Latin America in the 1970s


A Report prepared for
DEPARTMENT OF STATE
PREFACE

This report examines contemporary trends in Latin American development, with emphasis on the broad lines of evolution that may be expected in the decade until 1980. The papers contained in this study were originally presented at a conference at Airlie House in Warrenton, Virginia, May 12-14, 1972, attended by some 35 analysts from the government, business, and academic communities. They are collected here as modified by their individual authors in light of the discussions, which were frequently intense but remain off-the-record except as reflected in the papers themselves.

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SUMMARY AND INTRODUCTION
SUMMARY AND INTRODUCTION

This study seeks to identify broad regional trends likely to condition the environment of Latin American politics during the 1970s. The goal, in other words, is not the analysis of individual country situations, but rather the illumination of basic patterns in Latin America's recent evolution that may help provide fairly accurate intellectual images of the general directions of change in at least the major countries.

Such an ambitious undertaking is hazardous. Generalizations about a region so complex and varied are inherently dangerous. The inevitable exceptions to even the broadest generalization frequently create doubts about the overall interpretation. The emphasis that many analysts of Latin American affairs currently attach to understanding the problems of specific countries constitutes a generally healthy and useful reaction to past overgeneralizing.

But a sensible awareness of regional trends is also necessary. Partly as a result of common historical experiences and linkages, the individual countries of Latin America do share characteristics that invite generalization despite the difficulties. In particular, old and often erroneous images of Latin American development as a region tend to persist, and to interfere with the perception of emerging trends — within individual countries as well as in the region as a whole.

The images most prevalent during the 1960s tended to picture Latin America as a collection of traditional agrarian societies besieged by problems of population growth, urbanization, and political instability to a point that threatened their orderly transition from semi-feudalism to modernity. From this perspective, signs of change were frequently interpreted as indicators of a profound crisis that would bring turmoil and, possibly, lead to the emergence of totalitarian societies with which the United States could find little if anything in common.
While such images of revolutionary potential were stimulating the Alliance for Progress, other analysts were pointing out that Latin America was quite resistant to change. Instead, great conservatism and continuity were seen to inhere in its political culture and institutional practices, despite surface signs of instability. Such interpretations provided important correctives to the dominant images of revolutionary explosiveness, but were also of little help in interpreting the sometimes spectacular processes of change visible in many countries.

A Central Conclusion
The papers in this volume challenge both the revolutionary and the conservative images of development in the Latin American region, while offering an interpretation that combines elements from each. Our central theme is that Latin America's recent political struggles have contributed to the evolution of increasingly stable and sophisticated institutions that, in contrast to the past, are now providing determined leadership for moderate as well as radical reforms. Latin America continues to modernize, and the modern nation state, in Latin America as elsewhere, while essentially proof against social revolution, is also capable of change. Latin America's future will not be determined by the violence of groups outside existing institutions, but by the patience of persons using present social structures to build better ones. Policy innovations will normally be expressed in the form of reorientation of the goals and programs of existing institutions, frequently without a dramatic restructuring of the institutions themselves.

The struggle over the access to power, when it takes place within the framework of substantially developed societies, is not adequately described by the cataclysmic stereotypes of left and right. From this vantage point, the predominant earlier images of revolutionary explosiveness seem to have derived in the main from American fears and experiences in the Caribbean, overlooking the many diversities within the Latin American region itself and, perhaps most importantly, ignoring the many dramatic changes that had already taken place
in Latin America during the twentieth century. Two world wars, the depression, and more recent economic policies have helped to accelerate Latin America's industrial development to the point that important modern sectors coexist with the more traditional aspects of Latin American life. Contemporary tensions should thus be interpreted as occurring against a background not of weak, oligarchical societies unable to cope with them, but rather of steadily modernizing societies with important institutions whose interplay will be decisive in shaping future responses to the challenge of development.

Some General Trends

For a region whose history has been studded with the heroics of individual leaders and which has given us the term caudillo, perhaps the single most important contemporary fact is the inability of individuals alone to impress their will on the increasing complexity of institutions and social forces that have arisen. Even within the military institutions, a traditional source of individual caudillos, the troop commander who can convert armed force and individual popularity directly into national leadership is present only in the least developed countries. In the major South American countries and Mexico, military leaders operate within a bureaucratic setting, depending on their general staffs and on increasingly well trained and functioning officer corps. The Church, long a source of legitimacy for organized governments, has become increasingly diversified and simultaneously more involved in debates over national goals. Universities, long the refuges of elite elements, have multiplied and broadly expanded their enrollments. National governments, seeking to retain some measure of authority in fluid domestic and international environments, are everywhere expanding their activities and developing national planning institutes and other organisms of central control.

The fluidity of the contemporary Latin American scene is underscored by the rapid urban growth of Latin America's major centers. The inadequate housing occupied by many of the new urban migrants is a convenient symbol for social protests, and the aspirations of migrants and their children constitute a major factor in populist pressures.
visible, but perhaps more politically important, is the growing strength of previously silent or ineffective middle class groups who are exploiting the increased availability of higher education to challenge the ruling elites of Latin American societies on their own grounds, frequently by working through established institutions such as the military and the Church.

Industrial activity is growing rapidly, and is frequently neither as inefficient nor potentially as dependent as is commonly believed. Brazil's exports of manufactures and semi-processed goods have quadrupled since the mid-1960s and will soon approach a billion dollars annually. Similar progress in nontraditional exports appears possible at least in Argentina and Mexico. Despite the growth of these and other modern activities that cannot be dismissed under the label of "underdeveloped," and with the notable exception of some agricultural exports, traditional rural production has failed to keep pace, and contributes indirectly to population pressures and to highly visible social inequalities.

Uneven development, with increased differentiation between workers engaged in modern economic activity and the larger numbers in traditional semi-skilled pursuits, is a major source of social unrest. Nonetheless, though important elements of the population will remain largely as they are today, impoverished and underemployed, excluded from the progress of other sectors of the society, political instability seems likely to be checked somewhat by Latin America's growing institutional development. This is not a guarantee that radical changes will not take place, particularly if marginal sectors can enlist the political support of part of the elite. In Cuba, after all, revolution was largely imposed from above, after control of government was won by an alienated segment of the ruling elite allied with youthful elements of the middle sectors acting in the name of the population at large — but even in Cuba, revolutionary success required the conjunction of additional factors such as exceptional internal leadership and equally extraordinary external opposition and support.
Some Ambiguities

The complexity of the contemporary Latin American scene is underscored by the fact that these basic trends also contain striking elements of continuity.

The institutions, albeit demonstrating increased flexibility, remain the same that have traditionally dominated Latin American life. The military, the Church, and the growing government bureaucracies show no signs of being swept aside by mass forces organized by voluntaristic revolutionaries like Che Guevara or his emulators. Indeed, several of the papers suggest that forces of change are increasingly being expressed through Latin American institutions. This is to some extent a guarantee of change, but it is also an important element of social control and continuity.

Socially, although industrialization and agrarian change have greatly weakened the traditional landed gentry, the political destiny of Latin America is still in the hands of relatively small elites engaged in activities from which the masses of the population are largely excluded. But these elites are themselves divided and evolving new values. Despite the pressures of electorates and modern communications, political parties and elections continue to play an important role in the organizing of governments.

Economically, prospects for overall growth are generally modest and seem likely to be unevenly distributed. The Cuban failure to escape from sugar suggests, moreover, that the traditional areas of Latin American economic activity will not disappear despite the growth of new industries. Indeed, though an expansion of nontraditional exports may alter the picture, industrialization has thus far generally depended on the foreign exchange earnings of mining and agriculture.

Politically, the Cuban revolutionary experience, as perceived by contemporary Latin American leaders, is ambiguous, encouraging caution as well as new initiatives. Students are apparently not in a position to be as politically effective as in the past. Women, in Latin America as elsewhere, perhaps the single most important untapped reservoir of talent, are not likely to be liberated very soon.
Political ambiguity marks even the strongest trends of the recent past: the institutional reorientations of the Catholic Church and of the military. The Church, after moving decisively to accommodate change, has tended to divide into small but committed radical and conservative wings, even as the hierarchies as a whole seem to yearn for a disengagement from active politics. The result, if no longer the decided support for the status quo of days past, is also not the prophetic leadership in the battle for social justice envisioned by the more impassioned advocates of the "theology of liberation." The military, also drawn into greater political participation, remain divided behind their monolithic façades of discipline and secrecy. At times, the military may act as a force for "historical acceleration," breaking a political impasse. Normally, however, military institutions reflect the uncertainties and tensions of their societies, and participate in frequently shifting coalitions with civilian leaders.

Internationally, despite the growth of nationalism, coming years are likely to witness greater interdependence. The search for new institutional arrangements for foreign capital is spurred not so much by desires to exclude foreigners as by a drive to find less politically and economically costly ways of importing necessary skills and technology. To the extent that countries other than the United States expand their activities, U.S. influence may decrease and opportunities may increase for powers such as the Soviet Union to exploit Latin American conditions to their advantage. Yet Latin America's growth suggests that foreign entanglements as a whole will be moderated by Latin America's own greater development and international weight.

The conclusion expands on these themes and suggests further implications for both Latin America and the United States. But readers are invited to turn first to the individual essays that inspired — but also, because of their richness, escaped — this summary introduction.
II

PEOPLE

The New Leadership Generation

Student Activism in Transition

Women: Are New Roles Fashionable?
THE NEW LEADERSHIP GENERATION
Edward Gonzalez and Luigi R. Einaudi

The political elites who held power in Latin America during the 1950s and 1960s are being displaced by new political actors. Latin America's new military and civilian leaders still frequently differ ideologically and institutionally from one another. Some of the new leaders subscribe to the values, goals, and political style of their predecessors. But many among them — as clearly evidenced in countries as different as Peru, Chile, Brazil, and Panama — differ markedly from previous patterns. Latin American leaders currently seem to perceive fewer internal and international constraints on their actions, and therefore tend to be more innovative than were most of their predecessors. Despite their many differences, for example, Peruvian military and Chilean socialist regimes share the common attributes of assertive nationalism, economic developmentalism, and social reformism.

We believe these characteristics typify a leadership style likely to predominate during the 1970s among what we might call a new "political generation" assuming positions of power and influence. This new generation, we believe, is demarked less by the leadership's age than by its break with past patterns of elite behavior; and it is made up of a combination of older and younger military and civilian elites.

Unlike the radical left as well as anti-Communist politicians of the 1960s, however, this emergent generation of leaders will probably be more eclectic in choosing among alternative diplomatic, political and economic formulas. They are as likely to reject the indiscriminate adoption of the Soviet or Cuban models of communism as they are certain to resist the wholesale emulation of the American way of life for their societies. In particular, Latin American nationalists are drawing on the negative as well as positive lessons to be gained from the fidelista
experience in Cuba. Thus, they probably will seek to avoid the high
costs paid by Cuba in fully breaking with the United States and align-
ing herself exclusively with the Soviets, and in mismanaging the
economy under the radicalized system of fidelismo.

Though less extreme than the fidelista leadership, the new genera-
tion of leaders may nevertheless be as taxing for U.S. policy as was
Cuba during the 1960s. In the 1970s, Latin American elites seem cer-
tain to move toward reducing their countries' patterns of dependency
by seeking to exploit new opportunities in the changing international
environment. The open issue is what forms this evolving Latin Amer-
ican assertiveness and nationalism will adopt, and with what consequences
for inter-American relations. This paper seeks to explore some of the
sources, particularly at the level of values and political experiences,
for the behavior of Latin America's emerging leadership groups.

THE NEW ELITES IN HISTORICAL PERSPECTIVE

Latin America has been governed in recent decades by local polit-
ical elites who were philosophically allied with the United States or
who frequently responded to U.S. pressures and cues even when they were
not in ideological agreement. These elites ranged from the extreme-
right to the democratic-left as exemplified by such diverse national
leaders during the 1960s as Alfredo Stroessner, Humberto Castelo Branco,
Arturo Frondizi, Carlos Lleras Restrepo, Romulo Betancourt, Fernando
Belaunde, and Eduardo Frei. Institutionally, they, or others like them,
controlled the military, the ruling political parties, the Church, much
of the trade union movement, and the major domestically owned business
enterprises.

Though frequently differing with Washington on some issues, these
leaders nevertheless tended to align themselves initially with the
United States on major global questions or to respond ultimately to
U.S. inducements and pressures. Hence, the Latin American govern-
ments supported the United States on such vital Cold War issues as
internal communist subversion, relations with the Soviet bloc, and
admission of China to the United Nations. During the 1960s, moreover,
they joined with the United States in isolating Castro's Cuba and in repelling the *fidelista* guerrilla and Soviet strategic threats to the hemisphere. Ready U.S. access to Latin American political elites combined with the economic dependence of many of the countries to facilitate the exercise of U.S. influence in Latin America throughout the 1950s and most of the 1960s.

Several developments suggest that the characteristic susceptibility of Latin America to U.S. blandishments may already be lessened, partially in response to the emergence of a highly fluid environment that makes prediction and identification of elite attitudes seem particularly difficult. Reformist and even militantly leftist wings developed within the Church — once considered the bastion of conservatism and oligarchic privileges — in Brazil, Peru, Chile, and other countries. * New political parties with modernizing social and economic perspectives, like the Christian Democrats in Chile and Venezuela, succeeded in winning power from established parties, while the populist ANAPO threatened the viability of the National Front in Colombia. Partially because of U.S. restrictions, many armed forces seem disillusioned with the importation of U.S. military assistance and doctrines, as illustrated by widespread European arms purchases and by the development of indigenous counterinsurgency doctrines by the Peruvian and Colombian armed forces. **

These changes have had direct consequences for governmental actions, frequently in novel directions. The Panamanian military government in power since 1968 has repeatedly reaffirmed Panama's total sovereignty over the canal zone. After seizing power in October 1968, Peru's nationalist and developmentalist military regime moved swiftly in

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carrying out structural reforms affecting foreign and domestic capital, while two years later Chile's duly elected socialist coalition government began implementing the "peaceful road to socialism."

These multi-faceted developments are indicative of more than just the perennial flux of Latin American affairs. They suggest that profound if not revolutionary changes may be generated by political leaders operating within the established political order (as in Chile) or at least proceeding from established institutions having traditional political power (as with the Peruvian military and elements of the Catholic Church). As a result, these new elites possess an institutionalized basis of political legitimacy and power -- previously denied to the fidelista guerrilla movements of the 1960s -- which may enable them to carry out revolutionary change under essentially nonviolent conditions. Current developments in Peru and Chile -- and to a lesser extent in Panama, Ecuador, and possibly Argentina -- also suggest that whether of the right or left, the new leadership is likely to become increasingly concerned with projecting nationalist values, accelerating the process of economic development, and restructur-ing society along the lines of modernization and social justice. Latin American 'establishments' thus appear to have taken up many of the banners of the disintegrating extreme left.

As illustrated by the varied composition of the Peruvian and Chilean leaderships, innovative attitudes seem to cut across military and civilian sectors of society. Although the highest offices might be held by older military and civilian leaders like General Velasquez and President Allende, the new political attitudes span different age groups. Hence, the new elites are likely to represent generational coalitions, combining different age mixes among military officers, civilian politicians, technicians and entrepreneurs. Presently excluded groups, including women, peasants, and unorganized labor, are not likely to be greatly represented except through multi-class, populist organizations like Columbia's ANAPO or Mexico's PRI that are led

by elite elements. This is a revolution led by the "haves" within the "have-not" countries. To a large extent, these changes merely reflect the greater familiarity with the modern world and its productive forces that is to be expected of men educated since World War II, as was already true in 1970 for men in their mid-forties. By 1980, of course, this subministerial generation of today will occupy many ministries.

On the other hand, in contrast to the fidelista experience, which was led by a closely knit youthful inner core, the very institutional and coalitional character of the new leadership should also act as a self-regulating mechanism on the new regimes, thereby imposing limits on radical experiments of either the left or the right. This most certainly appears to be true of the present Velasco government where the high priority given to preserving the institutional unity of the Peruvian armed forces makes for internal but nonetheless regularized constraints on policymaking. Similarly, the external constitutional restraints of the Chilean political system also tend to have a moderating effect on the Popular Unity government, although here President Allende may need to adopt leftist positions at times in order to hold if not outmaneuver the more radical youthful elements within and outside his party.

The intrinsic make-up of the emerging elite combinations, therefore, may simultaneously impel the new Latin American leadership toward greater experimentation at home and abroad, and yet restrict its range of policy alternatives in the 1970s. Moreover, the particular choice of regime types and policy mixes may not hinge only on the leadership's composition, ideology and goals. The choice of options may also

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*See Luigi Einaudi, Changing Contexts of Revolution in Latin America, The Rand Corporation, P-3440, September 1966, for an earlier analysis tracing the origins of much revolutionary sentiment to elite conflicts rather than to structural socio-economic factors.

**Thus, the restoration of relations with Cuba, and Castro's visit to Chile in late 1971, may be interpreted in terms of Allende's domestic strategy for coping with the extreme-left. In particular, the aim of Fidel's lengthy visit and his carefully chosen statements may have been to bestow socialist legitimacy on Allende and Chile's "revolutionary process" at a time when the government was under increasing criticism by the MIR.
depend upon the new leadership's perceptions of the domestic and international environments, and upon its reading of the Cuban experience of the 1960s. The net effect, we believe, is that once again the new leaders will manifest contradictory tendencies -- toward greater boldness and innovation than their predecessors, yet toward greater moderation and caution than the fidelista revolutionaries.

CHILE AND PERU: THE INCLINATION TOWARD BOLDER POSTURES

Are the current Peruvian and Chilean regimes prototypes of emergent leadership styles? Both the Peruvian and Chilean governments have moved aggressively to remake their respective societies and to assert their independence from the United States. Peru represents a military, technocratic and non-Marxist model, while Chile posits a civilian, technocratic and socialist alternative. As such, they may serve as "pure types" or "test cases" that could become influential for other Latin American elites similarly inclined toward some form of assertive nationalism and "technocratic paternalism." This seems particularly true of Peru where the military may become an increasingly attractive example for the Argentine, Brazilian, or even Colombian armed forces owing to its unique efforts to combine nationalism and modernization with fully institutionalized rule by the military. Paradoxical as it may seem, moreover, the Peruvian experiment may yet emerge as more revolutionary than that of Chile because of the regime's younger leadership, greater internal unity, and fewer external restraints on its power.

The Peruvian and Chilean experiences certainly suggest that differing military and civilian leaders may increasingly share common objectives, perceptions, and styles of political action. Presidents Velasco and Allende are poles apart in their respective ideological commitments, institutional affiliations, and willingness to mobilize society politically, yet both are committed to the goals of strengthening national independence, promoting economic development, and restructuring society in behalf of previously excluded or underrepresented popular sectors. As Peruvian and Chilean events suggest, if they are to be attained at all, such goals imply the strengthening of governmental regulatory
capacity over both domestic and foreign interest groups, and may also entail conflict with the United States on specific nonstrategic issues. In part, readiness to assume the risks of change may be as much a function of frustration with the present as of intensity of commitment to the achievement of a specific future. But support for change is often strengthened by the new elites' perception—partially based on modern social science as reflected in such concepts as the Alliance for Progress—that their societies are condemned to stagnation or perhaps even revolution in the absence of radical departures. American-style democracy and free enterprise may thus come under fire from conservatives as well as from resurgent Latin American nationalists who may feel that the United States is not really interested in supporting the principles of change they are now—often rather belatedly—coming to espouse. Regional autarky and authoritarianism are increasingly preached by political and military leaders seeking efficient paths to development.

Agrarian reform, nationalization of foreign and domestic enterprises, and greater state intervention are not likely to be favored by political elites merely as measures for promoting economic and societal development, however. They will frequently be advocated also as political weapons for breaking the entrenched power of traditional domestic oligarchs and powerful foreign interests, as illustrated by Peru's agrarian reform in the rich coastal area and by Chile's nationalization of the copper mines. Nationalization of foreign enterprises, though a frequently treacherous undertaking, provides politicians a striking means of demonstrating to their respective societies and to foreign audiences that they do in fact possess a nationalist commitment and a regulatory capacity over interest groups. Hence, in deliberate contrast to the delaying tactics of the Belaunde government, the Peruvian military moved immediately against the IPC after seizing power, while the Allende government has not hesitated to use its full constitutional powers in expanding the state sector of the economy or in contesting the amount of compensation for the U.S.-owned copper mines. Similar attitudes are partly responsible for attempts to restore diplomatic and trade relations with Castro's Cuba, move toward closer economic ties with the Soviet bloc as well as Western Europe and Japan, contest
the amount of compensation (if any) for nationalized foreign enterprises, and uphold their nations' claims to extensive territorial waters and exclusive jurisdiction over fishing rights.

Internally, the institutionalized basis of legitimacy and power that seems likely to characterize political leaders in the 1970s may at first engender or reinforce a perspective that society is malleable and that opposition forces can be neutralized effectively. This most probably will be the case with military regimes as they stand to be encumbered by fewer external constraints and to feel they possess the coercive capability for restructuring society. Even if they are lacking in such coercive powers, however, civilian leaderships can nevertheless compensate for this weakness by mobilizing popular support through appeals to nationalism and social justice, and attacks upon the "oligarchy" -- a course of action which is also open to the military, as has occurred already in Peru. In any event, ranking officers in the Velasco government are contemptuous of Peru's traditional upper class, viewing it not only as parasitic and superfluous on the basis of its past performance, but also as a former ruling class left powerless since 1968.

Domestic successes, when they take place, can increase the new elites' confidence in following their own instincts on foreign policy, much as once happened with the triumphant Castro in Cuba. The willingness to assume greater risks with regard to the United States will depend largely on the intensity of the new elite's commitment to a particular objective. But the inclination toward bolder postures may also be strengthened by perceptions of the internal weaknesses of the United States, and of the greater range of options now available internationally.

