales by U.S.-Owned Manufacturing Plants in Latin America ($ Millions)

Activity	1957	1959	1960	1961	1962
Food products	608	740	750	780	820
Paper and allied products	55	60	70	85	120
Chemicals	499	590	620	820	1,000
Rubber products	239	260	280	300	300
Primary and fabricated metals	111	100	100	160	160
Machinery, excluding electrical	66	80	100	115	110
Electrical machinery	190	190	240	300	375
Transportation equipment	375	470	710	770	785
Other products	292	340	310	440	520
Total	2,435	2,830	3,180	3,770	4,190

Source: U.S. Department of Commerce.

APPENDIX X

U.S. Direct Investment in Latin America (excluding Cuba)
(Values in $ Millions)

Year	Net New Direct Investment: All Industries	Net New Direct Investment: Manufacturing	Year-End Book Value: All Industries	Year-End Book Value: Manufacturing	Earnings (after local taxes): All Industries	Earnings (after local taxes): Manufacturing	Earnings as Percentage of Book Value — Reported Basis: All Industries	Reported Basis: Manufacturing	Adjusted for Additional U.S. Tax on Dividends*: All Industries	Adjusted for Additional U.S. Tax on Dividends*: Manufacturing	Adjusted for Additional U.S. Tax on Dividends *and* Unrealized Exchange Loss for Currency Depreciation: Manufacturing
1950......	$ 38	$ 60	$3,803	$ 726	$ 546	$ 99	—	—	—	—	—
1951......	169	111	4,151	919	743	164	19.5%	22.6%	18.1%	21.0%	—
1952......	298	79	4,679	1,088	757	151	18.2	16.4	16.9	15.3	—
1953......	142	-66	4,919	1,073	648	114	13.9	10.5	12.9	9.8	—
1954......	43	29	5,048	1,163	649	118	13.2	11.0	12.3	10.2	—
1955......	150	70	5,320	1,293	824	111	16.3	9.5	15.2	8.8	—
1956......	587	86	6,083	1,450	925	117	17.4	9.0	16.2	8.4	—
1957......	1,075	83	6,585	1,169	1,023	120	16.8	8.3	15.6	7.7	6.5%
1958......	279	61	6,894	1,210	714	98	10.9	8.4	10.1	7.8	4.3
1959......	155	53	7,164	1,285	745	113	10.8	9.3	10.0	8.6	6.8
1960......	95	125	7,431	1,499	829	146	11.6	11.4	10.8	10.6	10.2
1961......	173	77	8,255	1,686	964	170	13.0	11.3	12.1	10.5	8.1
1962......	-32	114	8,472	1,893	1,028	167	12.5	9.9	11.6	9.2	3.6
Av. annual % change (1955/57–1962)..	—	6.1%	5.9%	6.4%	1.8%	6.3%					

* To adjust for additional U.S. taxes on dividends, the rate of return was reduced by 7 percent. This adjustment was based on the assumption of a 50 percent payout and average tax rates (for the 10 Latin American countries included) of 36.3 percent on foreign income and 11.8 percent on foreign dividends.

Source: U.S. Department of Commerce, Commerce Committee for the Alliance for Progress, and Economic Research Department of W. R. Grace & Company.

APPENDIX XI

U.S. Direct Investment in Western Europe
(Values in $ Millions)

Year	Net New Direct Investment: All Industries	Net New Direct Investment: Manufacturing	Year-End Book Value: All Industries	Year-End Book Value: Manufacturing	Earnings (after local taxes): All Industries	Earnings (after local taxes): Manufacturing	Earnings as a Percentage of Book Value — Reported Basis: All Industries	Reported Basis: Manufacturing	Adjusted for Additional U.S. Tax on Dividends*: All Industries	Adjusted for Additional U.S. Tax on Dividends*: Manufacturing
1950	$121	$ 32	$1,733	$ 932	$272	$172	—	—	—	—
1951	64	21	1,989	1,074	312	194	18.0%	20.8%	17.5%	20.2%
1952	-6	11	2,153	1,194	317	169	15.9	15.7	15.4	15.2
1953	48	-1	2,375	1,310	328	189	15.2	15.8	14.7	15.3
1954	45	31	2,643	1,478	403	251	17.0	19.2	16.5	18.6
1955	130	53	3,002	1,685	503	280	19.0	18.9	18.4	18.3
1956	488	123	3,561	1,952	571	298	19.0	17.7	18.4	17.2
1957	287	120	4,151	2,195	582	306	16.3	15.7	15.8	15.2
1958	190	92	4,573	2,475	542	349	13.1	15.9	12.7	15.4
1959	484	244	5,323	2,947	667	450	14.6	18.2	14.2	17.7
1960	962	607	6,645	3,797	762	487	14.3	16.5	13.9	16.0
1961	725	233	7,713	4,232	837	530	12.6	14.0	12.2	13.6
1962	811	420	8,843	4,826	851	493	11.0	11.7	10.7	11.3
Av. annual % change (1955/57–1962)	11.9%	27.1%	16.3%	16.3%	7.5%	8.9%				