The new elites may in fact believe that the United States is unwilling to bring its power to bear on defiant regimes or at least unable to inflict intolerable damage. Thus far they can see that Cuba has survived more than a decade of embargo by the United States, that the Hickenlooper amendments were not imposed on Peru, that the Soviet military as well as political presence is on the ascendant again in Cuba and the Caribbean, and that Chile has generally escaped reprisals for
being socialist and hostile to U.S. private capital. Added to this is the United States disengagement from Vietnam, and its growing preoccupation with domestic problems, all of which tend to indicate that the Administration, Congress, and public alike are turning away from venturesome foreign policies or even commitments like the Alliance for Progress.

The Latin American perception that Washington has abandoned the activist interventionism of the Kennedy-Johnson years, moreover, has been reinforced by President Nixon's policies in the region. With its attempt to deal with Latin American states as they are, the Nixon Doctrine's overall effect has been to grant the Latin American community a wider latitude for national diversity and international maneuvering than at any time since the Good Neighbor Policy. The political, economic, and social experimentation now under way in Peru and Chile are unlikely to be radicalized by U.S. opposition. In the long run, U.S. acceptance of diversity may be reflected perhaps sooner than currently believed possible, in new tolerance toward U.S. policies.

Developments in the international arena, however, may in the short run dispose Latin American leaders to bargain sharply with the United States. The emphasis on "dependency" is perhaps as much a product of subjective distortions as it is of objective economic conditions. But in any event, the era of Latin America's so-called dependency upon the United States — with its resulting vulnerability to U.S. pressures — may be coming to a close as national leaders perceive a wider range of foreign policy options for their countries. Much of Latin America has already been purchasing arms from Western Europe, expanding its trade with Europe, Japan, and the Soviet bloc, and seeking developmental capital from Japan and Western Europe. Even if most Latin American states remain significantly enmeshed economically with the United States, these alternative international markets and sources of supply and finance should provide improved opportunities to manipulate the developed countries to maximum advantage, as has been implicitly attempted by the Peruvian government under its new mining and industrial laws. The
availability of such international alternatives will simultaneously make the new elites less fearful of U.S. economic reprisals or threats.

THE NEW ELITES AND THE LESSONS OF CUBA: THE INCLINATION TOWARD MODERATION

Notwithstanding their innovative character and greater freedom of action, the new military and civilian elites are not likely to emulate the fidelista foreign and domestic policies except on a selective basis. To begin with, Castro's most direct and profound influence waned after the mid-1960s. Even then, the appeal of Cuba had already become largely limited to the most radicalized sectors of Latin American youth willing to take up the armed struggle. In contrast, the Velascos, Mercado Jarrins and Grahams among the Peruvian military, and the Allendes, Corvalans, and even Altamiranos among the Chilean left, continued to adhere to their own political methods, values and objectives. Indeed, however much some of them may respect the Cuban leader personally, the Cuban revolutionary process may well appear to them as a form of tropical caudillism peculiar to the Caribbean, if not to Cuba alone. In short, most Latin American leaders seem likely to reject the Cuban example on intellectual, cultural, and institutional grounds, as well as for nationalistic reasons.

This does not mean, however, that Cuba is likely to be irrelevant in the years ahead. The Cuban revolutionary process has been a seminal experience in the political formation of Latin American leaders over the past decade. The lessons of Cuba, negative as well as positive, are likely to be incorporated into the values and outlooks of future leaders throughout the hemisphere.

Significantly, many aspects of the Cuban revolution seem likely to repel the new Latin American leadership. A number of respected foreign specialists and observers have been outspokenly critical of the Cuban economy in recent years — most notably the former Chilean economic advisor to Havana, Alban Lataste, the French agronomist, Rene Dumont, and the European journalist, K. S. Karol. Their accounts have detailed

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the dysfunctional consequences for the Cuban economy of overly centralized state administration, excessive personalistic rule by Fidel, ill-conceived planning, and reliance on moral incentives. Additionally, Castro's failure to achieve his much vaunted goal of a 10 million ton sugar harvest in 1970, along with the serious setbacks produced in other sectors of the economy by the concentration on the harvest drive, have emphasized the uncertain and frequently wasteful character of the Cuban approach to planning. Hence, even if they lean toward socialism and statism, the new generation of elites most certainly will want to avoid duplicating the costly and adventurous aspects of Cuba's economic experience.

Moreover, precisely as a result of the Cuban experience, the new elites are likely to be more cautious than was the fidelista leadership in pushing radical socio-economic reforms. Partially because of Cuba, Latin American leaders have entered a "post-Utopian" phase, with vastly decreased expectations. Agrarian reform or collectivization seems likely to be implemented on a more gradual and systematic basis in order to avoid precipitating crises in agricultural production, similar to those which plagued Cuba throughout most of the 1960s. Similarly, the ideological and moralizing zeal of the fidelista leadership in creating a new socialist-communist order most probably will be avoided as excessive by the new elites if only because of its disruptive effects. The developmental models now emerging in Latin America, whether in Brazil or Peru — and probably even Chile — aim generally at some form of mixed economies in which the private sector will continue to play a vital and needed role alongside public enterprises. Most leaders, themselves of bourgeois and professional extraction, seem unlikely to want to pay the high price incurred by the fidelistas in losing valuable technical and entrepreneurial talent among the more than 600,000 Cuban exiles who fled as a result of the regime's policies.

On the international front, the Cuban regime has also paid a high price for its foreign postures which most likely will discourage emulation. Castro indeed successfully detached Cuba from the "Colossus of the North," but only at the heavy cost of becoming totally dependent
politically, economically, and militarily upon the Soviet Union -- and increasingly subservient since 1968 to rising Soviet influence in its own domestic affairs. Ironically, Castro's Cuba has now become the only state in Latin America (and the world) where the two superpowers might be said to operate naval bases -- the United States in Guantanamo Bay, and the Soviet Union with its Cienfuegos submarine servicing facility. Notwithstanding the more than three billion dollars in Soviet military and economic assistance to Cuba, therefore, the new Latin American leadership may seek only to play off the Soviet Union against the United States as a foreign policy option far preferable to aligning their respective states with the Soviet bloc. This does not mean that opportunities for Soviet penetration will not increase -- for that seems inescapable given the Soviet Union's prior virtual exclusion from the area -- only that they are likely to be limited somewhat by the initiative and desires of the Latins themselves.

Not all of the Cuban experience has been negative, and some fidelista policies seem likely to have considerable appeal to the new Latin American leaders. This might be particularly true of the Castro regime's efforts to promote mass education for purposes of accelerated economic development and societal modernization, its programs to improve public health, and its drive to transform the countryside and remove social injustices. Moreover, the mobilizational capacity of the fidelista regime, with its impressive capability for channeling manpower and resources to development programs and national defense, may also be attractive to those regimes attempting rapid revolutionary change, and under threat from within or without. Concretely, such regimes might attempt to develop mass organizations along the lines of Cuba's Committees for the Defense of the Revolution depending, of course, upon their feasibility under local conditions.

As suggested above, however, the direct transfer of the Cuban model to the rest of Latin America in the 1970s is not likely owing to the character of the new elites, and the fidelista model's foreign and domestic failures. In fact, the Cuban experience will probably become most relevant for its negative lessons. Apart from developmental strategy, the new leaders seem likely to differ markedly from Castro
in their foreign policy toward the United States. Unlike the youthful Castro in the 1959-1961 period, in other words, the new leadership generation will probably seek to avoid a precipitous break with the United States that would close off needed capital and markets for their developing countries.

Indeed, the Cuban experience appears to have been a sobering one even for Castro himself as he reportedly advised President Allende on his assumption to power to avoid breaking economic ties with the United States. Hence, as presently is the case with Peru and Chile, the new elites most likely will eschew challenging the security interests of the United States through any form of attachment or subordination to the Soviet Union. These, as demonstrated by the Cuban experience itself, are the most vital interests to the United States. Instead, new leaders are likely to test constantly the limits of U.S. power by deviating on economic and ideological issues, yet staying within the prescribed boundaries of the "inter-American community" on matters related to security. The nature of this Inter-American Community, by 1980, will thus continue to depend heavily on the U.S. responses to these Latin American initiatives. With new leaders on both sides, inter-American relations may come to reflect greater mutuality than in the past.
STUDENT ACTIVISM IN TRANSITION

Luigi R. Einaudi

May 1968 brought a great upsurge of student radicalism in Europe, spreading a phenomenon that had convulsed U.S. campuses since the mid-1960s. Then in June 1968, street clashes between students and police took place in five Argentine cities. Succeeding months brought increasing activism elsewhere as well, culminating in the tragic confrontation in Mexico City between student demonstrators and military forces on the eve of the Olympics.

This paper suggests that despite an illusion of turmoil and a highly activist political tradition, students are likely to be less central to the political process in most Latin American countries during the 1970s than they were in the late 1950s and early 1960s. In fact, while the remnants of the highly politicized movements of that earlier period decline into frequently criminal terrorism, their younger peers seem likely to center their concerns more on the acquisition of skills necessary for professional careers than on immediate political radicalism.

THE REFORMIST TRADITION

The origins of the student political tradition in Latin America are commonly traced to events in mid-June 1918, when students at Córdoba, Argentina's oldest university, proclaimed that universities throughout Latin America had become "faithful images of our decadent societies, sad spectacles of senile immobility." In rapid succession they denounced their professors as intellectual invalids, their libraries and research facilities as notable chiefly for their absence, and their curricula as "characterized by a narrow dogmatism which contributes to the insulation of the university from science and modern learning."

The remedy, to become with time the central tenet of the University Reform Movement, was student participation in the administration of the university. Proponents of the reform argued that this would introduce to the cloistered "havens of mediocrity" a hunger for contemporary knowledge as well as a sensitivity to the needs of a more just
society. The movement spread rapidly through Latin America's cosmopolitan elite, and adaptations of the Córdoba Manifesto had affected most countries within the decade. Article 143 of the 1945 Ecuadorian constitution (restored by the military junta that took power in 1972) describes the reformista utopia: "The universities are autonomous . . . and will particularly attend to the study and resolution of national problems and the spread of culture among the popular classes." Youthful activism thus often reflects a tradition that identifies students as the guardians of social ideals against the compromises of the past and the partisanship of special interests.

Between the founding of the first "Royal and Pontifical" universities in Peru and Mexico in 1551 and the rapid increase in educational institutions of the past generation, a few large universities tended to dominate higher education in Latin America. As the continent emerged from colonial status, independence reaffirmed the temporal power of the state over the church, but without notably increasing the relevance of the universities to their environments. Around monastic patios in aging buildings, mutually uncoordinated faculties offered instruction in the learned professions, with little general education and almost no postgraduate training. For the most part, neither students nor professors were full-time, and the irrelevance of the university to modern learning was matched only by its penury. It is small wonder that by 1918, with the images of a Europe in turmoil before them, increasing numbers of students and faculty were demanding reform -- sometimes violently.

Intervening years have brought substantial changes in Latin American education, but striking continuities remain, many of them inherent in uneven development and relative economic scarcity. At the University of Havana in 1960, for example, students issued a critique amazingly reminiscent of the Córdoba Manifesto. In a startling juxtaposition, which nonetheless beautifully conveyed the emotions of the moment, they concluded by denouncing the university authorities as "the great landowners of culture." Harassed administrators admitted many deficiencies, but pointed out that the nearby University of Puerto Rico, certainly not a wealthy institution by U.S. standards, had nearly ten times the income per student. As in this Cuban example, of course, it
has traditionally been difficult to sort out where education ended and politics began: problems of higher education in Latin America have characteristically been enormously complicated by political pressures. If the universities have often been marginal to educational and social needs, they have nearly always been central to politics.

Viewed from the United States, this has often seemed pretty chaotic. Latin America has to most North Americans long symbolized political instability and its catalyst, the student riot. After Berkeley and Kent State, however, these matters seem less exotic than they once did. American and European students have also in recent years sometimes seemed bent upon shaking their universities and societies to their very foundations. Ironically, the eruptions of the late 1960s in the industrial northern hemisphere came at a time when students in Latin America were relatively quiescent. Despite occasional outbreaks, in fact, today's Latin American student activists seem considerably less prominent than their predecessors of the late 1950s who played key roles in the chain of political upheavals which began with the fall of Perón in Argentina, continued through the assassination, resignation, or overthrow of dictators in Nicaragua, Peru, Venezuela, and Colombia, and culminated with the collapse of Batista in Cuba. Even the "student guerrillas" of six or seven years ago are less and less common. Is there a trend toward lessened political activity among Latin American students? Can it be that while we are becoming more Latin Americanized they are becoming more North Americanized?

Partly, of course, the paradox is a false one. The idea that political violence and mob demonstrations are as much a part of the rites of passage for Latin American students as is fraternity hazing for American students is both outdated and hasty. Most social science inquiries into Latin American student opinion and behavior suggest that they are neither particularly radical nor particularly active. But this also describes Berkeley and Columbia. The inactivity of the majority does not, we know, prevent others from playing major roles in the political turmoil of their respective societies. What is really wrong with our apparent paradox is that it omits consideration of the
traditions and roles of institutions and persons acting under very different historical circumstances.

**Differences Between U.S. and Latin American Student Environments**

Latin American universities, though they have multiplied in recent years, assuming greater superficial similarities to American ones, have surprisingly little in common with the university tradition with which we in the United States are acquainted. Fundamental differences are often masked for casual observers by similarities inherent in the physical expression of grievances leading to violent conflicts on university grounds. Youthful flan, the economic and personal freedom implicit in minimal family responsibilities, and student quickness to perceive the inevitable disparities between social ideals and governmental performance all combine more or less everywhere to produce a potential for demonstrations that occasionally erupt beyond the sanctuary of the universities to strike with sudden violence at the societies themselves. Confrontations between students and police, mediated or activated by various third parties, including administrators, faculty, and politicians, inevitably follow common patterns and are often provoked by similar immediate issues.

This by now familiar and apparently universal script should not be allowed to obscure the fact that Latin American universities have historically contributed more to the social exclusiveness of ruling elites than to the education of the new skilled masses required by an industrial society. Although the number of university students in Latin America has doubled in the past decade, allowing for differences in size of population and age groups, the United States still has more than a dozen times as many students. And this actually understates the disparity, since many more American students receive degrees than do Latin American students.

Latin American universities have thus traditionally educated the future urban leaders of largely agrarian traditional societies. Unable to control fully the generous impulses of youthful idealism toward solidarity with those whose exclusion the elitism of the university was helping to perpetuate, this system occasionally led to explosions
which, like the medieval peasant Jacquerie, made a great deal of noise but signified little. Even the major coherent challenge to this pre-modern system, the University Reform Movement, was essentially a protest which assumed the inability of students to communicate with the general population but hoped to modernize society through the use of governmental authority, beginning with the universities.

Students attending public universities in societies with expanding government bureaucracies have at their disposal the means for influencing government policies at a much earlier stage than would be true in the United States. So long as universities are few in number and publicly financed, ministers of education are exposed targets for student protest, which can sometimes be automatically translated into cabinet instability. Strikes may also affect the functioning of public agencies in which many students are working while attending classes in the evenings. Outstanding student leaders are quickly absorbed into adult political party structures even if they did not begin as children of the ruling elite. At the same time, student activism frequently expresses dissent that might be threatening in other forms, but which in the university environment often becomes a necessary means of importing new developments and aspirations from the industrialized centers of the world.

A perusal of student literature and even Latin American commentaries on U.S. student activities suggests similar language and even a similar delineation of issues. But whereas militant students in developed countries approaching a "post-industrial" era are today sometimes questioning the value of imposing or even seeking a completely rational structure for society, Latin American students still seem much closer to the optimism of the Enlightenment. This difference can be illustrated by attitudes towards the machine. In the United States, many sectors of the student movement associate the machine and the technological society it symbolizes as readily with evil as with good. On occasion, as in the case of the air we breathe and the computer cards of the Registrar's office, it seems as though everything has gone out of control and man is now servant to the machine. In Latin America, where the problems of underdevelopment and of
the burdens of unaided human labor are still very much in evidence, the machine is still a symbol of hope and progress, of man's control over nature and his limitless future, much as it was for the older generation in the United States that built the Panama Canal.

Differences in time and place alter perspectives on other apparently common issues as well. Anti-Communism seems to be increasingly seen as a stale political residue of a prior age. But whereas in the United States this has come hesitantly, as a gradual change from what had been a general consensus, in Latin America anti-Communism, although fervently espoused by conservatives, was never generally accepted as a dominant political myth among intellectuals. Partially as a result of the cold war, the Communist issue in Latin America frequently led to a confused intermingling of the rivalries of distant great powers with problems of local social and political change. As a result, today, while many Americans are still in the full flower of their discovery of the limited relevance of both Communism and anti-Communism, Latin American students, after an interlude in which many of their leaders were caught up in Cuban-inspired guerrilla adventures, remain divided and uncertain over how to relate to pressures for change without being victimized by their own activism.

Some additional differences between the students of North and South America can be illustrated by considering the context of the struggles over social justice. In the United States today there is an element of urgency, even of threat and potential violence, associated with race and poverty. The universities are no longer immune. Events at Columbia had some echo in Harlem. Black student athletes frequently feel exploited in ways that offend their dignity and sense of solidarity with their less fortunate fellow men. Fewer individual links for the transmission of tension between university and disadvantaged society exist in Latin America, even with expanded enrollments. In Latin America "race" is frequently cultural and social. Latin America's traditional outsider, the Indian peasant, cannot by definition attend a university. The son of an Indian peasant, should he matriculate, ceases by that very act to be either Indian or peasant. Access to university culture now qualifies our hypothetical Indian peasant's son racially as
a mestizo just as surely as if he had in the sixteenth century bought a certificate from the King of Spain attesting to his lightness of skin (limpieza de sangre). Simultaneously, his status as universitario automatically leads to absorption into the slowly expanding modern urban world, and to an increasing separation from what Marx called the idiocy of rural life. It is as if every time a Negro entered an American university, he literally turned white, and therefore could no longer belong to Negro society.

THE LATIN AMERICAN STUDENT AS REVOLUTIONARY VANGUARD

For a while, in the early days of fidelismo, the chasm between urban modernity and rural traditionalism was challenged by attempts at violent revolution, frequently led by middle class student activists. The Cuban revolution unleashed conflicts that frequently polarized along generational lines, as students and younger politicians sought to bring about the revolution "always promised and always betrayed" by their elders. In country after country, between 1960 and 1963, and sporadically since then, students went out in an effort to set up rural guerrilla movements to emulate what they thought was the example set by Castro and Che Guevara. In country after country, often unable even to speak the language of the peasant populations among which they were moving, they were either wiped out, starved to death, or forced into ineffective undergrounds where they were all too often kept alive for purposes of international and national politics by forces with no interest in their cause.

The late Peruvian dramatist, Sebastián Salazar Bondy, once drew my attention to one of his students, whose fate symbolizes that terrible period. Javier Heraud was born the third child and second son of a successful lawyer in the Lima suburb of Miraflores. He studied first in a Jesuit primary school, then attended the expensive and exclusive Parkham School where he excelled in sports and literature, graduating second in his class. While studying in the Faculty of Letters of the Catholic University in Lima, he also taught English in the public secondary schools. In 1960, he published a small book of poems, The River.
The same year, he won first prize in the "Young Poet of Peru" competition sponsored by the magazine, *Cuadernos Trimestrales de Poesía*, of Trujillo (Peru). The prize collection was published the following year as *The Trip*. In 1962, the Peruvian Federation of Students (FEP) held a verse competition. Heraud won the prize with his third book of poetry in three years. Later that year, he left for Cuba on a government scholarship to study cinematography.

On May 3, 1963, Heraud reentered Peru clandestinely from Bolivia, by canoe, armed, in the company of six other students, apparently hoping to link up with Hugo Blanco's rapidly weakening attempts to organize peasant leagues among the Quechua Indians near Cuzco. On May 15, the small group of would-be guerrillas arrived, exhausted, in Puerto Maldonado, a border town of about six hundred, and checked into a small pension. Alerted to the arrival of strangers, a sergeant from the local guard post sought them out to ask for papers. When these were not in order, he asked the young men to accompany him to the station house. On the way there was a scuffle and the policeman was killed. The students fled for the river, pausing at the boarding house only long enough to pick up their guns. By nightfall, however, the youths had all been captured, with the exception of Javier Heraud, who was dead at twenty-one of wounds inflicted by dumdum bullets from a local townsman's rifle.

The isolation of the youthful quasi-elite in traditional society is very difficult for Americans, imbued as they so often are with images of equality and revolution, to understand. Heraud's case, though more romantic and perhaps final than many others, some of whom remain caught up in the terrible confusions of terrorism, nonetheless typifies the social and political isolation of the would-be student revolutionaries who turned to violence in the early 1960s. The relative silence of students today, in fact, probably stems less from repression or fear of death than from a lack of short-term political optimism and an increased awareness of the political as well as personal futility of indiscriminate violence. There is a great distance between the realization that some conditions in Latin America fall short of modern ideals and finding means for
doing something about it. Dozens of Indian languages and local subcultures are only the most apparent obstacles to effective national action. Even those who feel this is an unjust world dominated by the United States with the complicity of the Soviet Union suspect that to try to do something about it without regard for institutional and social consequences is likely to make it even more so. The negative results of May in Paris, when the attempt to break the hold of General de Gaulle laid the basis for the political death of Pierre Mendès-France, have their Latin American parallel in the fragmentation of the forces for change produced by the commitment of some to violence.

THE STUDENT AS FUTURE PROFESSIONAL

When the outside world is unreceptive, the only sane solution is to cultivate one's garden. But is there a garden to cultivate? The perception of Latin America prevalent in the United States during much of the 1960s would suggest rather a state of deepening crisis with revolution around the corner. But the Latin American experience of the past decade suggests that voluntaristic revolution from below is extremely difficult, if not impossible. When the establishment cannot be beaten, it is time to join it. And if in Latin America there is frequently no effective, modern establishment, it must be built. Unlike the students of the industrialized northern hemisphere, some of whom have at times seemed almost nihilistic in their rejection of the adult world as well as of adults, even the more politically aware students in Latin America seem to be still seeking an outlet to an expanded modern world, even at the cost of some accommodation with their elders.

Given some of the more hopeful contemporary trends in Latin American universities, the commitment to study may lead only to a moratorium on ideals, not their betrayal. Despite political turmoil and institutional rigidities, the old educational formula of "classics for aristocrats" has declined even in the historic public universities, where new faculties are turning out accountants, physicists, and members of other modern professions. The desire to avoid the political problems, penury,
and resistance to change of the large national universities has contributed to the emergence of numerous new institutions that have served to diversify higher education and make it more relevant to Latin America's modern development. Over the past two generations, since the initial outbreak of the Reform Movement at Córdoba, the few previously existing professional schools, like the military academies of Peru and Argentina, have improved and been supplemented by new or expanded engineering universities, while Catholic universities provided stability and broadened foreign contacts. During the last decade, there has been a virtual explosion of new institutions including agricultural and technical schools, private nonsectarian universities for the wealthy, and even private medical and business schools. Graduate education, while frequently handicapped by lack of research opportunities, is improving. Book publishing continues to expand, providing translations of foreign texts in all fields, including the social sciences.

The apparent decline in student activism may also be traced to some extent to the diversification and expansion of higher education, which has limited somewhat the political impact of student organizations, which find themselves representing a greater variety of constituencies. Often, also, the proliferation of new institutions has been wasteful of human and economic resources. But this, too, has produced a reaction. The 1972 Peruvian educational reform law is a striking attempt to reassess an entire educational system in relation to national development. Among other innovations, the Peruvian law envisions graduation from new public schools of higher education (ESEPs), focused on technically oriented training much like U.S. junior colleges, as a mandatory prerequisite for admission to advanced university studies.

These changes in higher education reflect gradual economic changes as well as continuing political efforts to induce them. Latin American economies, though all too frequently hesitant and weak, are gradually building an industrial sector and modern agriculture alongside their traditional rural backwaters. Government bureaucracies and private institutions continue to expand and to provide opportunities in planning
and social engineering that promise to absorb ideals as well as energies. As with all trends, there are likely to be exceptions, but the future seems likely to be determined less by a handful of terrorists and their intellectual allies who sit in cafes providing copy to sensation-seeking foreign journalists than by the increasing numbers of students who are preparing themselves to fill technical functions in a modernized future society whose coming few question. Whether, once that is achieved, the problems of future generations of Latin American students will become more like ours remains to be seen.
WOMEN: ARE NEW ROLES FASHIONABLE?

Geraldine M. Petty

Women make up a slender majority of the total population of twenty-four of the independent nations in Latin America. In thirteen of the twenty-four they are in the majority, in two they are precisely half of the population, and in the remaining nine they represent slightly less than 50 percent of all the inhabitants.

Publicly, this majority has tended to be silent. Tradition has it, for example, that in certain rural areas women are allowed to shout under three circumstances: to call the chickens, to control the children, and to protest when their "husbands" are trying to kill them. However, according to reports, a certain god-like statesman of Western Europe liked to read at the dinner table and did not allow his wife to speak to him during the meal; so "seen but not heard" applies, if at all, to women in many regions besides the one most closely identified with "machismo."

The fact is that women are underestimated even when not entirely overlooked. Even outstanding incidents of their political activism as an organized mass are often attributed to male direction. The "March of the Empty Frying Pans" in Chile in December of 1971, during which 5,000-10,000 women gathered at the presidential palace to protest food shortages and Fidel Castro's visit, was reported by Juan de Onís as having been organized by the predominantly male leadership of

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*This montage of expository materials, quotations, and comments by the author is not a formal analysis, and was not intended originally for use at the Trends Conference. It is included here as a memorandum about trends and developments among what might be called "the other half" of the Latin American population.

**On the basis of data from the Statistical Abstract of Latin America (1969), Latin American Center, University of California at Los Angeles, December 1970, pp. 77-80, it would appear that women and girls constitute 50.01 percent, men and boys 49.99 percent of the total.

***For one source that gives a Spanish origin, however, see "The Birthplace of Machismo," Ms., October 1972.
the Christian Democratic and National Parties. The same *New York Times* article commented on a "significant number of women from working-class neighborhoods" in the parade, but Luis Corvalán, Secretary-General of the Chilean Communist Party, in an interview with *El Tiempo* of Bogotá suggested that the "march should have been called 'The March of the Full Stomachs' . . . the women involved were all wealthy."

Joining the ranks of those who see women as frequently manipulated by others, Corvalán added:

> Behind this march there is unquestionably a foreign hand — the same one that organized the marches against President Goulart in Brasil and the ones in Bolivia before President Torres' fall.**

This presumed apathy in the female has been variously explained — as being due, for example, to women's physical and intellectual nature, perhaps to a hope of heavenly reward for acceptance of one's lot, or possibly to perception of a lack of alternatives, particularly economic ones. Salvador Reyes Nevares, in "El machismo en Mexico" calls *hembriismo* the female counterpart of *machismo*.

> If *machismo* might be called an unhealthy exaggeration of male characteristics, an analogous definition fits *hembriismo*. The characteristics of femininity are normally passive: patience, fidelity, perseverance in the face of misfortune, gentleness.

The self-denying Mexican woman is an aggregate of all these characteristics carried to an extreme that ends in being ridiculous and counterproductive. The "machista" male needs such a woman. It would be pointless to try to analyze whether he creates her or simply searches until he finds her. The fact is that, for the vanities of insatiable virility, the woman who endures all infidelities is ideal; for violent acts of tyranny, a woman totally passive, submissive and enduring is indispensable.***

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***Mundo Nuevo*, No. 46, April 1970.
These cultural stereotypes are not frequently challenged. Checking the indexes of standard histories and popular assessments of Latin American realities reveals limited interest in women. None of the three editions (1955, 1961 and 1968) of Hubert Herring's widely used college text, *A History of Latin America*, contains an index entry for the category "women." John Gunther's best seller, *Inside South America,* published in 1966 and 1967, however, does contain 18 entries under "women." Most of these are brief references to women's enfranchisement. One reference is to the fact that women of twenty-five on the Bolivian altiplano, "their faces lined and ravaged, look seventy." Chilean women, whom Gunther describes as "the prettiest in the world" (this comment accounts for one page reference), get the most attention, perhaps because of their "extraordinary power" since they won suffrage in 1949. "Most," according to Gunther, "have a stern sense of public duty, and help keep politics pure; most take a somewhat conservative line, under the influence of the church, but, even so, they helped to a large degree to elect Frei to the presidency [in 1964]; 673,678 men voted for Frei, 606,356 for his FRAP opponent, but the women voted for Frei 744,423 to 375,766."** Gunther implies some of Frei's attraction for the women voters may have been due to his solid family-man image, a qualification for statesmanship which many men apparently consider irrelevant.

An earlier history of Latin America by a woman, Mary Wilhelmine Williams, presents several explanations for the fact that, at the beginning of the twentieth century, Chile was apparently the pioneer in the Latin American women's movement. A racial interpretation seemed common among Chileans, many of whom evidently felt that the energy, courage, and independence of Chilean women were the result of a "strain of blood inherited from their Araucanian foremothers and

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the example set by the enviable status of the contemporary Araucanian women." At that time, "Araucanian women had more rights under tribal regulations than had the Chilean women under the laws of the republic."*

In 1939 a woman, who was also a Socialist, became mayor of Santiago. Miss Williams comments that many of the early feminist groups did not press for woman suffrage because the women who organized them were liberals and feared that woman suffrage would create "a Church question or aggravate an existing one."**

Women's activism, however, is not always met with approval by "progressives." The phrase, "the march of the casseroles," used by Ms. Vania Bambirra in an article entitled "Women's Liberation and the Class Struggle" in the leftist journal, Punto Final, to describe the protest demonstration of Chilean women in December, creates an image of well-fed, bourgeois women. Ms. Bambirra assesses vast sectors of Chilean women as politically conservative. The real enemy of women in her view is the capitalist system which pretends to liberate women from the patriarchal family by allowing them to work outside the home, but instead subjects them to a "double exploitation" -- in the office and factory and in the home where her labors are prolonged.*** According to Ms. Bambirra, the political left until now has been only timidly preoccupied with the problem but is now becoming very much aware of the power of "conservative" women, not only because of the casserole demonstration but also because of their presumed role in the January 16, 1972, by-elections, which were unfavorable to candidates supported by the Allende government.

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**Mary Wilhelmine Williams, op. cit.

***Punto Final, Año VI, No. 151, February 15, 1972. Ms. Bambirra may not have read a recent news item from China to the effect that, after some 20 years of socialism, Mainland Chinese women are still struggling for equal pay for equal work, particularly in the countryside communes. The New York Times, February 28, 1972.
Ms. Bambirra describes the form she believes the struggle for women's liberation should take:

The struggle for women's liberation has nothing to do with feminism. . . .

The struggle for women's liberation is a political and revolutionary struggle and because it is a struggle against the capitalist system, which maintains and needs the oppression of the women, it is inserted in the context of the struggle of the classes and must be directed by the working class, by means of its parties and vanguard organizations.*

Ms. Bambirra nonetheless foresees some difficulties in persuading the male members of leftist political groups to press for women's liberation because she writes:

We must eliminate the prejudices which exist even within wide sectors of the politically militant left about the matter; we must demonstrate that maintaining a "machista" attitude which goes to the ridiculous extreme of refusing even to consider the problems of women is an attitude which defends bourgeois and counterrevolutionary values.**

It is hard to predict the seductive power of a promise of total "liberation," but it seems likely that women will continue to act politically, as do most men, in harmony with their social and economic status. Among the lower classes, women have long worked outside the home, frequently acting in the forefront of social struggles. For example, Indian women, many of whom have escaped a "sheltered" existence not only because they do not belong to the Spanish-Moorish tradition but also because their physical labor outside the home is vital to the Indian agricultural economy, constituted formidable battalions in the February 1963 land invasions in Sicuani, Peru.*** Peasant women have

* Punto Final, op. cit.
** Ibid.
also frequently participated in land invasions in Mexico, sometimes by aggressively placing themselves between their men and the police or soldiers sent to halt the invasion. At the opposite end of the economic scale, Consuelo de Montejo, founder of the Colombian Women’s Liberation movement, is reportedly not welcome "in some social circles, perhaps because she reserves her harshest criticism for the wealthy women with whom she grew up." Sra. de Montejo says:

They are so frightened of any reform, whether it is to help the poor or to end discrimination against women. They fear they are going to lose their mansion, the five servants, and those yearly trips abroad.*

It is therefore not surprising that Haydée M. Jofre Barros should describe a great variety of attitudes among Argentine women with respect to female "liberation."**

Most Argentine women are moderately satisfied with the gains made (to some they seem insufficient; for others they are excessive and they sigh for the old days of their grandmothers); the majority want to achieve equality but they do not know how to do it, which makes them discontented with their lot, not all of them but in sufficient numbers to constitute a problem whose solution is not presently in sight.***

Variety of attitudes aside, what are individual Latin American women doing to develop their nondomestic talents and skills for personal satisfaction, for altruistic purposes, or in pursuit of power and glory? Many upper- and middle-class women have at least one luxury not available to women in more industrialized societies: a supply of household servants and readily available child care.

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***"The Argentine Woman," op. cit.
An increasing number seem disposed to make use of this advantage, though often their careers are in the traditional woman's field of the social and educational services. However, with a gradual improvement in professional opportunities, women are also competing with men in business, law, medicine, and even politics. Senator María Eugenia Rojas de Moreno of Colombia is a Senator, the daughter of former Colombian president General Gustavo Rojas Pinilla, and a major architect of her father's Popular National Alliance (ANAPOL), which came within 63,000 votes of winning the 1970 presidential election for the former dictator. It appears she also has presidential ambitions of her own. In Peru, the highly respected Consuelo de Velasco has participated in her country's affairs in effective ways that are far from being limited to the traditional ceremonial duties of a president's wife.

In the past, however, when both academic and nonacademic secular education was denied most women, the two types of women who achieved prominence because of their special qualifications and activities might be called super-saints and super-'dancing girls.'

Rose of Lima, 1586-1617, achieved canonization more rapidly than almost any saint in the Calendar.

But unlike Catherine of Siena, who was her heroine, Rose effected few reforms and had little impact on politics or religion. Yet she, too, was the idol of her day. Rose was extravagant in her mortifications. She wore a crown of thorns . . . a hair shirt and a chain belt. . . . She set up housekeeping in a hut in the family garden and ate no food except the most meager and unappetizing. . . . At length her confidence in her vocation grew sufficiently firm so that she left her hermitage from time to time to go into the hospitals and nurse the sick poor, comfort prostitutes, and become a public symbol of virtue. . . . When she died her casket was carried to the grave by all the heads of the city. As the coffin passed, surging crowds hysterically snatched at it, seizing pieces of her shroud, the flowers on the bier, even slivers of the casket to take home as relics.*

As for "dancing girls," Sebastián Salazar Bondy in his essay, "De la tapada a 'Miss Peru,'"* suggests that, differences in attire aside, many colonial tapadas (heavily veiled women) in their mantos and sayas had the same goal as some of today's more scantily clad beauty contestants -- namely, to attract and possibly marry a rich and politically prominent man and to exercise power through him.

As a political éminence grise, former "dancing girl" and possibly aspiring saint, Eva Perón was very visible and very blond. In one of his few references to women, Hubert Herring describes her as "perhaps the shrewdest woman yet to appear in public life in South America." (Juan Perón seems to have a talent for finding wives with political acumen. His present wife is not only an attractive former dancer but apparently a clever political organizer. The question remains: "Who chose whom?")

Herring suggests some of the tensions that dogged even Eva Perón's successful steps:

Evita's monopoly over matters of labor, charity, and health was exercised with much energy, with due regard to advancing the political fortunes of her master, and -- in fairness to the lady, let it be added -- with considerable benefit to the poor and the sick. The irreverent described her exploits as solely designed to promote peronismo, but the humble Argentine whose child's life had been saved by Evita's blood bank was in no mood to quibble. When the desamisados demanded that Evita should be nominated for the vice-presidency in 1951, they were voicing the genuine devotion of the masses. But that promotion for the First Lady was blocked by the army leaders, who knew, as all proper Argentine males know, the woman's place, and who proposed to keep her in that place.**

As the above suggests, opportunities for those Latin American women who wanted to live in the whole world instead of in a purdah-enclosed "place" largely depended, as in most societies, on the generosity of those in power -- in other words, on the male half of the

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population. Given the readiness among some current governments in Latin America to seek to mitigate social conflict through more equitable distribution of goods, one can predict that "woman's places" in politics may extend beyond the polls, casting a secret ballot for candidates of her choice, to include at least concern for more important measures affecting women's education and prospects.

For example, the Peruvian Minister of Education Alfredo Carpio Becerra has announced that, under the new education reform act, not only will Indians be taught in their own languages as well as Spanish but that female students will be given the same studies as male, to "end their wretched existence on the periphery of society."

It is interesting that a government labeled "military" and therefore stereotypically "machista" and "repressive" should be the one to sympathize with both Indians and women. A cynical explanation might be that an authoritarian government can control competition, both male and female, and therefore can afford to extend limited opportunities. A more cheerful explanation might be that, since some of the members of the current Peruvian government have origins outside the very limited traditional oligarchy, they can more readily empathize with the majority of the Peruvian population.

What are the prospects for a change in the status of women in Latin America during the 1970s? It has taken Yankee women, and the men who have helped them, fifty years to secure congressional passage of the Equal Rights Amendment, which addresses, of course, only the legal aspects of discrimination. A recent poll of Yankee women, conducted by Louis Harris and Associates, revealed that:

In a sharp reversal from last year, most American women now favor "the thrust for equality." The poll also found that women voters, because of their "heightened awareness" may be in the majority at the polls in this fall's presidential election for the first time since wartime 1944.

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Even should changes in formal and informal group attitudes be similarly slow in coming to Latin America, individual women seem likely to make increasingly independent and diverse public contributions to the development of their societies. It might also be predicted (and this is a sentimental judgment in direct contrast to these discussions of heightened feminist consciousness), that a most coveted feminine role will remain the one described by San Martín in the epitaph carved on his wife's tombstone: "wife and friend." (This is not, however, to suggest that women will want to predecease their husbands just to receive the accolade.)

Whatever the outcome of the current questionings of traditional roles, including the women's liberation movement, in this most revolutionary of all eras (so described by Barbara Ward), things will not be the same again — at least not for a while.
III

POLITICS

Prospects for Violence
Elections and the Populist Challenge
Patterns of Civil-Military Rule
PROSPECTS FOR VIOLENCE

David F. Ronfeldt and Luigi R. Einaudi

Latin American governments are frequently portrayed as under attack from revolutionary and radical elements with national and international interests and objectives. During the past generation, political struggles in Latin America took many radical forms, varying from simple assassinations of political leaders, attempted coups d'état, and rural and urban insurgencies, terrorism, and subversion, to the peaceable but potentially violent mobilization of radical movements and organizations.

Of violent threats to the stability of governments, rural and urban insurgencies have recently received greatest attention.* Indeed, during the early 1960s, Castrolite revolution was popularly forecast for Latin America, and foreign-supported guerrilla insurgencies did beset a number of regimes. By 1970, however, rural guerrilla bands had been defeated or contained throughout the hemisphere. Rural insurgency, though capable of provoking continuing trouble in countries with long traditions of internal violence, ** no longer appeared to be a viable or appealing revolutionary strategy. Moreover, it appeared

* Most of this attention has been polemical rather than scholarly, beginning with Ernesto Guevara's own handbook on Guerrilla Warfare, 1960, and continuing with the Brazilian Carlos Marighela's Minimaxin Manual for Urban Guerrillas, 1969, both of which have appeared in numerous editions. Among the more recent treatments by outside observers, Luis Mercier Vega's account, Guerrillas in Latin America: The Technique of the Counter-State, Praeger Publishers, Inc., New York, 1969, is a useful synthesis, while Richard Gott, Guerrilla Movements in Latin America, Doubleday, Garden City, N.Y., 1971, and the SORO Casebook Series provide differing perspectives on individual situations.

quite clear that the conditions for a successful violent revolution on a national scale did not exist and could not be readily created even by determined bands of rural guerrillas.*

What successes rural guerrillas had achieved occurred mainly in physically isolated regions with impoverished populations that were becoming independent of the old hacienda system of life, but not yet effectively linked into the national economic markets and government bureaucracies. One of the political consequences of lack of integration was the transformation of some such areas into bases for insurgent revolutionaries. Throughout history peasant revolts have typically occurred in post-feudal societies that are just beginning to undergo a centralization and bureaucratization of political power and authority. However, as the Latin American experience is again demonstrating, such regional rebellions or insurgencies are neither long-lasting nor capable in themselves of producing national revolutions.

What forms of violence seem most likely during the 1970s? And what will be their likely political impact? This essay, after examining the present prospects for revolutionary violence (which it deems poor) and the likelihood of continuing nonrevolutionary violence (which it estimates to be high), concludes that the military containment of revolutionary violence during the 1960s has contributed to channeling pressures for change in a nationalistic political direction, through "traditional" authoritarian institutions. As a result, during the 1970s government bureaucracies and religious and even military forces will manifest considerably greater flexibility and political diversity than in the past, occasionally accepting even previously illegitimate movements (such as Peronism), or ideologies (such as socialism).

THE CHALLENGE OF URBAN INSURGENCY

Despite (or perhaps because of) the many failures of rural insurgents, persistent revolutionaries resorted after 1967 to new

*Realization of this possibility, which contradicted Guevara's early theories, is at the heart of much of the writing by Régis Debray, who nonetheless also sought initially to explain away failure.
strategies and tactics of urban guerrilla warfare, in order to create the conditions for revolution if not the revolution itself. As a result, incidents of urban terrorism, kidnapping, robbery, and propaganda abounded during the late 1960s, and urban insurgents acquired credibility as internal security problems in such countries as Argentina and Uruguay. Thus, what rural insurgency failed to accomplish during the 1960s, it is feared -- or hoped -- that urban insurgency may achieve during the 1970s.

In practice, however, urban insurgency is now proving to be less of a problem in Latin America than was rural insurgency during the previous decade. Incidents of urban terrorism sometimes appear to be quite numerous, impressive, and worrisome. Yet, incidents alone -- even in large quantities -- need not in themselves add up to a real threat to government institutions. Indeed, despite the volume of violent terrorist tactics, the revolutionary insurgents do not appear to be gaining a strategic advantage for themselves, whether measured by organized populist support, elite fragmentation, or institutional collapse.

Politically, of course, the very persistence of urban terrorism may have profound consequences, despite the failure of insurgents to seize power themselves. Institutional disruption, as in Argentina and Uruguay, may condition both who uses power and how, thereby ultimately becoming an influential factor in national life.