* To adjust for additional U.S. taxes on dividends, the rate of return was reduced by 3 percent. This adjustment was based on the assumption of a 50 percent payout and average tax rates (for the 14 European countries included) of 44.2 percent on foreign income and 8.1 percent on foreign dividends.

Source: U.S. Department of Commerce, Commerce Committee for the Alliance for Progress, and Economic Research Department of W. R. Grace & Company.

APPENDIX XII

U.S. Domestic Rate of Return

Year	All Industries (net earnings as % of net worth)	Manufacturing (net earnings as % of total capital employed)
1950	13.3%	14.6%
1951	11.4	12.1
1952	10.3	9.7
1953	10.5	9.6
1954	10.3	9.1
1955	12.0	11.6
1956	11.3	11.6
1957	10.6	10.0
1958	9.0	7.7
1959	9.8	9.5
1960	9.1	8.3
1961	8.7	8.0
1962	9.1	8.8

Source: For all industries, First National City Bank; for manufacturing, SEC-FTC data.

APPENDIX XIII

CALCULATION OF UNREALIZED FOREIGN EXCHANGE LOSS, 1957–62

A. Calculation of Average Depreciation

Country	Book Value of U.S. Manufacturing Investments, 1962			Percentage Increase in Number of Local Currency Units Required to Purchase $1 at *Free Rate* (year-end from previous year-end)					
	Amount ($ millions)	As % of Total Latin America	As % of Seven-Country Total	1957	1958	1959	1960	1961	1962
Argentina	$ 404	21.3%	22.1%	-1%	82%	24%	-1%	0%	62%
Brazil	611	32.3	33.4	38	55	42	3	54	109*
Chile	29	1.5	1.6	29	43	-5	0	0	129†
Colombia	102	5.4	5.6	9	32	-14	3	21	27
Mexico	448	23.7	24.5	0	0	0	0	0	0
Peru	44	2.3	2.4	1	28	13	-3	0	0
Venezuela	191	10.1	10.4	0	—	—	27	8	-1
Seven-country total	1,829	96.6	100.0	—	—	—	—	—	—
Other countries	64	3.4	—	—	—	—	—	—	—
Total LA (ex. Cuba)	1.893	100.0	—	—	—	—	—	—	—

* Unofficial street rate.

† Brokers' free rate.

Source: U.S. Department of Commerce, Commerce Committee for the Alliance for Progress, and Economic Research Department of W. R. Grace & Company.

B. Estimated Unrealized Exchange Loss as Percentage of Net Profits and Adjusted Rate of Return, Latin America (excluding Cuba)

	1957 (actual)	1958	1959	1960	1961	1962
Average % increase in the number of local currency units required to buy $1	14.0%	39.4%	18.7%	3.1%	20.0%	53.7%
Unrealized foreign exchange loss as % of net profits	16.0	45.0	21.0	4.0	23.0	61.0
Earnings as % of book value adjusted for additional U.S. taxes on dividends	7.7	7.8	8.6	10.6	10.5	9.2
Adjustment factor for unrealized loss	84.0	55.0	79.0	96.0	77.0	39.0
Earnings as % of book value adjusted for additional U.S. taxes on dividends *and* unrealized foreign exchange loss	6.5	4.3	6.8	10.2	8.1	3.6

Source: U.S. Department of Commerce, Commerce Committee for the Alliance for Progress, and Economic Research Department of W. R. Grace & Company.