Militarily, however, insurgents will probably continue to fail to seize power in urban settings because:

a. Overall, the Latin American urban sectors are generally not revolution-oriented.*

* A growing body of political participation studies show convincingly that recent peasant immigrants to cities tend to behave conservatively. See William Mangin, Peasants in Cities, Boston, Houghton-Mifflin, 1970. Joan Nelson also argues that the perception that the urban masses might be a revolutionary threat is chiefly attributable to middle class fears, given the relatively modest aspirations of migrants and their capacity to vent frustration through political channels. See her Migrants, Urban Poverty and Instability in Developing Nations, Harvard Center for International Affairs, Occasional Paper No. 22, September 1969.
b. Government institutional capabilities for control and responsiveness are generally stronger in urban than in rural areas.*

c. Many -- though not all -- of the insurgents started as romantic intellectuals and students who lacked discipline and competence at revolutionary actions, and who are now frequently too isolated to be effective despite their increased experience.**

d. The insurgents have failed to develop a rural component to complement their urban strategy, whereas historically urban insurgency alone has never succeeded militarily without rural support.***

These points may on occasion work at cross purposes to other processes. Thus the relative technical inefficiency of youthful radicals must be balanced against the political advantages of a continuing renewal and recruitment of leadership in tune with recent grievances. Nevertheless, the cumulative weight is clear: urban insurgency certainly has no greater prospects for success than did rural insurgency.

* This is probably true despite the persistence of notorious problems of competition and absence of coordination among most Latin American police, military, and other security forces. Even in Uruguay where they frequently make the authorities look like fools, the *tararos* can only aspire to seize power by political, not military, means. This conclusion is supported by Robert Moss, "Urban Guerrillas in Uruguay," Problems of Communism, Vol. 20, No. 5, September-October 1971, pp. 14-23, who nonetheless also argues that the very presence of urban terrorists threatens democratic institutions.

** The exceptions are chiefly to be found in "traditional violence" situations where radical causes were grafted onto banditry. For one example, which can also be applied mutatis mutandis to Venezuela, Guatemala, and Mexico, see R. L. Maullin, The Fall of Dumar Aljure, A Colombian Guerrilla and Bandit, RM-5750-ISA, The Rand Corporation, November 1968.

*** Evidence for this general argument is presented by L. Gann, Guerrillas in History, The Hoover Institution Press, Stanford, California, 1971.
THE DECLINE IN EXTERNAL SUPPORT

Not only do internal political-strategic considerations not favor seizure of power by urban insurrects, but the external environment is no longer as supportive of violent revolution in Latin America as in the recent past. The Soviet Union, although occasionally resorting to subversion, generally gives greater weight to peaceful struggle, and both the Chinese and the Cubans have diminished their former active support for armed struggle. Fidel Castro now appears to favor a two-sided policy of normalized relations with some progressive Latin American regimes, combined with the encouragement of violent revolution in certain other countries. However, in all but one or two countries, the effective support for such revolution has receded to the level of rhetoric; for Cuba's export of men, materials, and money has dwindled to the point that the insurgent remnants frequently criticize Cuban inaction.* Simultaneously, the lowered U.S. profile in Latin America may also be defusing much of the symbolic target useful to insurgents, even as U.S. military assistance programs may have already contributed to increased local counter-insurgency capacities. Moreover, foreign participation in insurgencies, even when at the higher level of the 1960s, has been rarely, if ever, decisive in determining the outcome.**

PERMANENT VIOLENCE

To say that revolutionary violence and insurgency will probably not constitute a serious internal security threat during the 1970s is not necessarily to say that nonrevolutionary violence will abate in Latin America. Instead domestic political conflict will probably continue unceasingly -- and in some countries it might even increase. The kinds of violent disturbances which can be expected are familiar, including

1. Peasant revolt and rural social banditry;
2. Workers strikes and riots;
3. Student rebellions and demonstrations

* Despite occasional rhetorical statements to the contrary, Chile is not likely to provide much effective encouragement to armed insurrects in neighboring countries -- at least so long as good relations with these countries remain important to Chile's international posture.

** This last point is forcefully argued by Jack Davis in his Political Violence in Latin America, Adelphi Papers No. 85, International Institute for Strategic Studies, London, 1972, pp. 25ff.
4. Political strife among racial, ethnic, and immigrant factions;
5. Political conflicts involving the Catholic Church or religious leaders;
6. Populist, multi-class demonstrations and disturbances, often over electoral or economic issues;
7. Military revolts and coups d'État;
8. Assassinations or murders of political leaders; and
9. Criminal violence associated with the smuggling of narcotics, drugs, arms, and consumer goods.

These are the most durable forms of domestic political violence in Latin America. Where they exist, these activities may be regarded as internal security threats by particular regimes or authorities. Nevertheless it is not clear that such problems necessarily threaten Latin America's prospects for development, or, for that matter, Latin America's relations with the United States. Indeed, it is doubtful that development and modernization can proceed without occasional domestic violence.

Far from being abnormal, some domestic political violence is frequently a natural and even unavoidable adjunct of such processes as: bids by marginal social sectors to secure the resolution of popular grievances and to increase their participation in the established institutions; the emergence of new, modernizing elites and power contenders within the nation; and -- often overlooked -- efforts by the government to establish and centralize institutional authority over isolated and unruly rural areas of the national territory. The presence of violence, therefore, should not necessarily be considered a sign of disorder or inevitable decay. It is virtually impossible for governments to rid their societies of violence; and complete pacification might require such violence-laden suppression as to induce stagnation and be counterproductive.*

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*This, of course, is the argument of Catholic radicals, who have introduced the term "institutional violence" to characterize a state
PAST ASSUMPTIONS AND UNEXPECTED CONSEQUENCES

These forms of "permanent" domestic violence make it increasingly clear that several assumptions need to be modified and put into larger perspective, if not rejected as erroneous. Emerging as counterpoints to analyses that Latin America was on the verge of explosive revolutions, these are the interrelated assumptions that

- domestic political violence can necessarily have only bad consequences for national and hemispheric security and development;
- that the lower the level of domestic violence, the better necessarily the prospects for development;
- and therefore that nations and governments need to be automatically "shielded" against violence and violence-induced instabilities if they are to proceed with effective development.

Some commonly cited examples of the potentially bad consequences of violence and instability are: heavy budget allocations to military rather than to economic development, the disruption of foreign investment, the deterioration of already-weak political institutions, and the proliferation of anti-democratic tendencies.*

These, however, are not the only nor even the necessary consequences of violence. The presence of regionally circumscribed violence -- even including insurgency -- may actually help foster continued development by challenging the ruling institutions and elites to govern and perform in more responsible and productive ways, if they have the capacity. To the extent that the governments in various countries met


* These last assumptions, characteristic of the Alliance for Progress plans, are ably presented in the recent book, The Alliance That Lost Its Way, by Jerome Levinson and Juan de Onís, Twentieth Century Fund, 1971.
the challenges in the 1960s, official responses to problems of violence included:

- greater attention to rural needs and demands, including some agrarian reform;
- the strengthening of new institutions and organizations for channeling and responding to popular needs and interests;
- greater integration into the national political and economic processes for isolated and unruly areas;
- and improved military institutionalization and capabilities.

Thus, depending on the government's capabilities and intentions and on the characteristics of the violence itself, unsuccessful insurgency may stimulate salutary as well as adverse effects on national development. In particular, the threat of increased violence can motivate government leadership to undertake important innovations. The Peruvian revolution was in part a delayed response to problems highlighted by the 1965 insurgency but left unresolved once the immediate insurgency problem abated.* Indeed, even where the violence was considerable, as in Venezuela, the salutary consequences of the government's responses to insurgency may, over the long run, outweigh the temporary adverse effects.** Such relative optimism does not seem warranted for Guatemala and the Dominican Republic, where institutional fragility and political violence have persisted at high levels over prolonged periods of time. Yet even in those countries there have been effects (primarily relating to institutional and rural development) other than the purely negative outcomes hypothesized earlier.

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FUTURE COMPLEXITIES

To say that domestic political violence, whether revolutionary or reformist, will probably not pose a serious internal security threat to Latin American development during the 1970s is not to say that the pressures and opportunities for radical change and reform will abate or cease during this decade. Rather they will likely increase: the Latin America of the 1970s may well become more politically radical than the Latin America of the 1960s, with particularly profound consequences for land-holding elites and for U.S. economic interests.

In part, the pressures for radical change will continue to emanate from insurgent revolutionary elements. Violent measures can change political conditions; and where political instability is combined with economic difficulties and stagnation, some groups may be particularly inclined to turn to violence. Yet, rather than military victory or even political support for the insurgents, a primary effect of violence may well be the unintended mobilization of new political leaders and groupings -- of rightist and leftist as well as moderate persuasions -- who prefer institutional politics. These countervailing groups may seek electoral victories (as appears to be the most likely outcome of the activities even of the Tupamaros in Uruguay), or may even combine their institutional politics with "white terror" tactics of violence. However, these are political processes, and do not mean that the insurgents in themselves constitute serious military threats to governmental security. In some cases, governing groups may be disposed to adopt limited radical programs, if only in an attempt to preempt the insurgents and end the violence.

One striking feature of the 1970s, the above discussion suggests, is that the containment of revolutionary violence is leading to additional pressures for political change within the established institutions. In that sense, the violence of the 1960s succeeded rather than failed in fomenting change. Persons who previously might have resorted to guerrilla activities are now turning to more traditional forms of activity within, not outside, the constitutional political processes. One result for the 1970s will be that change will originate
not so much from elements operating outside the established policymaking institutions, but from the emergence of more nationalistic elites and perspectives within the established institutions, including the state bureaucracies as well as the military and the Church. Some of the pressures for change will also come from members of the established order who feel the past violence has demonstrated the need for social improvements other than better repressive techniques.

If the institutionalization of political reform struggles becomes associated with bitter divisiveness among elite factions, the contest for institutional control may naturally produce some coalition instabilities and succession crises. Moreover, such intra-elite power struggles within the established institutions may help generate some violent incidents at the mass level. Yet even under such extreme conditions, social revolution seems less likely than other potential outcomes, such as institutional disorganization, the establishment of technocratic radical reformist regimes, or even some version of fascism.

When U.S. interests seem threatened, therefore, U.S. policymakers may increasingly find that the source of a presumed threat is a government itself rather than revolutionary elements who may be classified as military internal security problems. Indeed, Latin American perceptions of just what constitutes an internal security threat are also changing. Concepts of national internal security that focus not simply on revolutionary insurgents, but more generally on economic development and social backwardness as the central problems and causes of violence are increasingly appealing to nationalist elites, including military leaders. Under this broader conceptualization of internal security, threats are perceived to come not only from left-wing extremists but also from foreign interests and local elites felt to dominate the economic structure, commit economic aggression, or create national dependency on foreign powers and markets.* Accordingly, certain U.S. economic interests may be regarded as inducing internal security threats by limiting

prospects for national development; and thus traditional U.S. notions of internal security may increasingly clash with nationalistic interpretations that are spreading among rising elites.* The ITT documents relating to Chile were, for example, published in Chile in a "translation made by specialists of the Armed Forces General Staff."**

VIOLENCE AND FUTURE U.S. POLICY

In summary, the following points stand out from this discussion, as they relate to the conditions likely to be encountered by U.S. policymakers during the coming decade:

--- Revolutionary insurgencies, whether rural or urban, are not likely to constitute major internal security threats, though they may continue to create some internal security problems.

--- Foreign support for revolutionary violence has diminished, particularly if compared to the early and mid-1960s.

--- Nonrevolutionary domestic political violence will not necessarily prove inimical to Latin American development or to U.S.-Latin American relations.

--- The most effective sources of radicalism will increasingly be found within rather than outside established institutions, as a new generation of elites assumes power.

--- Internal security problems may increasingly be seen by Latin American leaders as deriving not only from revolutionary insurgents, but also from the unchecked activities of foreign interests.

*And socialist critiques may similarly find acceptance in nationalist circles. Salvador Allende clearly is hoping to achieve this linkage by claiming violence is the historic weapon of the political right, and democracy the precursor to socialism. See his Mensaje al Congreso, Santiago, May 23, 1971.

**Los Documentos Secretos de la ITT, Fotocopias de los Documentos Originales y Traducción completa del inglés, Santiago, Abril 3, 1972, p. 5.
ELECTIONS AND THE POPULIST CHALLENGE

R. L. Maullin and Luigi R. Einaudi

Elections, which are a fundamental feature both of American life and of the ways in which Americans view other societies, have had a difficult history in Latin America, and face strong challenges from expanding electorates, new means of communication, and a growing body of political opinion that regards them as marginal — if not counterproductive — to the solution of Latin America's problems. This paper considers the place of elections in Latin America in the years ahead by examining their history, uses, and some forces affecting their conduct and outcomes.

I. ELECTIONS AND CONSTITUTIONAL DEBATE IN LATIN AMERICA

The election of national authorities is a political process that derives its legitimacy from the concept of popular sovereignty. The constitutional documents of Latin American states, written by advocates of republican government, have embraced popular sovereignty as the fundamental principle for political organization and have incorporated electoral systems as the basic technique for the selection of legitimate political leadership. As any student of Latin American politics and history knows, however, the election-based political processes embodied in Latin American constitutions have frequently been imperfectly implemented. Up to the mid-nineteenth century, one cause of the failure of election systems was the existence of politically influential groups and individuals who supported monarchist or other forms of authoritarian political organizations that rejected the concept and paraphernalia of popular sovereignty. More importantly, however, since the beginnings of Latin American independence, serious division has existed over fundamental rules for and definitions of a republican form of government among those who have supported it in principle.
Generally speaking, within 19th century Latin American political elites, a liberal view developed interpreting the concept of popular sovereignty to require frequent elections to select leaders for most levels and branches of government. Further, the liberal view promoted notions of individual enterprise and individual merit. While this viewpoint often served as a rationale for limiting government intervention in economic and social affairs, it also tended to support an expansion of the voting franchise and government protection of what we in the United States know as First Amendment rights. In short, the liberal viewpoint argued for fewer and less rigid tests for the individual to qualify as an elector of political authority.

Speaking quite generally again, a conservative viewpoint also developed that sought to use the electoral process sparingly and to limit the extension of the voting franchise only to those who met quite rigid tests. Property and literacy tests were those most commonly applied to would-be electors. As is well known, these tests have often been used to prevent certain social classes or racial castes from participating in politics and thus having a direct influence on national affairs.

One of the most important characteristics of Latin American constitutional history throughout the 19th century was the failure of either the more conservative or the more liberal constitutional viewpoints to establish a prevailing political order. After the demise of anti-republican forces, mainly through their absorption into the conservative sector of the republican elites, liberal-conservative civil wars dominated the politics of the late nineteenth century in all but a few Latin American states. As a result, constitutions providing for quite open or closely restricted electoral systems often succeeded each other as the basic law in many Latin American states. In addition to constitutional instability, liberal-conservative civil wars facilitated caudillismo — the extra-constitutional seizure of political power by militarily supported leaders. Combined with the failure to reach a constitutional consensus, caudillismo has historically provided one of the most serious impediments to the full establishment of the electoral process as the means for selecting political
leadership. One attribute of the caudillo that has been especially detrimental to the election process is that a caudillo, by applying violence for purposes other than simple self-aggrandizement, could claim to be executing the popular will and thereby characterize his behavior as the expression of popular sovereignty. In this way, caudillismo has served as an alternative to elections for selecting the people's leaders.

Gradually through the first decades of the 20th century, however, adherence to more liberal constitutional norms gained wider acceptance in practice as well as in public ideology. This acceptance seemed to accelerate after the mid-1950s. And the regular use of elections to choose national leadership and a tendency toward more extensive popular participation in the elections process appeared to be established in a majority of Latin American countries, especially the most populous and industrially developed.* By the early 1960s, therefore, several important Latin American countries with long histories of irregular and fraudulent elections or lengthy periods of extra-constitutional military rule, or both, seemed to find broader consensus for liberal constitutional order and the expressions of political contest through reasonably fair elections. Elections seemed finally to prevail in Argentina, Brazil, Peru, and Venezuela, as well as in Chile, Colombia, Costa Rica, and Uruguay where electoral traditions had taken root earlier.

II. THE ANTI-LIBERAL CHALLENGE TO ELECTORAL POLITICS

In addition to an extension in scope by the 1960s, regularized election procedures had acquired a new ideological twist. Elections were seen by many liberal and social democrats in Latin America as an integral part of the processes of economic and social development. In answer to the radical and authoritarian revolutionary formula espoused by Fidel Castro, proponents of liberal and social democratic politics

*An optimistic interpretation along these lines was provided by Tad Szulc's book, Twilight of the Tyrants (1959).
have argued that regular elections allow for the necessary articulation of popular demands for reform and development in a rational manner. Existing republican institutions, according to this view, should respond in kind. Furthermore, the liberal electoral system assured the existing elites that they would have a forum in which to defend their interests and to make an equitable adjustment to reformist desires. Thus the liberal political order with its elections offered a means by which national understanding might be reached and the destruction of existing economic and social leadership avoided. The rhetoric of the Alliance for Progress also endorsed this view of elections.

General agreement on liberal democratic politics proved short-lived, however. By the end of the 1960s in two important countries, Argentina and Brazil, the apparent consensus among politically important elites to take their chances in an election-based political process had vanished. In Peru, while most of the civilian politicians were still willing to have an election-based political system, the military, on whom the civilian political elite depended for social control, rejected the process for its failure to produce strong national leadership.

Election-based liberal constitutional orders have lost ground elsewhere besides in Argentina, Brazil, and Peru. Indeed, recent years have seen the challenge to liberal constitutional procedures increasingly articulated even by groups following the rules of the electoral game as constitutionally established. In Chile, Colombia, Uruguay, and Venezuela, major political parties or movements seek to use the procedures of the liberal political system to gain sufficient power to eliminate it, or drastically reduce its importance. The rationales for authoritarian politics found in the left electoral movements such as Chile's Unidad Popular and Uruguay's Frente Amplio, as well as among the populist parties of the former generals, Rojas in Colombia and Pérez Jiménez in Venezuela, are similar to arguments advanced by the military leaders of Argentina, Brazil, and Peru: When elimination of underdevelopment and special privilege are the primary national goals, liberal participatory politics with frequent competitive elections are
simply too awkward to produce strong national leadership. The liberal election system, this view would argue, is likely to produce only political compromise and not economic development. For critics, electoral processes allow manipulative politicians to exploit public opinion, build popular expectations greater than the national economy and society might be able to satisfy, and undermine the discipline needed to achieve a national goal such as a high rate of industrial investment.

In short, the election process founded on liberal constitutional principles has both conservative and populist detractors who would prefer to direct the state and select its leaders by authoritarian means.

— From a conservative perspective, elections raise the spectre of previously excluded social and economic classes gaining control of the policymaking organs of state and instituting processes of socio-economic changes highly destructive to established interests.

— From a populist viewpoint, the liberal election system is a cynical device used by the established order to create the illusion of popular sovereignty while assuring that established elites continue to benefit from the direction of government policy.

Strong supporters of liberal political systems continue to be found in virtually every Latin American polity. However, it would appear as the 1970s progress that competitive elections guided by liberal democratic political philosophy are increasingly in jeopardy. It would seem that if this method of leadership selection and the type of political system it symbolizes survives, it will be in those few isolated situations that make for curious exceptions in a general trend.

A critical variable for the longer term survival of the liberal election system — with its characteristics of regularity, relative honesty, broad franchise and inclusion for a wide range of political viewpoints — is consensus among politically relevant groups and individuals on the rules of the electoral game. The most critical rule, of course, is that the electoral results be respected. Perhaps the second most critical rule is that coercion not be used to influence votes. Consensus on these points appears to be on the wane, not merely
because some feel they are not attainable goals, but because others feel they are not even desirable.

Elections can be expected to be held with both regularity and order only if they are contests between parties and individuals that are essentially in agreement on the basic definition of the society and the economy. Examples of such contests in Latin America include the party rivalries between the COPEI and Democratic Action Parties in Venezuela, the Colorado and Blancos in Uruguay, and the Liberals and Conservatives in Colombia. In contrast, in Uruguay, Chile, and even Colombia, the Frente Amplio, Unidad Popular, and ANAPO (Alianza Nacional Popular) electoral movements represent different attempts to take power through a liberal democratic system these movements intend to modify once victorious. Such competition must be distinguished from that between parties in agreement on the basic order of society.

Where a party offers, not a new program within the present liberal social order, but a rejection of the old in favor of something new, many of the principles underlying elections are themselves challenged. In Latin America today, the new order most commonly advocated is collectivist in nature, and usually involves the supplanting of individual interests with those of a particular class, group, or corporation that would be interposed between the state and the individual. Individual interests would then be mediated only by the membership of the individual in a particular class or other group. A peasant, for example, should be treated as a peasant, but not as an individual. In such a system the society's basic laws should favor his class rights over his individual rights or claims.

When parties espousing such anti-liberal views compete, elections are likely to be excessively competitive and policy outcomes highly unstable. Each contestant is likely to believe that the other would impose policies that are impossible to accept. If, as occurred in Colombia with the creation of the National Front, the dominant political elites load the procedural dice in their favor (as was also done in post-war Europe, when electoral laws were devised for the specific purpose of denying full representation to parties of the far left or
the far right), then an element of imposition has been added, and the degree of coercion has grown, possibly inviting the growth of insur-
rectional violence and its military repression. In either case, the viability of liberal principles is very much open to question.

III. POLITICAL USES OF ELECTIONS

Despite the forces inhibiting regular elections, the authors believe that elections will continue to play a central role in Latin American politics during the coming decade. While it is true that constitutional forms often seem unrelated to practice, Latin American political leaders (like successful politicians everywhere) generally come to terms with the constraints and opportunities born from the political traditions that have existed since independence and adapt those traditions to serve their purposes. No matter how poorly observed, the electoral processes contained in the basically Western constitutional systems of Latin America provide opportunities for the exercise of power.

The concrete political purposes of elections, however, are often overlooked. Most U.S. analysts have concentrated on determining the number and relative size of political parties contesting elections. Out of such analyses have emerged classifications characterized, for instance, by the greater or lesser competitiveness of elections in certain countries over time.*

In our view, it is more important to focus on the political purposes and uses to which elections are put. From this viewpoint, it is clear that the alternation of public officeholders is but one of the functions of elections in recent political practice in Latin America. Three major functions stand out in our view of elections:

- as a means of changing public officials who differ little over fundamental issues;

*Useful and up-to-date reviews of some English language litera-
tems and Elections in Latin America, Markham, Chicago, 1971.
-- as a means of endorsing powerholders and what they represent in office;
-- as a means of enabling authorities whose positions have weakened to turn power over to someone else who may be able to preserve essential elements of a socio-political system.

A. Elections as a Means of Changing Public Officials

Such elections come closest to the competitive elections in the Anglo-Saxon tradition, with alternation of the political elites holding office a serious possibility. The key element underlying this type of election is basic agreement by a sufficient number of actual and potential holders of power that the election process produces an expression of popular will and respectable national leadership acceptable to most contestants. In some Latin American countries, probably a decreasing minority, elections of this nature are and seem likely to remain a mechanism for real choice among competing political elites. During the past generation, for example, this has certainly been generally true for Chile, Colombia, Costa Rica, Uruguay, and Venezuela, although even in these countries electoral systems are now being challenged by the rise of mass movements whose leaders advocate replacing liberal with collectivist values.

B. Elections as a Means of Endorsing Powerholders in Office

This form of election is held to endorse or ratify a series of political decisions arrived at by nonelectoral means. In Mexico, for example, political leaders consult within the national elite, including important private and public figures and organizations, construct a political agreement leading to a new president, and then hold the election to endorse their choice. Such an election represents symbolic national adherence to participatory democratic values and popular sovereignty, without risking the uncertainties of majority rule. Another variant of the endorsing election is the national referendum, such as the one held in Colombia to sanction the beginning of the National Front system.
Although it cannot affect directly who holds office, the numerical margin of victory for the "endorsed" candidate (calculated sometimes with such refinements as the number of abstentions) may affect the direction of policy or the balance of power. At another level the very holding of an election may serve as an outlet for popular discontent. Such elections have been typical of electoral patterns in Mexico since 1940, and those which appear to be evolving in Brazil since 1964.

C. Elections as a Means of Getting Out of Office

This electoral pattern, which will probably be illustrated in 1973 in Argentina, and which may have advocates in Peru before the end of the decade, we may typify as an "escape election." Such an election typically comes after a political group has attempted to reorder society by authoritarian techniques, yet decides, for whatever reasons, that it is important to give up the task and get out of office. While such a group may no longer be in a position to rule effectively, it is probably still capable of resuscitating some semblance of political life, holding an election, influencing the results, and turning over office to the electoral winners. Although differing in motivation, this pattern is clearly related to the "endorsing election" discussed above.*

These are not, of course, the only uses of elections. For example, elections perform an important communications function when they serve to politicize previously marginal populations. Nor is any given election held for only one purpose. We have just described "abstract types," whose characteristics will inevitably be mixed in practice, even should one type predominate. All elections, for example,

*Because of the explicit alternation between authoritarian and electoral legitimacy, this pattern frequently is part of a vicious circle in which authoritarian rulers turn over power to political parties so weakened by the intervention that their elected representatives are unable to rule and therefore contribute to a nonelectoral "solution" before the end of their period in office.
are to some extent, "endorsing elections," as we have defined them, at least to the extent that voters are offered a choice among candidates who have been previously chosen without direct consultation with the electorate or even with party followers. Even so, there is still a fundamental difference between an election among several candidates who are more or less genuinely competitive with each other and who will respect the results, and an election with a single candidate, or in which opposition candidates are known in advance to have no chance of winning.∗

IV. FACTORS SHAPING THE ELECTIONS PROCESS: ELECTORATES, COMMUNICATION TECHNIQUES AND POLITICAL PARTIES

The purposes elections are likely to serve are, of course, not the only variables affecting the role of elections in Latin American political life during the coming decade. Future "surprises" cannot all be identified or allowed for in advance, but the characteristics of electorates -- as affected by demographic factors, the continued change of legal qualifications for elections, and the impact of modern communications technology on electoral behavior -- allow us to identify additional ways in which elections are likely to evolve.

Changes in Electorates

Reflecting the population boom deriving from improvements in health care and the subsequent decline in infant mortality registered after World War II, Latin American electorates are in the short term likely to continue to grow, to become somewhat younger, and to become increasingly urban. The spread of health care, leading to increased

∗Thus, for instance, the outcome of the 1966 and 1970 elections in Guatemala, though largely fashioned without the participation of the electorate and to some extent "behind its back," were nonetheless quite different from the Guatemalan elections of 1931 and 1935 or even that of 1957, which were essentially plebiscites. Indeed, in the more recent elections, despite the fact that the distribution of votes among parties remained similar, shifts in electoral alliances led to a major left to right shift in the presidency.
life expectancy, seems likely, however, to counterbalance the "baby boom" and to stabilize the age distribution of the population. Population growth rates, among the highest in the world in the 1960s, may well not continue unchecked, and are unlikely in any case to affect the ten-year future.*

The most important demographic variable affecting Latin American electorates, therefore, is the rapid rate of urban growth due to rural-to-urban migration. Sociologists and political scientists are currently engaged in both a methodological and polemical argument over whether the growth of urban areas has created an explosively radical stratum of poor people. However, all evidence marshalled for and against the thesis of the radical urban poor acknowledges that the urban condition increases greatly the numbers of potential voters (as well as rioters or revolutionaries) exposed to a wider variety of political communication media and to an increasing diversity of political messages.

As cities continue to grow in the 1970s at rates above 5 percent annually in many cases, greatly increased numbers become available for political mobilization. As a result, the expression of mass political attitudes, whether through voting or other forms, will require much sophistication for purposeful direction or control.

Urban population growth, however, may not be the most significant new factor in shaping Latin American electorates in the 1970s. One could argue that Latin American cities had already overtaken the countryside a decade ago as the center of mass politics, whether electoral or not. Rather, the incorporation of the already existent urban masses into the potential electorate may prove to be the most significant

*Paul Schultz, in his Demographic Conditions of Economic Development in Latin America, Rand P-3885, July 1968, underscores the lack of predictive demographic theory as well as the presence of factors, such as increased urbanization and industrialization, historically associated elsewhere with declines in birth rates.
change in the electorate and, in turn, provide the electorate's greatest influence on the survival and form of electoral politics.*

Two factors in the 1970s will affect the incorporation of expanded numbers into the potential electorate: the removal of restrictive qualifications for becoming an elector and the sensitizing of previously nonparticipating peoples to the personal relevance and saliency of political activity.

As indicated by our earlier discussion, the extension of the franchise has historically been an important political issue in Latin America. By the 1960s, all Latin American states except Paraguay had universal suffrage in principle. Yet numerous and sometimes subtle legal restrictions remain in most Latin American states. For example, in Colombia, where the electoral system retains much vigor, all adults, whether literate or not, may vote. However, a voter must vote in the municipio where his national identity card was issued or where he has taken the trouble to reregister his card. Given the high rate of rural-to-urban migration, reregistration has been an important bureaucratic impediment to voting for many potential voters. In Colombia's case it most likely works against the greater success of Rojas Pinilla and his party.

To use another example, Brazil's electorate is reduced in size by a literacy requirement. If age alone were the sole qualification in Brazil, the potential electorate would be twice what it is today.

The liberal reformist advocates of competitive election systems can be expected to continue the effort to eliminate restrictive barriers to mass enfranchisement. Their efforts will be joined by populist political movements for different, yet obvious, reasons. Nevertheless, it is unlikely that technocratic and elitist groups, especially where they are in power, will encourage further liberalization of the legal and bureaucratic qualifications for voting. An exception

to this could arise in Peru where the regime may find it convenient to create a popular party similar to the PRI in Mexico and then hold a controlled endorsing election.

While the removal of legal obstacles to voting is necessary for an increase in the size of potential electorates, it will not, by itself, produce an expanded effective electorate for the 1970s. The most critical of all variables affecting voting is the communication of a personally relevant and salient political message. Unless he is motivated, a legally enfranchised potential voter does nothing. And if there is an administrative process required to become a voter, stimulation of some sort is needed to convert the qualified elector into a potential voter.

In brief, the expansion of the electorate has been and will be a continuing phenomenon of Latin American electoral politics. That expansion, however, is conditioned by demographic, legal, and communication factors. The conversion of any expanded potential electorate into an effective political force depends much on the complex methods of communication currently available in Latin American societies.

The Impact of New Communications Technology and Political Parties

It is already a well-worn cliché that Latin America is now transistorized and that television is having a phenomenal impact on public opinion. It is, after all, over a decade since Fidel Castro began conducting government by TV. However, it would be valuable to summarize briefly some of the more important qualities of the modern political communications media, especially as they may affect future electoral situations in Latin America.

The rise of television means that the individual candidate often assumes greater importance than his political party. This has been a marked event in the United States and in Western Europe (where it has undermined the discipline even of the great multiparty systems, as in France). There is no way for a traditional party organization
to keep pace with the direct transmission of messages afforded by television. Latin America is an excellent example of this dynamic. General Rojas in Colombia, like George Wallace in the United States, can draw votes from persons who unhesitatingly identify themselves as members of a party opposed to him, but are voting "for the man."

Not all aspects of the impact of television are clear, but it clearly affects campaign styles as well as outcomes. Contrast the television message, usually short, pithy, generally issue-oriented, and addressed to a relatively detached audience, with the emotion, length and historic symbolism of a plaza orator.

Like the role of radio, television's long-range impact may well be one of substance as well as style. Television is a truly mass medium that carries its own message. Its message is that the masses have a role in determining who will run things, even if the expression of that role is a programmed response to a previously selected alternative. To use electronic mass media well requires "market research" into habits, desires, and tastes of the target audiences.* And since the audience in question is generally a large heterogeneous urban population, there is a premium on the analysis of an extensive list of sociological, psychological and economic variables that present themselves in a number of political contexts. Success in winning Latin American elections in the 1970s, no matter which motivations we have described previously predominate, will depend greatly on the level of analytic competence in utilizing the electronic media of mass persuasion.

In spite of the increased importance of electronic media and their attendant processes in Latin America, other forms of communication, from the bayonet to the whispered word of a parish priest to the color of the party flag, will continue to have a major

*Relatively little is available on the use of modern campaign techniques in Latin America, even though it is clear that a new generation of technically proficient political managers is emerging in party organizations. The authors are particularly aware of this in Chile, Colombia, and Venezuela. See also H. Goldhamer, ed., The Social Effects of Communication Technology, The Rand Corporation, R-486-RSF, May 1970, for a more general discussion.
role in influencing election outcomes. Putting aside the role of coercion, which is generally the form of communication used by a political force unable to persuade voters by other means, the longer established structures of communication such as political parties require comment.

The principal function of political parties in elections is to aggregate public opinion and to give it a simple means of expression through a vote for the party candidate or symbolic label that best summarizes whatever the voter stands for or thinks the party stands for. In a sense, political parties save voters much work by having the minority that dominates them do most of the political work and thinking.

In those few Latin American countries where political parties have penetrated through the various strata of society, widespread party allegiance has permitted the luxury of making political decisions without too much threat of direct and volatile popular reaction. In this way political parties operate as social control mechanisms, allowing other institutions of the liberal political system, such as legislatures, to function relatively well. Examples of states with penetrating party systems include Chile, Colombia, and Uruguay.

However, the same party system which may shield the elite from excessive popular demands can, under certain circumstances, promote fanatical loyalty to party symbols which will not admit defeat in any election contest. In Colombia such fanatical party feeling has contributed to widespread political violence.

The role of political parties in Latin American elections in the 1970s will vary according to the type of election. In Mexico, for example, the PRI will continue to provide the institutional process in which future presidents are selected prior to endorsement by popular vote. In another of its roles, it will contribute both organizationally and symbolically so that Mexican voters will continue to "vote for the flag." Wherever endorsing elections are or become the rule, a political party of the regime might well take on some of the properties of the much studied Mexican PRI.
Elsewhere, however, the importance of political parties for the selection of candidates and for the disciplined organization of voting blocs should diminish. Wherever access to news and advertising media is relatively free, elections should witness more candidacies and campaigns in which the personality of the candidate and his capacity for direct communication with voters through the media will be more important than the vote gathering of party activists or the psychological hold of the party label on political allegiances.

Nevertheless, it would be wrong to forecast the total eclipse of political parties as electoral agents in those states that already have parties with formal structure and popular followings. Not everyone who wishes to participate in politics can be a charismatic television star; political party activities, especially where there is a tradition of bureaucratic organization, provide means for many to have or think they have some political role. Furthermore, party bureaucracies in states with frequent competitive elections have been in the forefront of adapting the modern media of political communication to the local situation. As we pointed out earlier, fruitful use of these media requires sophistication and an analytical approach. While the personality of the candidate may be the most critical variable in stimulating voters, a party organization may be essential for providing the technical expertise and the finances to utilize mass media effectively. Where parties still have mass followings, traditional vote gathering techniques continue to be of value. There is no conflict in objective between the prophet on television and the missionary or boss in the ward.

Finally, traditional party allegiances can be expected to continue through the decade. To be a Liberal or a Radical or a Copeyano, to judge from the public opinion and voting behavior studies on hand, appears to be an ingrained part of the personal identity of large numbers of citizens in the Latin American states where party life has flourished. These allegiances, in spite of the siren of extra-party charismatic politicians, should persist in the 1970s as other politicians seek to capitalize on their existence.
V. CONCLUSIONS

Elections play too important a part in Latin American political life for them to fade away. In most countries, elections have historic roots in political and social life. Even authoritarian regimes need elections as escape valves for the pressures of popular discontent and, in the long run, for themselves. The impact of growing electorates and new communications technology has nonetheless raised the level of uncertainty facing political leaders seeking to organize public support.

When elections are held in Latin America during this decade, sophisticated use of mass media to deal with expanded electorates will be increasingly in evidence, no matter the relative degree of freedom of choice in the given electoral contest.

Elections in the 1970s may therefore conform less than ever to the competitive liberal democratic model in which parties dispute power on the basis of programs. Nevertheless, elections to endorse or select national leaders during the 1970s seem likely everywhere but in Cuba, where the basic concept of popular sovereignty as expressed through elections survives only in the organizational life of certain mass organizations.
PATTERNS OF CIVIL-MILITARY RULE
David F. Ronfeldt

This paper analyzes trends in civil-military relations in Latin America, and arrives at the following major conclusions. The common rigid distinction between "military regimes" and "civilian regimes" seems to be analytically misleading. Rather, virtually all Latin American governments are ruled by fused civil-military coalitions and "civil-military regimes." These come in varied forms, some more civilianized and some more militarized, depending upon the nature of the elite coalitions, their policies, and their institutional bases in the particular country. Though there may be long-run trends in favor of eventual civilian dominance, political participation by the Latin American militaries has been a natural process sustained by both civilian and military elites, and can be expected to continue significantly during the 1970s. In general, the leading countries of Latin America may now be developing toward new civil-military-clerical coalitions of nationalist elites recruited from, or aligned with, sectors within the new middle classes. As in the past, tendencies toward political corporatism will be strong, but each country model will remain unique.

I. A CONCEPTUAL DISTINCTION WITH POLICY RAMIFICATIONS

In both academic and policy literature, the concepts of "military regimes" and "civilian regimes" are commonly used in discussing Latin American governments. Accordingly, Argentina, Brazil, Ecuador, and Peru are said to be governed today by military regimes — while Mexico, Chile, Colombia, Costa Rica, the Dominican Republic, and Venezuela are governed by civilian regimes. Other Latin American regimes — Bolivia comes instantly to mind — might be classified as "mixed civil-military regimes"; yet most are still perceived as pertaining to one polar type or another. One striking consequence of this perspective has been to view recent Latin American political history as a cyclical succession
of alternations between the two types of regimes, each considered to be quite different in nature. The hallmarks of civilian regimes are said to be rule by an elected civilian executive, by an active legislature and judiciary, and by a functioning party system. The defining characteristics of military regimes are understood to be forceful, extralegal rule by military officers, and the abrogation of the constitutional rights of civilian participatory institutions (such as legislatures and political parties).

Contrasting stances about the merits and demerits of civilian and military regimes in national development have clearly influenced controversies about U.S. recognition and aid policies toward Latin American countries. In 1969, the Rockefeller report advocated close relations between the United States government and military regimes in Latin America; and other spokesmen have argued that military takeovers may provide the best protection for U.S. interests threatened by radical nationalism. From a contrary perspective, the Kennedy Administration had earlier brought the ascendance of officials and analysts who believed that diplomatic recognition and foreign aid should be withheld from undemocratic military regimes. Indeed, the debate about whether and how the United States government might discourage militarism through its aid and recognition policies remains very much alive in legislative and executive circles.

Thus we see that an important range of policy consequences are related to the original conceptual distinction between civilian and military regimes. Of course, policy formulation depends upon a variety of factors and distinctions besides the one discussed here. Yet, almost as a matter of course, by establishing such contrasting types the civilian-military distinction facilitates polarization between those who favor siding with one type of regime or the other — to the detriment of what might be a middle course, one perhaps more dependent upon the policies or political style of a given regime than upon its source of recruitment.
II. CIVIL-MILITARY COALITIONS IN LATIN AMERICA

The chief executive offices of a country may be occupied by civilians or military officers. That usually is the criterion by which regimes are typed as being military or civilian. However, governments consist of much more than just the formal top executive officials. The formal rulers rarely determine the nature of rule by themselves. And it is when we move from asking the question, "Who occupies the chief executive offices?" to asking instead, "What kinds of persons and groups rule the government?", that we find that the military-civilian dichotomy becomes artificial.

Take a look at what many consider to be examples of military regimes. Upon inspection most are seen to remain highly dependent upon civilian allies, particularly in economic matters. Indeed, without the cooperation of some civilian elements and power elites, most so-called military regimes would probably soon collapse. Military leaders typically require some civilian allies in order to remain in power, almost more than the ruling officers need the full support of all military sectors, as is currently the case in Argentina and Bolivia. In some cases (such as Brazil and Peru), the role of civilians in military-dominated regimes is exemplified by the technocrats who side with military officers in order to gain power and position. In other, mostly historical, cases old civilian oligarchs have sought to use military executives in order to protect their holdings and privileges. Moreover, in almost all cases civilians occupy many if not most of the cabinet posts, and still staff the federal and state bureaucracies.

Even the most militarized regime in Latin America, that of Peru, has important civilian components. No other Latin American nation has undergone such a rejection of civilian leadership by military officers, no other country has an executive cabinet entirely monopolized by military officers, and in no other country is the military as an institution so completely in charge of the national government. Radical and reformist military nationalists have resolutely seized the reins of power from the old civilian political and economic establishment. Yet in fact, the military rulers need some civilian allies within their coalition in order to sustain the nationalist regime and implement its
policies. Civilian technocrats in particular have been invited to participate. The military officers remain the constant in the ruling group, but it is becoming increasingly clear that the varieties of civil-military coalitions that form on different issues help keep the military in power and determine the policy responses to those issues. Indeed, Peru's recent "super-militarization" is not only very rare for Latin America, but may have inherent instabilities which will over time cause the government to resemble less and less a "pure" military regime, and more and more a military-dominated civil-military regime. For the present, however, civilian participation and influence in the regime remains concentrated in the middle levels of the executive bureaucracies and in outside economic pressure groups. Similar coalition analyses can be made of Argentina, Bolivia, and Brazil, where the roles of various civilian groups are currently much more significant than in Peru.

Let us now look at many so-called civilian governments. Sometimes military officers occupy other cabinet posts than just the Ministry of Defense. Quite frequently military officers are heavily involved in the operation and direction of state enterprises, administrations, and government bureaucracies, as in Argentina under Illia and Brazil under Kubitschek. Not uncommonly, military officers may serve as brokers for particular civilian political groups (such as among peasants) who wish to obtain some concession from the government but are not well represented in the party structure. This is still the case in Mexico. Furthermore, the stability of most civilian rulers in Latin America has depended critically upon the active partisan support and approval of at least some military sectors. Thus, on closer inspection many so-called civilian regimes appear to be unexpectedly dependent upon some military participation in politics.

Even in cases which appear to be highly civilianized, research leads one to doubt the real extent of demilitarization. To take a leading example, Mexico is reputed to have one of the best tamed and most apolitical militaries in Latin America. Yet in fact the viability of party-government rule by the post-Revolutionary civilian elites has depended critically upon partisan military support. In particular,
military policing and internal security measures have provided the shield for the decades of electoral victories by the government's official party. Military officers (not always retired or inactive, as the law specifies) continue to occupy legislative and middle-level bureaucratic posts in the party and the government. At the state level, military zone commanders, as presidential appointees, are second in power only to the state governors, and can assume primary political importance in case of conflicts between the president and the governor. Moreover, the zone commanders and other military officers in the field sometimes serve as alternative routes of political articulation for discontented peasants who feel that they are being mistreated by the state's civilian officials. As a result of internal security problems, currently the army's role as a partisan political institution may be assuming greater significance. The elucidation of these considerations is not to deny that Mexico has a highly civilianized political system by Latin American standards, but to point out that — especially in contrast to U.S. professional standards — the Mexican military continues to be engaged in a number of partisan political activities, especially at the middle level of the regime, and that the army's conduct of these roles and responsibilities has been very important for the stability and viability of the established institutions.