APPENDIX XIV

U.S. Government Assistance to Latin America, 1960–63 Obligations and Loan Authorizations*

($ Millions)

	1960		1961		1962		1963	
	CY	FY	CY	FY	CY	FY	CY(Jan-June)	FY
Agency for International Development†	$197.9	$ 99.9	$310.5	$248.0	$ 448.8	$ 472.4	$372.0	$548.7
Export-Import Bank	340.8	111.9	408.5‡	570.7‡	151.7	244.9	70.3**††	86.2**
Food for Peace‡‡	95.5	66.9	99.5	129.3	218.1	154.9	64.9	182.5
Social Progress Trust Fund	—	—	116.6	—	206.9	224.4	27.8	124.9
Peace Corps	2.3	6.5	1.6	1.9	13.4	10.3	10.3	14.5
Total Assistance	$636.5	$285.1	$936.7	$949.9	$1,038.0	$1,106.9	$545.3	$956.8
Grants	198.7		159.9		316.5		179.8	
Loans	437.8		776.8		721.5		365.5	

* Excludes military assistance, U.S. Treasury compensatory financing, Eximbank debt rescheduling or consolidation credits and deferrals of transfer (CY 1961 = $305 million and CY 1963 = $75 million), Eximbank PL 480 Title I sales agreements for agricultural products intended for generation of local currency for U.S. uses, and Inter-American Development Bank capital subscription (CY 1960 = $80 million, CY 1961 = $110 million, CY 1962 = $60 million).

† Grant component is computed on a current basis, excluding effect of de-obligations and re-obligations.

‡ CY 1961 commitments do not include Eximbank credit #1571 totaling $92.1 million, which defers the transfer of repayments to Eximbank (received instead by the Banco do Brasil), and do not include $212.6 million outstanding of $454.2 million in credits (four credits consolidated), repayment of which was postponed and rescheduled, credit #1572.

** Excludes Eximbank refunding of maturities of $72 million.

†† Excludes Eximbank deferral of transfer of $2.6 million.

‡‡ Represents all sales agreements *less* that portion of PL 480 Title I which will result in generation of local currency for U.S. uses.

Note: Columns may not add to totals because of rounding.

Source: *Report Prepared by the Government of the United States of America for the Second Annual Meetings of the Inter-American Economic and Social Council at the Expert and Ministerial Levels, São Paulo, Brazil, October-November 1963* (Washington, D.C., 1963).

APPENDIX XV

U.S. Economic Assistance to Latin America, Calendar Years 1960–63 Grant and Loan Disbursements*
($ Millions)

	1960		1961		1962		Jan.-June 1963	
	Grant	Loan	Grant	Loan	Grant	Loan	Grant	Loan
Agency for International Development	$ 59.2	$ 24.9	$ 92.8	$107.7	$ 86.9	$190.6	$ 41.7	$145.7
Eximbank	—	164.4	—	487.3	—	309.7	—	94.5
Food for Peace†	76.5	—	162.4	—	117.6	10.8	85.2	13.4
Social Progress Trust Fund	—	—	0.1	0.9	0.6	21.9	0.4	32.0
Other‡	8.2	—	10.5	—	8.0	—	6.5	—
Total	$143.9	$189.3	$265.8	$595.9	$213.1	$533.0	$138.8	$285.6
Repayment of principal		158.1		140.6		162.0		54.8
Net disbursement		31.2		455.3		371.0		230.7
Total grant & net	$175.1		$721.1		$584.1		$364.5	

* Excludes Eximbank debt rescheduling and consolidation credits, military assistance, U.S. Treasury compensatory financing, PL 480 Title I deliveries estimated to result in generation of local currencies for U.S. uses, and U.S. subscription to Inter-American Development Bank. Includes Eximbank short-term credits (which seldom exceed 10 percent of Eximbank lending in any period).

† Total commodities under PL 480 Title I program are reduced by excluding that portion of total commodities which will result in generation of local currencies for U.S. uses.

‡ 1960–63 Inter-American Highway; 1962–63 Peace Corps.

Note: Columns may not add to totals because of rounding.

Source: *Report Prepared by the Government of the United States of America for the Second Annual Meetings of the Inter-American Economic and Social Council at the Expert and Ministerial Levels, São Paulo, Brazil, October-November 1963* (Washington, D. C., 1963).

APPENDIX XVI

U.S. Economic Assistance to Latin America: Commitments*

Activity	1960	1961	1962	1963	Total
Food and agriculture	10.7	47.4	92.6	73.7	224.4
Industry and mining †	51.4	26.6	74.6	48.4	201.0
Power and communications	70.4	0	10.7	21.7	102.8
Transportation	177.7	72.0	38.3	67.4	355.4
Labor	0.5	0.7	0.5	2.6	4.3
Health and sanitation‡	9.5	62.8	101.5	25.5	199.3
Education	5.6	11.7	40.6	21.4	79.3
Public safety and public administration	4.7	4.8	12.2	13.3	35.0
Housing, community development and social welfare	6.8	106.0	144.6	24.5	281.9
General and miscellaneous	5.8	2.1	18.9	12.7	39.5
Technical support	0.9	2.7	5.6	3.3	12.5

* Combined assistance of Agency for International Development, Export-Import Bank, and Social Progress Trust Fund. Breakdown of grant component by field of activity is estimated; project assistance loans do not include loans made for balance-of-payments assistance or general support of a development program.

† Includes fisheries.

‡ Primarily water and sewerage systems.

Source: *Report Prepared by the Government of the United States of America for the Second Annual Meetings of the Inter-American Economic and Social Council at the Expert and Ministerial Levels, São Paulo, Brazil, October-November 1963* (Washington, D.C., 1963).

APPENDIX XVII

BRAZIL: FREE EXCHANGE MARKET

(Dollar rate of sellers, Rio de Janeiro, 1953-64)

Free Market ('Official')

Monthly Weighted Average Selling Rate for the Dollar

	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
Jan.	—	54.20	75.06	72.57	66.27	95.50	146.69	189.31	219.45	318.00	475.00
Feb.	40.16	58.04	77.09	70.85	66.46	98.79	142.88	186.57	225.69	318.00	475.00
March ..	42.13	59.13	81.69	72.60	66.14	106.60	140.81	189.29	249.54	318.00	475.00
April ...	45.14	53.70	80.83	76.79	67.78	118.98	137.75	190.16	283.66	318.00	559.31
May	44.44	55.10	81.13	84.62	72.62	132.78	134.71	186.92	270.46	328.60	620.00
June	47.73	56.20	78.61	84.34	73.56	133.57	138.51	186.32	261.39	359.16	620.00
July	43.28	59.69	75.82	80.24	72.87	135.07	150.78	186.39	262.99	366.86	620.00
Aug.	39.67	63.30	73.72	76.45	76.53	142.95	154.10	186.87	269.60	410.78	620.00
Sept.	38.55	63.16	68.86	81.58	81.58	161.11	161.79	188.69	294.20	473.69	620.00
Oct.	42.40	64.70	69.13	68.[illegible]2	84.25	148.14	176.44	190.75	306.00 *	475.00	620.00
Nov.	49.83	71.86	67.23	67.75	91.43	141.19	192.11	191.40	(C)316.00 † (F)317.50 †	475.00	620.00
Dec.	55.45	76.14	67.73	66.10	89.61	137.86	202.66	204.13	(C)322.50 † (F)360.00 †	475.00	620.00