Indeed, the more research one does on Latin American regimes, the more it becomes apparent that, from a commonsense definitional perspective, neither of the two ideal polar types — pure military or civilian rule — is or has been particularly common in Latin America. The empirically common fact in Latin America is rule by civil-military coalitions, regardless of who formally occupies the chief executive offices. That then is what should be conceptualized — as itself, the "civil-military regime," and not as some mixture or the middle of some continuum based upon the civil-versus-military dichotomy.

A civil-military regime is not simply the compromise blend of a civilian regime and a military regime. Nor is it some stopping-off place between the two. Rather, the civil-military regime is a sensible
concept on its own -- just as an authoritarian system is distinct from, and not the mixture of, a democratic and a totalitarian system.* Indeed, it appears that rule by civil-military coalitions through some form of civil-military regime may be the archetype for Latin America (and even other areas) under certain conditions.

This is not to deny that civil-military regimes come in many varieties. They do, usually varying according to two major processes. (1) General civilian influence typically declines as military influence increases (and vice-versa). (2) Less noticed, but just as frequently however, the influence of certain civilian sectors and that of certain military sectors may rise or fall together, whether because of ideology, class, opportunity, or some other alliance factor. Both of these two general processes are defining characteristics of civil-military coalitions and regimes; and it is particularly the second common phenomenon that prevents the complete exclusion of either civilian or military elements from active political participation. Any simple civil-versus-military approach obscures the latter, with detrimental effects for the analysis of Latin American politics.

Whether government regimes appear more or less civilian, or more or less military, in nature depends upon a variety of complex dimensions that detail military participation in politics, possibly including:

--- Do military officers occupy formal political posts?
--- Do they act as policymakers rather than policy instruments?
--- Do their political activities occur at higher rather than lower levels of government?
--- Are military officers concerned with other than strictly military institutional issues?
--- Do they control "nondecision" policy issues, with which civilians are not supposed to tamper according to the rules of the game?

-- Do civilian politicians treat the military as a significant political constituency affecting government stability?
-- Is policy implementation and enforcement accomplished through military or paramilitary coercion?
-- Is political conduct expected to conform to standards of military discipline?

The answers would tend to be generally affirmative for militarized regimes, whereas civilianized regimes would be characterized by a relative absence of these characteristics. Of course, this is a very tentative and frequently interrelated listing of possible dimensions. Nevertheless, the list illustrates the complexities of measuring military participation in politics, and of describing regime types.

This is not necessarily to argue that the terms "civilian regimes" should be abandoned as pure imagery, for they may be too ingrained for that to happen. At least, however, they should be understood in a different light than before: as they apply to Latin America, both types are typically dependent upon civil-military coalitions and alliances, neither type occurs in pure form, and in many cases the term "civil-military regime" may provide a more accurate intermediate image. In that sense, there has been as much continuity as change in Latin American political development over the decades. Analyses that have emphasized the cycling between civilian and military regimes tend to be overdrawn -- even though there may be a long-run historical thrust in favor of thorough civilian control and military depolitization.

III. CONTEMPORARY TRENDS IN MILITARY PARTICIPATION IN POLITICS

What makes military participation in politics, and therefore civil-military coalitions, so normal? Basically, the complex answers lie both in:

*This entire section draws extensively on earlier Rand work on the changing roles of the Latin American militaries in national development. Particularly useful research is in Luigi R. Einaudi, The Peruvian Military: A Summary Political Analysis, RM-6048-RC, May 1969; Luigi R. Einaudi, Peruvian Military Relations with the United States, P-4389, June 1970; Luigi R. Einaudi and Alfred C. Stepan III, Latin American Institutional Development: Changing Military Perspectives in Peru and
(a) conditions that are internal to the militaries, and comprise a "push" toward political participation; and
(b) external characteristics of the civilian political context that comprise a "pull" for political participation by the militaries.

Some of the factors that need to be taken into account are politicizing trends in (1) constitutional realities, (2) institutional developments, (3) elite orientations, and (4) critical public policy issues — for their effects on both internal military conditions and on the external political contexts.

Constitutional Realities

In the first place, strictly civilian standards of legitimacy and authority are neither constitutionally established nor widely accepted. Political actions by the militaries are constitutionally sanctioned in a majority of Latin American countries in times of assessed legitimacy crises or domestic disturbances. These well-established constitutional prerogatives contribute to both the internal and external bases for military political roles, and will certainly continue into the 1970s — and indeed until such time as legitimacy attaches only to civilian rule.

Institutional Developments

Secondly, and perhaps above all else, military participation in politics follows from weaknesses in the civilian political institutions, which are generally lacking in relative power and effectiveness. As


* An illuminating analysis of the complicated concept of institutionalization is found in Samuel P. Huntington, Political Order in Changing Societies (Yale University Press, 1968) — though he underplays the roles of the national bureaucracies in favor of political parties.
gross generalizations, the major civilian political institutions are the national parties and the federal bureaucracies. The weaknesses of so many party systems, and therefore of most legislatures, have frequently allowed institutional power (that is, political power deriving from organizational, as distinguished from personal or factional, bases) to concentrate in the federal bureaucracies. Further weaknesses in the civilian bureaucracies have enabled some institutional power to disperse into the military branch. Though of course conditions vary from country to country, marked improvements in the institutionalization and stability of political party systems do not appear to be generally likely during the 1970s, especially where populist pressures arise. Consequently, the institutional bases of political power will generally continue to center in the federal bureaucracies, including the military branch.

The power and effectiveness of the civilian bureaucracies are likely to increase in many leading countries, as increasingly competent, technically professional, nationalist elites rise to control the middle and upper bureaucratic echelons. This will have varying institutional consequences for military participation in politics, in some cases increasing the roles, while elsewhere delimiting them, depending upon coalition and other factors, as discussed further below. Eventual professional institutionalization of the party and bureaucratic systems would greatly reduce the "pull" on the militaries as political actors, but the struggle for institutionalization in the hands of a new generation of elites may transitionally expand the militaries' participation in both political leadership and public administration.

In addition to such external conditions, the internal dynamics of many military institutions, and especially the processes of military development, will continue to have independent politicizing effects on the officer corps. In a number of countries increasing military professionalism, centralization of staff and command functions, and improved military education systems are fostering elite integration and military power as well as active developmentalist orientations among the officer corps. This has been most marked in Brazil and Peru. As
a result, the potential for institutional political participation has increased at the expense of factional or personal caudillistic political tendencies -- particularly where military institutional capabilities have strengthened more rapidly than have the civilian party and bureaucratic institutions.

Elite Orientations

Thirdly, among both civilian and military sectors changing elite orientations and coalition opportunities will continue to favor military participation in politics. At present, socioeconomic modernization, and the accompanying emergence of new urban generations and middle classes, is leading less toward a civilianization of politics, than to a reorientation of the military toward modernizing roles in national development.

In the nineteenth century, ruling coalitions frequently consisted of civilian, military, and clerical elites associated primarily with a few landed upper class families; and in various forms regimes based on civil-military coalitions became the established norm, with the historic rivalry between Liberals and Conservatives. In recent decades, the emergence of new elites associated with new class, generational, and institutional backgrounds has complicated coalition and institutional processes in ways that have sustained political participation by military officers. During the 1970s an uneasy balance between older and new elites will still probably prevail in many Caribbean, Central American, and smaller South American nations. The most viable governments will probably continue to be based on coalitions that cut across generational and class lines, and that include civilian as well as military leaders -- whether the regime resembles a dictatorship or a democracy.

In the few larger and more developed Latin American nations, the 1970s will be increasingly characterized by the institutional predominance of the newer political and economic elites, especially those

*For a fuller treatment of recent elite orientations, see Edward Gonzalez and Luigi Einaudi, The New Leadership Generation, above.
that favor rapid socioeconomic and technological growth. Many of them also favor radical reforms. Nevertheless, the emerging reformist ascendency will probably not be accompanied soon by a general rejection of military participation in politics.

What are some of the reasons for this? Among civilian sectors, the newer elites are competing not only with their institutional, generational and class predecessors, but also with each other. In the ensuing struggle for power, some factions will continue to seek and use political allies among military elites; and indeed nationalistic civilian technocrats in the bureaucracies may prefer like-minded "efficient" military officers over "incompetent" party leaders as political allies in the drive for rapid national development and reform.

Within the military institutions, the newer officer groups appear to be just as politicized as their predecessors. They frequently seem to retain historic military dispositions toward anti-Communism and anti-populism, though individual officers have become notorious populists during their political careers. Moreover, though it is difficult to generalize whether younger officers are more or less anti-oligarchic, pro-democracy, pro-U.S., or pro-Marxist than their predecessors, in general the newer officers tend to favor institutional over caudillistic or factional standards of political participation, to have relatively high expectations regarding civilian performance in the parties and bureaucracies, to increasingly rely on technical criteria in the evaluation of government policies, and to advocate rapid national economic development. The overall result is not to decrease the political interests of the military elites, but rather to reorient them in the political direction of active military support for national development and reform.

National Development Problems

Finally, certain public policy problems foster a politicization of military roles in national development. Three problems that had this consequence during the 1960s are: internal security, civic action, and public administration.

Internal security and civic action missions have induced concern
among officers for national development, and facilitated the formulation of security doctrines that encourage radical or reformist political roles for the military as an institution. Likewise, domestic violence has increased the political dependence of ruling civilian elites on military allies, especially in cases where the violence was partly rooted in inter-elite competition. Moreover, government efforts to establish central control over unruly rural regions, as spearheaded by military civic action teams, often obliges civilian elites to draw military officers into the political and economic processes in those regions, partly because the military may initially be the strongest national institution there.

In public administration, the quest by reformist civilian sectors for professional and technical competence within the bureaucracies charged with resolving critical development problems may facilitate political as well as administrative reliance on military participation in countries where the military education system produces skilled officers. Likewise, nationalist military officers who perceive that the civilian bureaucratic agencies are inefficient at resolving critical development problems may resort to political activities in order to rectify the policymaking process and further national development.

These three problem areas — internal security, civic action, and public administration — will probably continue to sustain military participation in politics in a number of countries during the 1970s. However, they may be countered to some degree by newer trends, such as: a subsidence in the seriousness of internal security threats; a military reorientation toward conventional external defense missions; and the gradual enlargement within the bureaucracies of competent, technically trained, civilian cadres.

**Political Strategies**

Because of the foregoing factors, then, it becomes natural for civilian elites (or at least significant elements of them) to include military institutions and officers in their political strategies. From a power perspective, civilian elites tend to need military officers as political allies in order to establish durable governments and exercise
legitimate political force. Indeed, even elites who would prefer to exclude the military from politics may also need to attract military allies in order to counter military support for a rival civilian (or civil-military) faction, or even to prevent a military coup. Such general conditions can be expected to prevail in most of Latin America during the coming decade, thereby making it politically unrealistic to expect civilian sectors to foster the general exclusion of the military from political participation. Politicizing pressures on the military will ease when the major civilian political institutions (the parties in particular) acquire a stability and effectiveness such that civilian needs and competition for military allies begin to assume lowered political significance -- a development that does not seem likely during the 1970s on a hemisphere-wide basis.

Meanwhile, internal military dynamics -- and especially the processes of military development as a component of national development -- will also continue to foster varying political roles for the officers and the institution during the 1970s. Even any eventual revulsion among officers against military institutional domination of the political system in such countries as Argentina, Brazil, and Peru will not eliminate (though it would reduce) the internal pressures for some political participation. At least some segments of the officer corps will retain political interests, and important residual military political roles will continue, as in Mexico.

Collectively, these trends lead to two conclusions: (1) that military participation in politics is becoming increasingly institutional, as opposed to personal or factional, in nature; and (2) that, in the interests of national development, military participation in politics is increasingly oriented to modernizing "system-transformation" roles as well as historic "system-maintenance" roles. These emerging developments contrast strikingly with traditional military roles that were based on personalistic caudillismo and oriented to the preservation of the traditional status quo.
IV. TRENDS IN CIVIL-MILITARY COALITIONS

Varying civil-military coalitions and regimes will thus continue to predominate in Latin American politics during the 1970s. Narrowly civilian or highly militarized ruling coalitions will prove to be inherently unstable, and thus will either be supplanted in power or become transformed into more balanced civil-military coalitions. For example, while the Peruvian military seeks to attract civilian allies, the Chilean government needs military allies.

What general forms may civil-military relations be expected to assume during the 1970s? The four regime patterns that are identified here are: (1) the disorganized regimes; (2) the "liberal democratic" regimes; (3) the institutionalized military regimes; and (4) the "incorporative" regimes. These four patterns are distinguished primarily according to the balance or imbalance between civilian and military members of the ruling coalition (that is, an elite dimension); and according to whether the ruling coalition derives its institutional power mainly from the bureaucracy, the party system, the military, or all three institutions together (that is, an institutional dimension). In general, the "liberal democracy" and the institutionalized military regime conform most closely to the original concepts of civilian versus military regimes, whereas the disorganized and corporate versions do not necessarily correspond to either polar type. All are essentially authoritarian in nature, though the Latin American version of "liberal democracy" is usually the least authoritarian.*

* These patterns represent four general ways of viewing and grouping the varieties of civil-military relations that continue to occur in practice in Latin America. They are not ideal types. Moreover, they allow for considerable fluidity in practice, since particular countries are so often characterized by different kinds of regimes at different times in their history. Furthermore, it should be noted that the rough typology is based mostly on the structure of civil-military relations, and indicates or includes very little about actual government policy orientations. Policies may and indeed do vary widely among the cases which pertain to each pattern, a point (discussed below) that further dilutes the utility of civilian-military dichotomies as a basis for policy. Finally, the typology emerges mainly from a consideration of politics in the leading countries in recent decades. Yet it has roots in earlier history and is also relevant for considering conditions in the smaller, less developed Latin American countries.
Disorganized Regimes

Bolivia and Guatemala currently exemplify what is here termed the disorganized civil-military regime. Moreover, since the mid-1960s, the unstable Argentine governments have also resembled disorganized civil-military regimes. In such cases, elites within both the party systems and the military are highly factionalized, and neither the parties nor the militaries alone provide strong institutional bases for political rule. The result is a highly unstable political system, with considerable political power centering in personalistic oligarchies within the government bureaucracies, and with political rule subjected to fluid civil-military alliances. The needs of civilian and military factions for mutual alliance are aggravated by the fact that both elite types lack stable institutional bases of power and support. Competition for allies becomes highly active in this situation, perhaps contributing to demagogic and nationalistic political orientations. Since institutional growth is an arduous and time-consuming process, one can expect unstable politics to continue in these countries, though some stabilization of the party system is appearing in Guatemala, and military institutionalization is moderately high in Argentina. Of course, as in the comparable European example of the French Fourth Republic, government instability is reflected mainly in frequent personnel changes at the top, while general institutional conditions really remain quite unchanged and therefore stable.

"Liberal Democratic" Regimes

"Liberal democratic" regimes currently predominate in Colombia, Costa Rica, Uruguay, and Venezuela (and were earlier dominant in Peru and other countries). Though liberal democracies are highly civilianized, in Latin America they have also tended to be a type of civil-military regime. The ruling civilian (often including retired or military) elites have fairly strong institutional bases in competing parties and the bureaucracy, but not necessarily in the military. Moreover, at first the military may be institutionally rather weak as

*For a fuller discussion of the ways in which Latin American "liberal democracies" vary from the U.S. model, see Richard Mauhin and Luigi Einaudi, *Elections and the Populist Challenge*, above.*
a power contender (the case in Costa Rica and Uruguay) or rather weakly institutionalized as a military organization (initially the case in Colombia and Venezuela). Attempts are made to separate military officers from open political participation and to relegate the military institution to residual political roles. Attempts may also be made to exclude some civilian contenders from gaining power through the electoral process, as in Colombia, and as may become the case in Uruguay. At the same time, the civilian leaders depend upon some political support among military leaders, as a guarantee of government stability, or as a prevention against coups. With the exception of Costa Rica, in very recent years such highly civilianized regimes have not proven their stability. In several countries both the parties and the bureaucracies are having trouble coping adequately with socioeconomic development problems and with populist political pressures. This is most clearly recognized by nationalistic technocrats in the bureaucracies, by skilled political leaders (including retired army officers) who see the potential for organizing populist movements, and by developmentalist military officers. Moreover, in Colombia and Venezuela mass opinion remains relatively receptive to renewed military rule; and while bureaucratic performance and party viability have faltered somewhat, military institutionalization has progressed — perhaps increasing the pressures and opportunities for an expansion of the military's roles. This has been particularly evident in Colombia, where the military has assumed a greater developmental as well as coercive role in coping with left-wing insurgency in the 1960s. Thus the liberal democratic regimes are apparently not yet offering stable long-term solutions to Latin America's problems, even though trends may favor eventual civilian dominance. This does not necessarily mean that military coups are likely in such countries. Yet it does mean at least that even liberal democratic regime forms in Latin America remain dependent upon civil-military coalitions, and that there may be limits to the extent of civilianization that is practicable without endangering regime stability.

Institutionalized Military Regimes

Institutionalized military rule, as in Peru and Brazil (and to some
extent Argentina), provides a contrasting form of civil-military regime. Military elites predominate in the ruling coalition, in alliance with civilian bureaucratic elites. Indeed, the military institution is the strongest and best integrated in the political system, sharing political power with the federal bureaucracies. The political party system is disorganized as an institutional basis for effective rule — and indeed its prior disorganization, and the ineffectiveness of party elites, provided preconditions for the institutional coup.

In Brazil and Peru national development processes gave rise to advanced military institutionalization, and created both politicized military officers interested in rapid national development and civilian technocratic allies who rejected the party in favor of bureaucratic and military politics as the rapid path to national development. In both the Brazilian and the Peruvian cases the new ruling coalition deliberately dismantled the old party system and spurned the old party elites. However, in both cases the military officers are acutely aware of their need for civilian allies.

In Brazil, civilian technocrats are included in the military's high quality educational and training programs, and moreover halting efforts are being made to reinstitutionalize civilian political participation in a new — and for now very subordinate — party system. If the military rulers and their civilian allies are eventually successful, then the Brazilian regime will acquire a strong integration between new civilian and military elites, and strong party as well as bureaucratic and military institutional bases, the most favorable context for prolonged political stability, whether under continued military or subsequent civilian leadership.

In contrast, the Peruvian officers have so far afforded much less attention to the development of new civilian elites. The integration of military and supportive civilian elites is much weaker. And very little is being done to restore party bases for future civilian political participation, which currently is left to focus on the bureaucracies. Any civilian-dominated successor regime might be unstable, and highly dependent upon military allies, if popular participation problems are not resolved.
Accordingly to this analysis of both the Brazilian and Peruvian cases, the institutional military regime is likely to be but a temporary approach to Latin America's development problems — yet it is an approach that may be tried in other countries when their elite and institutional conditions resemble those described here.

Incorporative Regimes

The fourth, and in many ways the most stable form of civil-military regime in Latin America may, for want of a clearer term, be called the "incorporative" regime. Virtually the obverse of the disorganized regime, this pattern is characterized by relatively strong elite integration among civilian and military leaders; by rather equally strong institutional bases for the ruling coalition's power in the executive bureaucracy, the party system, and the military together; and by an interlocking or corporative relationship among these three basic institutions, such that the military institution is an integral though not necessarily dominant partner of government rule. Many single-, or government-party systems best exhibit these characteristics.

Perhaps the clearest historical examples are Argentina under Juan Perón, Brazil under Getulio Vargas (despite the late addition of the party system), and Mexico since Lázaro Cárdenas. An example from a small Caribbean country is the Dominican Republic under Trujillo. The current Brazilian leadership, presiding over an institutionalized military regime that has destroyed the old liberal democratic structure, appears interested in moving toward an incorporativist style of civil-military regime, by reorganizing the party system.

The nature of the corporative pattern of civil-military relations may be clarified by contrasting it to the other three patterns. Whereas disorganized civil-military regimes lack institutional bases, incorporative regimes typically have relatively strong institutional bases. Whereas liberal democratic regimes involve a separation and subordination of military from civilian elites and institutions, incorporative regimes normally entail considerable integration between civilian and military elites, as well as extensive institutional interlocking among the executive bureaucracy, the military, and the party system. Whereas institutional military regimes are ordinarily headed by military officers who dismantle the party system and concentrate decisionmaking
within the military, incorporative regimes often depend upon civilian or military executives who concentrate decisionmaking in national bureaucracies and also organize government-favored parties for mass support.

Incorporative regimes have tended to appear when the ruling coalition became dominated by a new generation of elites, often as a result of revolution or a radical succession. Once such regimes are established, further strengthening of the party system and the bureaucracy as instruments of control and development may enable the military's roles to become residual (though still important) in nature, as in Mexico. However, if civil-military elite integration diminishes, if the party bases of institutional support for the ruling elites erodes, or if the bureaucracy proves incapable of managing development problems, then the pressures and opportunities may increase for renewed military participation through a challenging civil-military coalition. Thus over the short run many specific incorporative regimes have become unstable and fallen, giving way to other regime patterns, though long-term trends toward incorporativism may remain quite strong.

The similarity between the term "incorporative regime" and the concept of the "corporate state" is intentional. The former term is used in this paper to refer only to the relationship of the military as a functional grouping or institution to the other elites and institutions that rule the government. The latter concept of corporatism, however, refers to a general approach to organizing a political system and the relations between society and government. Corporatism denotes an authoritarian, hierarchical system of political integration through functional representation: functional organizations are established to mediate between the individual and his government. As such, corporatism is commonly contrasted with socialism/communism (in which class is the organizing principle) and liberalism (in which the individual is the organizing principle).

The historic and continuing appeal of the incorporative pattern of civil-military relations is linked to the fact that corporatism has been and will probably continue to be a strong tendency in Latin
America, perhaps stronger than either liberalism or socialism. Indeed, most of the corporatist tendencies in Latin America. The best analysis to date is Howard J. Wiarda, "Toward a Framework for the Study of Political Change in the Iberic-Latin Tradition: The Corporative Model," paper prepared for delivery at the 1971 Annual Meeting of the American Political Science Association, Conrad Hilton Hotel, Chicago, Illinois, September 7-11. He writes: "The 'corporative framework' thus refers to a system in which the political culture and institutions reflect an historic hierarchical, authoritarian, and organic view of man, society, and polity. In the corporative system the government controls and directs all associations and corporate bodies holding the power not only to grant or withhold juridical recognition (the *sine qua non* for the group's existence in the Iberic-Latin tradition) but also access to official funds and favors, without which any sector is unlikely to succeed or survive. Group 'rights,' or '*fueros,'* hence usually take precedence over individual rights; similarly, it is the general will and the power of the state that prevails over particular interests. In the corporate system the government dominates and regulates all associations and corporate bodies and seeks to tie those that have earned their place in the existing elite system into a collaborative effort for integral national development. Obviously this kind of system works best where the number of interests are small and within a context of shared values, but it is not necessarily incompatible with a growing pluralism of ideologies and social forces."

Some historical roots in Spanish liberalism are also traced in Frederick B. Pike, "Making the Hispanic world safe from democracy: Spanish liberals and *Hispanismo,*" The Review of Politics, Vol. 33, No. 3, July 1971, pp. 307-322. Additional writings that focus more directly on contemporary and future corporatist tendencies (though other terms than corporatism may be used, such as statism, centralism, falangism, and *Mediterranean authoritarianism*) include Kalman H. Silvert, "Leadership Formation and Modernization in Latin America," Journal of International Affairs, Columbia University, Vol. XX, No. 2, 1966, pp. 318-331; Silvert, "The Cost of Anti-Nationalism: Argentina," in Silvert, ed., *Expectant Peoples, Nationalism and Development*; and Claudio Veliz, "Centralism and Nationalism in Latin America," Foreign Affairs, Vol. 47, No. 1, October 1968, pp. 68-83. Various Catholic and Christian Democratic writers have also expressed corporatist ideals. Furthermore, continuing studies of paternalism, personalism, patronage politics, and general authority patterns may demonstrate that Latin American political culture is quite suited to corporatist government.
It should also be noted that socialist-communist regimes in Latin America take on some incorporative features, if only in reference to military participation in politics. Thus, as the military becomes institutionalized in Cuba under Fidel Castro, and as Allende seeks military allies in Chile, their regimes also may become incorporative toward the military.

Toward New Civil-Military-Clerical "Oligarchies"?

Oligarchy and corporatism have constituted two main tendencies of political organization in Latin America, appearing in both more democratic and more dictatorial versions.* Moreover, as a related theme, it appears that the most stable civil-military regimes have involved: elite coalitions that enjoyed relatively strong support in the three basic political institutions, the executive bureaucracy, the military, and the party system, plus the Catholic Church; and elite recruitment patterns that were generationally and socioeconomically similar in all institutional sectors. These tended to be features of the classic civil-military-clerical oligarchies, where they existed, and of both the old-style conservative dictatorships and the more modernizing corporativist governments that have appeared in more recent decades. The classic oligarchies are now relics of the past, and few countries in Latin America still can sustain old-style dictatorships.

In the years ahead, however, as new nationalist elites gain control of the major institutional sector and seek mutually beneficial alliances, new civil-military-clerical "oligarchies" may acquire political power and adopt regime forms that will continue the trends toward

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Taking into account their criticisms, the concept "oligarchy" continues to have some utility for describing Latin American political processes. As used here, the word refers broadly to relatively small, closed sets of elites who can and do concentrate political and economic power in their hands for private use, through authoritarian measures. In a similar sense, the classic academic work by V. O. Key, Southern
corporativism. At least it is tempting to forecast this as a real possibility, one that is already reflected in some recent nationalist and Catholic writings. Such new civil-military-clerical coalitions of nationalist elites, many of them probably drawn from recently developing middle class sectors, would provide a modern historical counterpoint to cases of the classic oligarchies based upon traditional upper class elites. It is too soon to tell, however, whether future corporatist regimes will lean in more democratic or more authoritarian directions.

The Uniqueness of Each Country's "Model"

Because conditions vary so greatly from country to country, one cannot expect uniform models of civil-military coalitions and regimes in practice. Rather, they will assume diverse, country-specific forms, though some institutional forms and general policies may be widely adaptable.* Certainly, neither the historic revolutionary Mexican or Cuban models, nor the Christian-Democratic Chilean model of the 1960s have been copied elsewhere, though each was widely regarded as the hemispheric trend-setting standard of its time. Likewise, neither the current Marxist socialist Chilean, the radical nationalist Peruvian, nor the conservative nationalist Brazilian regimes will prove to be repeatable models. National conditions are too diverse.

Compare the contrasting styles of the Peruvian and Brazilian cases, both institutionalized military regimes. From those cases, it appears that (1) the relative size and economic strength of the middle sectors, and (2) the entanglement of civil-military relations, both have a profound effect on the ruling coalitions and their policies. In Peru the middle sectors are relatively small and weak, partly

because of the small industrial and manufacturing base; and moreover, the military officers have maintained a strong isolation or apartness from the civilian political elites. These conditions have facilitated the radicalness of the military government's policies — for it can proceed relatively unrestrained by moderating economic pressure groups, or by established commitments to moderating civilian peers.

In contrast, in Brazil manufacturing and industrial growth has produced some large and influential middle-class sectors and pressure groups (allied with new and older upper-class sectors); and moreover civil-military relations have historically been quite entangled. These conditions have helped to channel government economic policies in conservative directions — though the rejection of the old civilian governing elites has resembled the radical severity of the Peruvian case.

What other countries in Latin America have civilian middle-sector conditions and civil-military entanglements — to take just those two variables — that resemble the case of either Brazil or Peru? Very few. If an institutional military coup were to take place in Colombia, for example, its characteristics would be just as unique as the others. The Colombian military has its own traditions, both internally and internationally. In addition, the Colombian export economy is less diversified and more dependent upon U.S. markets than is the Peruvian, for example. Both these conditions would probably inhibit the emulation of policies adopted elsewhere. In Ecuador or Guatemala, traditional upper-class elites remain so powerful within and without the military that more than a decade may pass before a radical nationalist military regime becomes practicable with much possibility of stability. In Bolivia, the military is so factionalized and uninstitutionalized that disorganized civil-military regimes seem inescapable. Moreover, sectors within the Argentine military that favor a "Peruvian solution" lack institutional strength and have to contend with such complex civilian economic sectors that again only an Argentina-responsive, not a Peru-emulating, regime has much probability of holding power during the 1970s.

Returning to the Brazilian case and just the two influential variables of middle-sector development and civil-military entanglement, we
can see again that comparable conditions do not clearly exist in other countries, although there are some similarities in Argentina and even Mexico. Yet the differences between country conditions and regime politics are legion. In particular, in Argentina the general social structure is very different from Brazil's, labor unions exercise greater influence over economic policies, the capitalist entrepreneurial interests are weaker, and factional politics tend to take greater precedence over institutional unity within the military. Consequently, a civil-military coalition that may try to emulate the Brazilian technocratic model will encounter great resistance, and will probably not succeed in other than partial ways. Thus, once again, the complexity and diversity of national conditions and circumstances obfuscates the relevance of foreign models.

Similar comparative analyses might be made regarding the relevance of civilian regime models, such as the examples of Mexico since 1940, Colombia under the National Front, and Chile under Frei then Allende. The findings would undoubtedly support the conclusion that, even though particular institutional practices and policies might be adaptable in other countries, attempts at thorough transference of one country's political model to another country will produce a quite different end result.

Concluding Observations

In essence, the foregoing discussion suggests that neither military regimes nor civilian regimes may be the wave of the future, and that the customary conceptual distinction between the two types of regimes may not provide an accurate standard for policy analysis. Instead, different kinds of civil-military coalitions and civil-military regimes will continue to be the wave of the future, as they have been in the past. As in the past, the Latin American nations may appear to oscillate between more civilianized and more militarized regimes. Indeed, by the late 1970s, it would not be surprising to see a return to civilian executives in those countries that now
appear to be setting the current trend for military executives. Over the longer run, however, civil-military coalitions will continue to be a central feature of Latin America's institutional development.
ECONOMICS

Policymaking for National Economic Growth
Perspectives on Economic Policymaking
Evaluating Direct Foreign Investment in Latin America
POLICYMAKING FOR NATIONAL ECONOMIC GROWTH

Daniel M. Schydlowsky

I. THE BASIC POLICY CONUNDRUM

In the last decade, the fastest growing sector in the Latin American economies has been the industrial sector and this preeminence is likely to continue. Thus it is appropriate to think of Latin American growth as being industry led. At the same time, Latin American industry operates to various extents with imported inputs and in all cases has some imported component in its output. Thus it is appropriate to speak of this sector as foreign exchange using. On the other hand, the foreign exchange producing sectors, mainly agriculture, fishing, and mining, have grown at relatively slower rates.** As a result, the foreign exchange using growth of industry has found itself constrained by the rate of growth of the primary activities traditionally producing foreign exchange.

The disparity in the rates of growth of foreign exchange using and foreign exchange supplying sectors was sustainable for a time while industry proceeded to substitute existing imports with domestic production, thus freeing foreign exchange for the purchase of components and raw materials. Now, however, the import substitution cycle has been played out in all of the large economies of Latin America and is well on its way to being played out even in the smaller ones. As a result, the basic conundrum of industry-led foreign exchange using growth is squarely facing policymakers: Either industry begins to generate its own foreign exchange earnings in order to support its high rate of growth, or the rate of growth of industry and thereby of the

*Research support from the Development Advisory Service, Harvard University, for part of the underlying research is gratefully acknowledged.

**The Peruvian fishing industry is the exception. However, its processing component is classified as "industry" in the National Accounts.
economy as a whole must slow down to the rate of increase permitted by the availability of foreign exchange, i.e., roughly to the rate of growth of primary production.

An increase in foreign aid merely postpones the problem since the greater availability of foreign exchange it provides allows a temporary increase in the rate of growth of industry, but upon repayment requires a reduction in the level of industrial activity sufficient to permit a saving of foreign exchange expenditure on imported inputs large enough to repay the foreign loans. Foreign private investment is of no greater help unless it is specifically in export industries. If, as has increasingly occurred, foreign investment is directed toward the newer industrial sectors, it provides a very temporary relief and then immediately adds to the problem by creating demands for various kinds of service and capital payments. Only if the inflow of foreign aid and foreign private investment grow exponentially and forever, would it be possible to regard these sources as providing a solution to the basic inconsistency of growth based on a foreign exchange using industrial sector.

It should be noticed, however, that there is no inherent reason why industry should be foreign exchange using rather than foreign exchange producing. We must therefore turn to a brief investigation of the factors which make industry foreign exchange using rather than foreign exchange producing in Latin America.
II. ORIGIN OF THE CONUNDRUM: POST-WAR DEVELOPMENT POLICY

Latin American economic development since World War II has been overshadowed by balance of payments crises. These have produced a strong import substitution drive that responded both to the desire to save foreign exchange expenditure per unit of output and thus relieve the obvious import scarcity, as well as to the desire to industrialize Latin American countries at the fastest possible rate in order to bring about modernity, higher employment, and a better income distribution.

In order to accomplish import substitution and industrialization, a series of measures to restrict imports was adopted. These consisted at various places and at various times of tariffs, quotas, pre-import deposits, and foreign exchange auctions or outright allocations.

The combined effect of all these measures has been to create an exchange rate system of a particular kind, the structure of which is fairly similar throughout most of the Latin American countries. Although it is customary to think of the exchange rate as referring to the price paid for the transfer of financial assets, it is much more useful from an economic analysis point of view to think of exchange rate systems as consisting of the financial rate and of commodity exchange rates, the latter being defined as the number of units of local currency paid in the internal market for a dollar's worth at international prices of each commodity. Thus the commodity exchange rates include tariffs and other costs that may be incurred by the importers when introducing imports into the country's economy, as well as export taxes or rebates paid or received by exporters.

The typical exchange rate system structure of Latin America may be illustrated by that of Argentina in 1966 which consisted essentially of seven categories of rates as follows:*

*Taken from "Proyecto de Modificación de la Estructura Arancelario-Cambiaria," Cámara Argentina de Radio, Television, Telecomunicaciones y Afines (CARTTA), September 1966.
<table>
<thead>
<tr>
<th>RATE</th>
<th>COMPOSITION</th>
<th>PESOS PER $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Export</td>
<td>Financial less 10% tax</td>
<td>200</td>
</tr>
<tr>
<td>Financial</td>
<td>Financial</td>
<td>220</td>
</tr>
<tr>
<td>Nontraditional Export</td>
<td>Financial + 18% tax rebate</td>
<td>260</td>
</tr>
<tr>
<td>Raw Material Import</td>
<td>Financial + 50% duties</td>
<td>330</td>
</tr>
<tr>
<td>Semi-manufactured Import</td>
<td>Financial + 120% duty</td>
<td>460</td>
</tr>
<tr>
<td>Component Import</td>
<td>Financial + 175% duty</td>
<td>600</td>
</tr>
<tr>
<td>Finished Product Import</td>
<td>Financial + 220% duty</td>
<td>700</td>
</tr>
</tbody>
</table>

Cursory analysis of the rate structure points to the likelihood of some very specific consequences following:

(a) Substitution of imports is likely to be very profitable because of the successive increases in the exchange rate affecting import of successively more complex goods. Thus the producer of finished commodities for the Argentinian market would be protected since a dollar's worth of his product competes with imports that pay an exchange rate of 700, while his raw materials and inputs would cost him somewhere between 330 and 600 pesos. It might appear that this relationship holds only if imported inputs are used, but domestic suppliers are unlikely to charge prices much below the price of the imported competing goods since they, also, wish to make use of the protection available to them. Finally, wage rates also incorporate the protection given to industry and reflect an exchange rate of say 550-600 per dollar's worth of marginal product.

(b) The export of industrial goods tends to be highly unprofitable since the producer who has to pay between 330-600 pesos per dollar's worth of inputs only receives 260 pesos per dollar's worth of exports.

(c) An inefficiency illusion of industrial production appears in which industrialist and policymaker alike believe that domestic industry is much more high cost than in fact is the case. This illusion results from converting costs or production into dollars through division of the financial exchange rate and comparison with the CIF price of competing imports. Since domestic costs are based on the
commodity exchange rates and these are usually considerably above the financial rate, it is not surprising the domestic costs appear so much higher than international prices. A large part of this apparent high cost is thus merely the result of converting local costs of production into dollars by use of an exchange rate not applicable to those costs. When domestic costs are converted by an appropriate rate, i.e., one that is related to commodity rates, Latin American industrial costs turn out to be substantially closer to international levels than is generally believed. An indication of the size of the inefficiency illusion can be derived from the data for Brazil shown in Table 1 where for simplicity the same average industrial cost rate is used for conversion of costs in all sectors.

The exchange rate system structure and the inefficiency illusion act in a reinforcing manner. Industrialists are unable to export because of the implicit export tax in the exchange rate system. Policymakers conclude that industry is inefficient and therefore ought not be supported, certainly not for the export market. As a result, no policy is adopted to offset the implicit export tax. In consequence, industrialists continue to be unable to export, and policymakers find their conviction that industry is inefficient reinforced by the fact that industry is not exporting. At the same time, as the rate of industrial growth is maintained, it becomes necessary to increase import substitution by ever higher tariffs. These raise the input cost exchange rates and increase both the implicit export tax on industrial exports as well as the inefficiency illusion. As a result, industry is ever farther away from being able to export and policymakers are ever more convinced that industry is hopelessly inefficient, thus being ever more likely to refrain from adopting a suitable export promotion policy!
Table 1
THE "INDUSTRIAL INEFFICIENCY ILLUSION" IN BRAZIL

<table>
<thead>
<tr>
<th>Sector</th>
<th>At Financial Exchange Rate</th>
<th>At Industrial Cost Exchange Rate* and**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonmetallic Minerals</td>
<td>40%</td>
<td>-5%</td>
</tr>
<tr>
<td>Metallurgy</td>
<td>34</td>
<td>-10</td>
</tr>
<tr>
<td>Machinery</td>
<td>34</td>
<td>-10</td>
</tr>
<tr>
<td>Electrical Equipment</td>
<td>57</td>
<td>6</td>
</tr>
<tr>
<td>Transport Equipment</td>
<td>57</td>
<td>6</td>
</tr>
<tr>
<td>Wood Products</td>
<td>23</td>
<td>-17</td>
</tr>
<tr>
<td>Furniture</td>
<td>68</td>
<td>13</td>
</tr>
<tr>
<td>Paper and Products</td>
<td>48</td>
<td>0</td>
</tr>
<tr>
<td>Rubber Products</td>
<td>78</td>
<td>20</td>
</tr>
<tr>
<td>Leather Products</td>
<td>66</td>
<td>12</td>
</tr>
<tr>
<td>Chemicals</td>
<td>34</td>
<td>-10</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>37</td>
<td>-7</td>
</tr>
<tr>
<td>Perfumes and Soaps</td>
<td>94</td>
<td>31</td>
</tr>
<tr>
<td>Plastics</td>
<td>48</td>
<td>0</td>
</tr>
<tr>
<td>Textiles</td>
<td>81</td>
<td>22</td>
</tr>
<tr>
<td>Clothing</td>
<td>103</td>
<td>37</td>
</tr>
<tr>
<td>Food Products</td>
<td>27</td>
<td>-14</td>
</tr>
<tr>
<td>Beverages</td>
<td>83</td>
<td>24</td>
</tr>
<tr>
<td>Tobacco</td>
<td>78</td>
<td>20</td>
</tr>
<tr>
<td>Printing and Publishing</td>
<td>59</td>
<td>7</td>
</tr>
</tbody>
</table>


* Derived as follows: rate for intermediate products 1.49
  rate for wages 1.48

** A negative sign indicates domestic price is below international price.
III. THE CONUNDRUM’S LONG SHADOW: CURRENT POLICY PROBLEMS IN ITS PERSPECTIVE

With the structure of the basic conundrum of Latin American growth policy in mind, it is useful to examine some of the major policy concerns of Latin American governments and the policy responses that have traditionally been mooted and adopted.

(a) **Raising the growth rate:** This of course has the policy conundrum at its heart, and it is very unlikely that unless the conundrum is recognized and the industrial sector is made into a foreign exchange earning sector, the rate of growth can be substantially raised and maintained at a higher level. Current policy discussions appear to emphasize as solution both foreign private investment and foreign aid. As has been mentioned before, however, foreign private investment and aid will both help only if they are used to raise the level of exports. If foreign private investment is in the industrial sector and foreign exchange is used as well, then it merely aggravates the problem. Indeed, to the extent that such investment produces "new" goods which shift the demand pattern of domestic consumption and investment towards more import intensive goods, the effect will be even more harmful.* Foreign aid used for infrastructure (i.e., local currency expenditure) will produce a temporary cushion; upon presentation of the bill for repayment very severe balance of payments problems ensue and either the rate of growth of the economy has to be reduced, a recession has to be induced, or the debt has to be rolled over. In either of these cases, no permanent solution has been achieved.

(b) **Employment:** Three possible routes to raising the level of employment exist:

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(1) Increasing the growth of capital stock with a constant capital labor ratio.

This alternative runs into the same problem as raising the growth rate since that is precisely all that it involves.

(2) Better use of existing level of capital formation through investment in more labor intensive industries, i.e., change in the capital labor ratio.

This alternative does hold more promise of not being totally inhibited by the basic policy conundrum, but it should be noted that it is not at all certain that labor intensive technologies are also import saving. Indeed, it may well be that the opposite occurs (e.g., higher raw material wastage) in which case greater labor intensity would mean an aggravation of the growth problem.

(3) More intensive use of the capital stock.