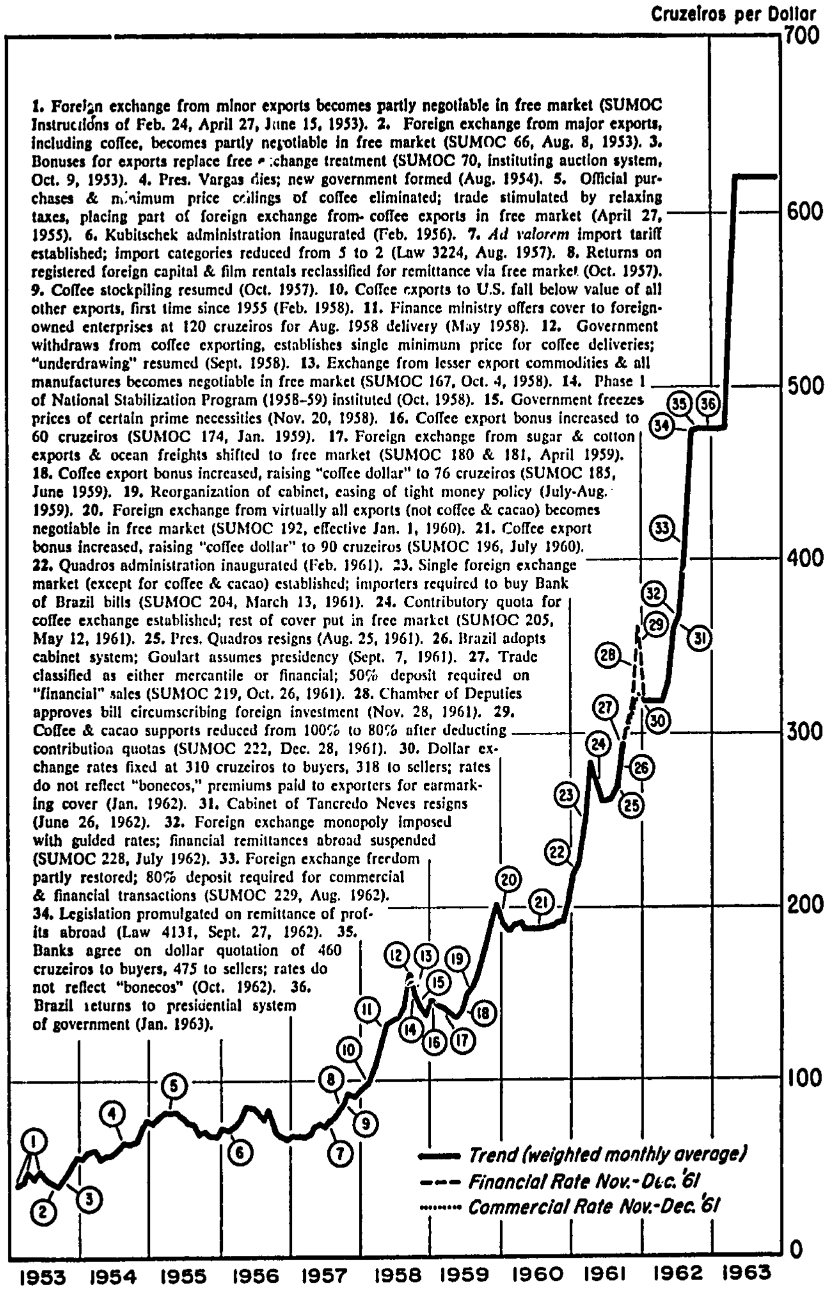
* Simple average of "high and low" for 17 days.
† Simple average of "high and low."
(C) Commercial
(F) Financial

Parallel Market ('Open Exchange')
(Not Charted)

Monthly Average Selling Rate for the Dollar

	1961	1962	1963
Jan.	—	368.50	789.00
Feb.	—	371.07	722.47
March	—	366.17	640.86
April	—	370.84	728.00
May	—	370.84	728.00
June	—	420.71	789.47
July	—	469.10	829.40
Aug.	—	581.38	897.00
Sept.	—	663.95	1,081.80
Oct.	—	646.65	1,136.60
Nov.	*355.45	681.05	1,089.70
Dec.	396.00	790.27	1,187.50

* Parallel market showed little variation from free market until November 1961.



Adapted from a chart originally prepared in Brazil by Eric F. Lamb, representative of J. Henry Schroeder Banking Corporation, New York, N. Y.

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7

Summary

The Development of Latin American Private Enterprise

by Frank Brandenburg

LATIN AMERICAN private enterprise can make a crucial contribution to economic growth and especially to democratic evolution in the countries of the region. Not only are private firms generally more efficient than public enterprises; they are also more apt to introduce innovations and to expand their operations where opportunities arise. The evolution of democracy is even more sensitively dependent on individual self-reliance and decentralized, private decision making. Given the long history of violent, authoritarian, and extremist politics, the development of private enterprise, along with independent farm, labor, professional, and other institutions, is especially important in Latin America.

The study examines private entrepreneurship in Latin America as a whole; however, it emphasizes industrial entrepreneurship in the six Latin American countries with the highest national product—Argentina, Brazil, Chile, Colombia, Mexico, and Venezuela.

What Latin American Entrepreneurs Can Do

There are many ways in which Latin American entrepreneurs can contribute to the development of their communities. In an effort to help identify them, a survey of over 500 businessmen was carried out. The survey reveals that business ownership in Latin America derives from an unusually wide spectrum of sources, financially as well as culturally.

Despite the varied origins of Latin American business ownership and a rate of ethnic assimilation of various groups generally high in comparison to other parts of the world, there is a recognizable pattern of life deriving in large part from the prevailing Iberian background. An important element derived from this background is the strong emphasis on family loyalty which leads to the exclusion of outsiders from responsible positions, no matter how much they might benefit the family firm. The sharp distinction between social friends and business friends reinforces this form of exclusiveness. This attitude is not conducive to the establishment or expansion of employee training programs in the older type of enterprise.

The business community's relations with labor unions are also hampered by these traditional attitudes. As a result, labor organizations have concentrated on obtaining concessions through legislation. Businessmen protest that much of this legislation is advanced even by Western European or U.S. standards; they say that welfare costs are eating up the profits which might otherwise be devoted to improving the physical plant and to new investment.

As far as government-industry relations are concerned, businessmen also object to the spread of state-owned corporations, with their high costs, low output, and administrative favor. They point to the frequency of graft among officialdom. In general, businessmen are on poor terms with their governments and are relatively inactive politically.

Restrictive attitudes and policies of both entrepreneurs and governments, along with other hard realities, are reflected in prevailing lower profit levels in Latin America, in contrast to Western Europe and even to the United States. After-tax net profits, as a percent of total capital employed, were as follows for 41 locally owned business firms in five South American countries: 1958—12.58%; 1959—13.94%; 1960—13.58%; 1961—11.44%; 1962—10.41%.

These figures suggest an element of mythology in the picture of huge fortunes to be made in Latin America. Also, the advent of Castroism coincided with a decline in the market value of securities.

The small scale of manufacturing enterprises means that they lack the credit, merchandising, and servicing facilities to compete in international markets. Only in the Central American Common Market has there been any real progress toward a preferential expansion of intra-regional trade. A similar preference system is now planned for the Latin American Free Trade Area where a series of industry-by-industry "complementation" agreements is being worked out.

Latin American entrepreneurs will serve their own best interests, as well as those of national economic and social development, if more of them will: 1) emphasize increased efficiency, lower unit costs, improved product, and lower prices; 2) acquire competence in modern management techniques; 3) give employees greater opportunities for educational, managerial, and technical training; 4) accompany these training programs with encouragement of employees to take on increased responsibilities in management and plant supervision; 5) consider the positive gains of broadening stock ownership; 6) assume greater participation in politics and development planning; 7) identify themselves and their industries with local community development; 8) recognize that attacks on responsible foreign private investment may have adverse consequences for domestic private capital; 9) accept the framework of the Alliance for Progress as the only probable alternative to state socialism and totalitarianism.

What Latin American Governments Can Do

The spread of nationalized industry is the largest single problem in governmental relations with private enterprise in Latin America. Other problem areas, such as taxation, labor legislation, and controls, have been extensively discussed in recent publications. The present study analyzes particularly the difficulties caused by the high proportion of government corporations.

For this purpose, a list of the 30 largest firms in Argentina, Brazil, Chile, Colombia, Mexico, and Venezuela was compiled. The distribution of ownership between governments and local and foreign private capital is given for each firm. In simplified form, the results are as follows:

	Government	*Domestic Private*	*Foreign Private*
Argentina	61.3%	20.5%	18.2%
Brazil	59.1	20.0	20.9
Chile	63.3	18.0	18.7
Colombia	54.1	39.1	6.1
Mexico	82.2	13.9	3.9
Venezuela	74.0	22.9	3.1
TOTAL	65.7	22.4	11.8

Development banks afford a channel through which governments can and do assist business to develop needed industries. These banks exist in various forms in each of the six countries. They vary considerably in policy: Nacional Financiera in Mexico provides an example of a development bank that has uninterruptedly placed relatively low priority on loans to private industry in contrast to its large commitment of resources to state enterprises; Corporación Venezolana de Fomento–Banco Industrial de Venezuela has introduced direct financing of private industry; COPEG, in the state of Guanabara, Brazil, offers an unusual example of a state bank working almost exclusively in the field of lending to private enterprise. The Inter-American Development Bank and AID are providing additional financing for banks of this type.

National development planning is another means by which governments could promote development without assuming ownership and management themselves. In Latin America, however, development planning as interpreted by some governments has become yet another weapon of bureaucratic expansion and has virtually excluded effective participation by the private sector. Of the few attempts to bring private enterprise into the planning process, procedures in Colombia and Venezuela appear hopeful.

What Foreign Private Investors Can Do

Foreign manufacturers are a direct channel for the transfer of production, managerial, and marketing techniques. Foreign banks play a significant role in financing the growth of local enterprise. Foreign enterprises increasingly should be mindful of the many ways by which they can improve their contribution to local social as well as economic life.

The joint equity venture offers promise in this respect. Combining domestic and foreign capital, joint ventures are found in larger numbers in Latin America than anywhere else in the world. They are not a panacea since at times other ownership forms are more appropriate, even inescapable.

In the field of banking, the success of the relatively new form of private development bank known as the *financiera* is modeled on practices employed decades ago in Germany and Spain, involving both equity investment and medium- and long-term loans. Effective operation of private *financieras* in Latin America dates back to 1941 in Mexico, 1959 in Colombia, and—as a predominantly industrial investment entity—1961 in Venezuela. French and Spanish banks acquired minority equity shares at the outset of Mexico's first private *financiera*; but none of the four largest U.S. banks purchased shares in a Latin American *financiera* before 1959.

Latin America is short of credit in many other forms, notably export and import financing. The Eximbank and Foreign Credit Insurance Association, as well as other foreign lending institutions, could make an important contribution by liberalizing and expanding this form of credit. The inflationary situation in Brazil requires special procedures for loans in that country.

Other measures which foreign private investors can consider include: the establishment of an "industrial peace corps"; the formation of binational committees to bring together local and foreign private capital; and the launching of a research institute to promote private enterprise in Latin America. Foreign firms which are active in more than one country in the area can also make a particular contribution toward regional integration.

What Foreign Governments and International Agencies Can Do

The success of policies and programs of the U.S. government, other governments, and international aid agencies that would give promise of materially strengthening the growth of Latin American private enterprise depends primarily on: 1) the amount and type of aid provided; 2) a cooperative attitude on the part of Latin American governments; and 3) the capacity to utilize assistance effectively.

The amount of resources from outside public sources is clearly important to the fulfillment of the objectives of the Alliance; yet by setting a higher priority on productive enterprise through replacing certain existing programs, foreign assistance programs can accelerate growth in ways that could lead to more vigorous and responsible private investment.

Aid programs need also to be designed with close attention to the absorptive capacity of recipient nations. While the Inter-American Development Bank has estimated that requirements for external resources amount to at least $23 billion over the next 10 years, the availability of skilled manpower is a critical bottleneck. Assistance to education should be designed to: 1) encourage adoption of programs of instruction which stimulate a recognition that worthwhile accomplishments can be made by individuals at all social and economic levels; 2) make room for the training of entrepreneurially promising employees in factories and business offices abroad; 3) improve research and training in economics in order to promote understanding of the forces engendering economic growth; 4) help ascertain future requirements for skilled and unskilled industrial manpower; 5) use incentives to encourage students to concentrate on technical and scientific studies; 6) promote applied research programs promising direct benefits to the industrial sector.

Worthy existing programs—the support of productivity centers and technical consultants to industry, the making of loans in special cases for relending to private enterprises, the providing of assistance in keeping inflation in bounds and in resolving serious balance-of-payments problems—should be continued.

Aid programs outside the field of human resource development could also be revised to be more helpful to private enterprise. For example, roads are preferable to railroads in that they are generally a more efficient and rapid means of transport in Latin America and offer opportunities for trucking competition and for thousands of small entrepreneurs running filling stations, garages, and construction firms.

Standardization and reliable continuous supply of industrial raw materials will become a reality sooner if greater external aid is earmarked for improving the extraction, grading, and transport of mineral resources.

Plans for developing electric power might also be more helpful to private enterprise if they were more decentralized. The prevailing shortage of power, together with its concentration in a few areas, operates in favor of state industries which receive the priorities.

Projects for regional development, including the support of industries serving regional markets and the fostering of preferential tariffs and payments mechanisms, are ways of furthering regional integration, which should be promoted with the cooperation of private enterprise.

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