While the underutilization of labor has been recognized in Latin America for a long time, evidence is only gradually accumulating on the underutilization of capital. Not only do many of the Latin American economies periodically use installed productive capacity at levels below their own customary norm, the norm itself is based on utilization of capital at less than 24 hours a day, 365 days a year, less maintenance. While detailed information on the amount of shift work is unavailable, it appears that multiple shifting takes place primarily in the process-centered industries in which 24-hour operation is required for technical reasons. In Colombia, available data show that capital is used at about 50 percent of 24-hour capacity on the average. Available data from Argentina show deviations from the usual norm of utilization to have fluctuated between 55 percent and 67 percent of this norm on average. The sectoral detail of these data are shown in Table 2.
Table 2

ARGENTINA: UTILIZATION OF INSTALLED CAPACITY

<table>
<thead>
<tr>
<th>Sector</th>
<th>1961</th>
<th>1963</th>
<th>1964</th>
<th>1965</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and Beverages</td>
<td>48.8</td>
<td>53.2</td>
<td>48.9</td>
<td>51.5</td>
</tr>
<tr>
<td>Tobacco</td>
<td>82.7</td>
<td>81.9</td>
<td>88.6</td>
<td>91.2</td>
</tr>
<tr>
<td>Textiles</td>
<td>83.2</td>
<td>59.2</td>
<td>68.9</td>
<td>77.1</td>
</tr>
<tr>
<td>Clothing</td>
<td>88.3</td>
<td>64.2</td>
<td>72.5</td>
<td>78.4</td>
</tr>
<tr>
<td>Wood</td>
<td>72.7</td>
<td>48.6</td>
<td>55.2</td>
<td>70.4</td>
</tr>
<tr>
<td>Paper and Cardboard</td>
<td>55.1</td>
<td>48.3</td>
<td>52.7</td>
<td>62.4</td>
</tr>
<tr>
<td>Printing and Publishing</td>
<td>73.3</td>
<td>58.3</td>
<td>62.4</td>
<td>70.8</td>
</tr>
<tr>
<td>Chemicals</td>
<td>73.4</td>
<td>59.9</td>
<td>68.1</td>
<td>73.8</td>
</tr>
<tr>
<td>Petroleum Derivatives</td>
<td>87.9</td>
<td>78.2</td>
<td>84.7</td>
<td>83.6</td>
</tr>
<tr>
<td>Rubber</td>
<td>80.5</td>
<td>54.0</td>
<td>66.2</td>
<td>77.6</td>
</tr>
<tr>
<td>Leather</td>
<td>84.2</td>
<td>66.8</td>
<td>77.8</td>
<td>79.9</td>
</tr>
<tr>
<td>Stones, Glass, and Ceramics</td>
<td>70.2</td>
<td>59.0</td>
<td>68.7</td>
<td>71.8</td>
</tr>
<tr>
<td>Metals, excluding Machinery</td>
<td>59.4</td>
<td>40.8</td>
<td>50.3</td>
<td>66.6</td>
</tr>
<tr>
<td>Vehicles and Machinery (excluding Electrical Equipment)</td>
<td>78.6</td>
<td>44.6</td>
<td>56.5</td>
<td>65.6</td>
</tr>
<tr>
<td>Electrical Machines and Equipment</td>
<td>59.2</td>
<td>43.5</td>
<td>47.6</td>
<td>61.0</td>
</tr>
<tr>
<td>Weighted Average</td>
<td>67.2</td>
<td>54.6</td>
<td>59.5</td>
<td>66.1</td>
</tr>
</tbody>
</table>

SOURCE: CONADE, Results of the Survey on Production and Investment Expectations of Industrial Enterprises (Buenos Aires: CONADE, March 1965), Table 3.
Whereas it is plausible to believe that the private decisionmakers maximize profits when they design the size of their factories in such a way as to leave capital idle a large proportion of the day, it is difficult to believe that such a situation should be optimal from society's point of view. Indeed, systematic distortions in the price of capital goods as well as in the wage rate, and in the allocation of credit, as well as in the tax system, make it plausible to believe that the dimensioning decision which, when calculated at private prices, leads to profit maximization through numerous plants operating at one shift, would lead, when calculated at shadow prices, to a decision of multiple shifting with much fewer plants.*

Tackling this problem, however, requires coming to grips with the basic conundrum itself. Expanding capacity utilization implies expanding the level of industrial output which in turn means larger imports of industrial inputs. Thus a higher level of employment through capacity utilization is possible only if the foreign exchange availability increases and the most plausible source of such an increase is in the placing on the foreign market of some of the product arising from increased capacity utilization itself. Such a solution would, however, imply making industry foreign exchange generating and therefore implies solving the basic policy conundrum!

(c) Price stabilization: Whatever their origin, Latin American inflations, once under way, are sustained by a mix of demand pull and cost push factors. Among the former, budget deficits are the main factor whereas among the latter wage increases are usually pointed to. A third cost push factor which is equally important is usually not mentioned. This is the cost push arising from changes in the exchange rate which has as pervasive an effect as a wage increase.** With


government expenditure linked to some extent to the price level through the purchase of service and government revenue linked in many cases very closely to the balance of payments, it is not surprising that there should be very complex interactions between the three major elements maintaining the inflation at high rates. By the same token, stabilization is only successful if action can be taken concurrently on fiscal deficit, wage increases and balance of payments. If only the first two are controlled, the balance of payments problem will eventually cause the failure of the program. Such a situation is almost certain to arise as long as industry continues to be only foreign exchange using. Under such circumstances, the balance of payments adjustment process relies almost exclusively on the income effect with relative price changes between traded and untraded goods having minor influences. As a result, any unexpected short fall of foreign exchange availabilities has to be dealt with through a rundown of reserves and/or a reduction in the level of economic activity. Should such a short fall of foreign exchange earnings coincide with the stabilization effort, it may well be sufficient to undo it since the strain of a domestic recession is likely to tear apart the coalition keeping wages and prices to the lower rates of increase. On the other hand, the carrot of higher levels of activity if only unions and employers will cooperate in keeping the wage-price line is also hindered in its effectiveness by the basic policy conundrum, since higher levels of utilization are constrained by the foreign exchange situation and if the rate of growth is pushed to a point where devaluation becomes necessary, the higher exchange rate will by itself cause price repercussions which will undo the stabilization effort. It thus appears that the peculiarly rigid balance of payments adjustment mechanisms of the Latin American economies are one of the significant impediments to successful price stabilization.

(d) Distribution: Changes in the regional, personal and public versus private distribution of income are an increasingly important policy goal for Latin American governments. In addition to the greater difficulty of achieving such readjustments under the conditions of relatively slow growth forced upon the economy by the
continuation of the basic conundrum, there are some direct connections between the sources and uses of foreign exchange and the possibility of executing a successful redistribution policy. One major connection runs from the exchange rate of export prices and to the income of exporters as compared to urban laborers. This is most obviously the case if wage goods are also the country's primary export products. If the exchange rate goes up, agricultural producers get higher incomes and the cost of living rises. If agriculture is in the hands of large landowners, this will mean a negative redistribution of income, although it may at the same time be a necessary adjustment in the incentives to provide foreign exchange. Thus distributional policy clashes directly with the balance of payments policy. If industrial exports existed, balance of payments policy could accommodate a lower increase in prices for farmers, generating instead foreign exchange from industry.

On the other hand, a reorganization of land tenure or the institutionalization of worker participation in management of the mines or indeed of government participation in mining or the merchandising of export products may lead for a time at least to some disorganization, lower productivity and lower value of exports, thus causing contraction in the rest of the economy and producing reductions in everybody's income rather than redistributions. Were industry foreign exchange producing rather than foreign exchange using, adjustments of an organizational nature in the primary sectors would be much more bearable since the economy would be able to compensate a short fall of earnings from these sectors through an increased amount of industrial exporting.
IV. SOLVING THE CONUNDRUM: SOME POLICY ALTERNATIVES

The solution to the conundrum lies, as might be expected, in the conversion of the industrial sectors of Latin America from foreign exchange users to foreign exchange generators. Such a conversion would require at the very least the elimination of the anti-export bias in the exchange rate system.

The most obvious remedy that comes to mind is devaluation. It should be noted, however, that a simple devaluation will not be effective in removing the anti-export bias for several reasons. The first of these is that upon a modification of the financial exchange rate, the whole exchange rate system will change proportionately, since the commodity rates are usually linked to the financial rate through the system of trade taxation. Secondly, given the size of the anti-export bias, the overt devaluation necessary to make at least some industrial products price competitive would be of such a magnitude (50 percent or more) as to make it very unlikely that substantial cost and wage push reactions would fail to appear. Thus, a very major part of the devaluation would be purely nominal, with the real devaluation being a fraction of the change in the financial exchange rate, perhaps less than a third.* In turn, however, such an erosion of the effect of devaluation implies that the initial devaluation should be even higher in order to take the erosion into account. The repercussions of a higher devaluation are likely to be even more considerable and thus the initial devaluation would have to be higher still. The process may well be convergent at some point but surely at a rate of devaluation and concomitant inflation which would be unacceptable politically, and is in any case very likely to be ineffective in its pursuit of generating industrial exports.

A much more appropriate remedy is the use of a compensated devaluation in which simultaneous and offsetting adjustments are undertaken in the financial exchange rate and in the trade restrictions such that all the commodity exchange rates for imports and traditional exports stay unchanged, the only net change taking place in the financial rate and in the nontraditional export rate. As a result, the latter obtains the equivalent of a subsidy.* An example can be given with the Argentine exchange rate system cited before:**

<table>
<thead>
<tr>
<th>Pre-Compensated Devaluation</th>
<th>Post-Compensated Devaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>Tax/Subsidy</td>
</tr>
<tr>
<td>200</td>
<td>-10%</td>
</tr>
<tr>
<td>220</td>
<td>0</td>
</tr>
<tr>
<td>260</td>
<td>+18%</td>
</tr>
<tr>
<td>330</td>
<td>+50%</td>
</tr>
<tr>
<td>460</td>
<td>+120%</td>
</tr>
<tr>
<td>600</td>
<td>+175%</td>
</tr>
<tr>
<td>700</td>
<td>+220%</td>
</tr>
</tbody>
</table>

Inspection will show that with the compensated devaluation, the exchange rate for nontraditional exports has had a real increase of 50 percent in comparison with the remainder of the rates, being much closer now to the industrial cost rates, and indeed exceeding the raw material import rate. Under conditions of increasing returns to scale

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**Taken from CARTTA, op. cit.
and marginal cost pricing for exports, the structure emerging after a compensated devaluation of the kind given in the example may be sufficient to make a number of industries competitive. At the same time, it is worth noting that the cost push effects of this kind of devaluation are minimal since the prices of most import competing goods will have stayed unchanged.

A second alternative policy which can be used to straighten out the exchange rate system is the institution of tax rebates on export sales which might take the form of a percentage on the FOB value of exports. Such a measure very directly affects the commodity exchange rate for nontraditional exports and thereby eliminates the preexisting bias. Whereas the administrative simplicity of such tax refund schemes generally is regarded as a recommendation, it is also widely believed that they are very costly for the exchequer. Such an objection is not necessarily valid, however. A tax rebate on exports, once enacted, will only generate fiscal expenditure if exports in fact take place under it. Such exports would at the same time, however, imply additional economic activity which in itself and through the foreign trade multiplier would generate a substantial increase in the tax base. This increase in the base would in turn generate additional revenue for the exchequer. The new revenue would serve to cover in part or in whole the rebate necessary to generate the exports in the first place. Thus through a combined foreign trade and fiscal multiplier, the export rebate generates its own (partial or total) financing. Under the Latin American conditions in which the import propensities are rather low, foreign trade tax multipliers tend to be high and as a result fairly large export rebates can be supported by the revenue generated in this form, particularly if they are paid only to new exports.* In essence, what is at issue is the use of a

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full capacity utilization budget to estimate the fiscal impact of export rebates.*

In addition to price competitiveness, the existence of marketing channels must be assured for industry to become rapidly foreign exchange generating. Whereas it is probable that the existence of price competitiveness alone will gradually bring about the establishment of marketing channels, it is worth considering briefly what government policy can do to hasten the process. It is useful in this context to divide potential export commodities into two kinds: (a) standardized commodities, and (b) differentiated commodities. Into the first group fall items such as steel and chemicals which are sold on a specification basis and which have a highly competitive international market. In these, the marketing problem is relatively simple. Any preexisting import house can become an export house and sell standardized commodities on the world market simply by having an attractive quotation. Price is everything and quality is easily determined and standard rebates for quality differences exist. The marketing problem for nonstandardized commodities is much more complex since it is in these that brands or user preference and quality are hard to measure and important elements. For the marketing of these, the multinational enterprise offers unique potential since it controls internally a very substantial market and is able to monitor and guarantee quality and performance worldwide. Thus an important element in government policy to develop export markets must consist of the inducement, by carrot and/or stick, of multinational enterprise to become active users of Latin American industrial goods in the rest of their multinational enterprise system.

*This full capacity budget is analogous to the full employment budget introduced recently in the United States. However, whereas in the U.S. version the issue is the spending (reduction) of government revenue to generate domestic activity and additional domestic employment which will in turn then finance the government expenditure, in Latin America we are faced with a situation in which it is the use of public funds for the creation of exports which generates a higher level of economic activity and in consequence an increase in revenue.
V. THE SOLUTION OF THE CONUNDRUM: WILL IT OCCUR?

Before policies to solve the conundrum can be adopted, it must first be recognized. Such recognition, in turn, implies the abandonment of the partial truths on which most economic policy has been based in the postwar period. *

Continent wide, the omens are good. The prestigious Raul Prebisch has issued a manifesto pointing to export promotion as the new road towards success, superseding import substitution. Several nations have adopted a crawling peg to prevent periodic overvaluation of their currencies; a few (Brazil and to a lesser extent Colombia) have been vigorously promoting their exports and have met with considerable success.

At the same time, old and deeply held convictions still hold sway in most policymakers' minds. The notion that Latin American industry is inefficient, bolstered by the simple and erroneous calculation underlying the inefficiency illusion, is widely enough held so that the adoption of a strong industrial export promotion policy is regarded as a subsidization of inefficient and undesirable industry rather than the elimination of a discriminatory tax which produces biases in the industrial development pattern, underutilization of industrial capacity and lower rates of income, employment and growth.

The prevalence of outmoded dogma notwithstanding, the prospects for adoption of a more outward looking policy which is likely to include the promotion of industrial exports is, on the whole, good. Argentina's next technically conducted stabilization is likely to include a strong export plank since this is precisely where the Krieger effort failed. Such a modification in Argentine policy will result as much from the increasing strength of that part of the technical opinion inside the country which has recognized the conundrum.

and is pushing for its solution. * Chile cannot fail to follow the same road after the experience of the last year in which six months of high-level industrial activity was sufficient to totally exhaust the country's reserves. Whatever tendency predominates in the conduct of economic affairs there, the need to find new sources of foreign exchange will be an overwhelming and inescapable reality. Among the Andean Group countries, pressure for harmonization and the push to heavy and capital intensive industrialization will make it increasingly necessary to look to the industrial export market for both adequately scaling plant and for providing the foreign exchange to pay for the imported inputs needed to run the new plants. ** In addition, Colombia's membership in the Group will eventually force the other members to adopt an export policy including features similar to those incorporated in Colombia's promotion of nontraditional exports. Venezuela and Central America are likely to lag behind this development since considerable import substitution still seems to be feasible in these countries. Mexico, for its part, is likely to continue basing its growth on a pragmatic mix of capital imports, increased tourism and increased exports. It is likely that the Mexicans will achieve an increase in the foreign exchange generating potential of industry in the same way as they have begun the process of conversion, namely through a process of negotiation on a case by case basis without an overt modification of the exchange rate system.

If the Latin American countries do indeed pursue an active export promotion policy in an attempt to solve their basic policy conundrum, access to the markets of the industrialized countries will become of crucial importance to them. The slogan of "trade not aid" may then well be brandished by Latin Americans! Such a forecast may well come true before 1980.

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* Brazil uses strong tax incentives as well as direct bargaining with potential exporters, especially multinational enterprises.
** The increase in Ecuador's oil revenue may prove a delaying factor, and the same may occur if Peru's recent finds are of as significant size as they now appear to be.
VI. CONCLUSION

The basic conundrum of Latin American economic growth arises out of the foreign exchange using nature of its industry. Unless the industrial sector becomes foreign exchange producing, it can no longer function as the leading sector and act as the engine of growth for the whole economy.

The foreign exchange using nature of industry is largely the result of policy. The exchange rate system is structured in such a way as to implicitly tax industrial exports while creating at the same time an industrial inefficiency illusion.

The conundrum drastically limits the possibility of success in attaining the major policy targets: increased growth, increased employment, greater price stability, and more equitable distribution.

Whereas conventional devaluation is inappropriate to deal with the conundrum, either a compensated devaluation or export rebates are likely to be effective.

Policymakers are likely to increasingly recognize the conundrum and adopt export promoting policies. Such a change in policy will bring the trade restrictions of the developing countries into the center of the stage.
For this conference it is appropriate to focus chiefly on those economic problems of Latin America that involve the United States as a direct participant — problems that require a policy decision. Host country policy with respect to direct foreign investment — expropriation policy, profit remittance policy — is by definition such a problem. I trust that it is just as obvious that the problem of increasing nontraditional exports from Latin America is of the same class. How quickly and effectively the Latin American governments will move to deal with domestic disincentives to export will depend in a nontrivial fashion, I expect, on U.S. trade policy.

Yet I think there is also some reason for us to consider certain economic policy problems or policy areas that do not create a direct requirement for U.S. policy response. The basic reason for doing so is, of course, that economic policy decisions are highly interrelated. Decisions with respect to the property rights of U.S. investors or bargaining objectives in trade or aid negotiations will reflect a more general policy style that we ought to know something about.

There is no point in my attempting here a survey of trends in the style of economic policymaking in Latin America. The subject is too vast. It would also exceed my competence. What I think might well be useful, however, is to discuss what I think will be the most important difference between the styles of Latin American policymaking in the seventies and those of the recent past. That difference is an increased emphasis on the objective of redistribution of income. I would like to consider the reasons why I think this change is taking place, the kinds of economic policies likely to be developed as a result of this change in emphasis, and what I think the likely economic consequences of these policies will be.
WHY A CHANGE OF POLICY FOCUS

There are several important reasons why we should expect an increased focus on government-directed distribution and redistribution of income. First, the emergence of what is generally perceived to be a serious urban unemployment problem in much of Latin America has shaken the confidence of policymakers that orthodox "developmentalist" policies will yield a satisfactory solution to the distribution problem. Second, there is a fairly widespread pessimism with respect to the rate of economic growth likely to occur in the coming decade. This pessimism is founded both on an estimate of the relative availability of foreign exchange and an estimate of foreseeable reductions in the import requirements of future growth.

It is important to note here that a prediction of a shift of policy focus from growth of income to distribution of income need not depend in any important way on a prediction of a drift of socio-political values. I think there is little doubt but that most policymakers feel or will soon come to feel that the "objective facts" of the Latin American growth experience give them no choice in the matter. Any drift in political values or sentiments will only accentuate a trend that is already under way.

The most important of these "objective facts" of the Latin American growth experience that is leading to a shift of policy focus is a syndrome of changes that I shall call the "urbanization of poverty." The most noticeable features of this syndrome are extremely rapid rates of rural-urban migration, increased urban unemployment and partial unemployment, and a marked wage drift between the technologically modern and the technologically traditional sectors of the economy. The migration phenomenon is a key aspect of this syndrome, for much of what may appear to be an increase of unemployment and a worsening of income distribution is better characterized as a spatial redistribution of poverty and unemployment. The syndrome is most pronounced in those economies that retain a large traditional sector -- the Caribbean and Andean countries.
I am using the term "unemployment" very loosely here. I mean it to encompass the phenomena of overt unemployment, partial employment, and depressed average incomes of self-employed workers in technologically traditional activities. As such, I can offer no simple quantitative index of the problem akin to an unemployment rate. The fuzziness of the unemployment concept in a semi-developed economy guarantees ambiguity in empirical demonstrations of propositions about trends in "unemployment" even if consistent time series on unemployment rates are available. And they generally are not. In spite of this, I think there is little reason to argue about whether or not the "unemployment" problem has gotten worse in most Latin American economies, for what is most important is what is believed. And in general I think the problem is believed to be increasing.

In certain respects at least the "unemployment" problem has in fact worsened. In particular, overt unemployment has increased. For the main this is concentrated heavily among the young and uneducated, and, as such, is considerably less destabilizing than would be the case if significant numbers of heads of households were involved. But what I suspect may be viewed as even more destabilizing is the rapid growth of that part of the labor force "employed" in nonagricultural but technologically traditional occupations such as artisan-manufacture and certain services and the resultant depression or outright reduction in average earnings in such activities. It is moot whether the urban poor have gotten poorer. But it is obvious that there are more of them. Poverty has become increasingly urbanized.

A second aspect of the income distribution syndrome is easier to document. Wage rates in the technologically modern sectors of the economy have increased rapidly relative to wage rates (or imputed wages) in the traditional sectors. More often than not I suspect they have increased considerably more rapidly than labor productivity. The reasons for this are intimately tied up with those government policies that have promoted import-substituting-industrialization (ISI). Monopoly or partial monopoly positions in production arising from tariff protection and import controls create opportunities for
labor to exact monopoly rents, and unions have not been backward in
exploiting this opportunity. The extent to which this has taken place
varies widely, but I know of no country in the midst of the ISI pro-
cess where important labor monopolies have not developed and where the
employees of "modern" firms have not collected substantial monopoly
rents.

Whether this represents a redistribution of real income from
entrepreneurs to workers or from consumers to workers is hard to say.
What is not hard to see is that a working class "elite" has been
created, an elite differentiated in part by education and skills but
primarily differentiated by possession of a property right — a job.
From the narrow point of view of economic policymaking, this elite
presents something of a problem. It serves as a more or less powerful
interest group that acts to make stabilization and export promotion
policies more difficult to carry out.

The phenomena embodied in what I have called the urbanization of
poverty would probably cause a shift in policy emphasis from growth
objectives to distributional objectives even if a relatively favorable
growth experience were anticipated. Pessimism with respect to attain-
able growth rates further increases pressures in this direction. In
this respect the style of policymaking in those countries that under-
went a rapid structural transformation in the 50s and 60s -- much of
the Andean and Caribbean group in particular -- is likely to become
more like that in Argentina, Uruguay, and Chile, countries that under-
went a similar transformation process at an earlier date and whose
growth experience in the past decade has been relatively unfavorable.

A LIKELY PROFILE OF POLICY CHANGE

Thus far I have characterized my predicted change in the style of
economic policymaking solely in terms of the meta-objectives of growth
and distribution. This is fine for a chapter heading, but what does
it mean in terms of changes in specific policies? What does it mean
in terms of the creation of new policy instruments? A fair question
to be sure, but I am afraid that I can give only the sketchiest of
answers.
My statement that the rate of inflation will increase is implied by the prediction that the rate of monetary expansion will increase. Over any but the shortest of time periods this is a trivial conclusion and does not need further discussion here. What is more interesting is what the total effect of the predicted policy package will be on the growth of real output. My conclusion is that there will be some reduction in the pace of economic growth that is attributable to policy change. I do not think the effect will be substantial. It will derive not from monetary "excesses" but from supply dislocations engendered by the enforcement of direct controls over the price of items of common consumption. I am arguing here from the assumption that exchange rate policy during the period of more rapid and variable inflation will not be such as to depress incentives for nontraditional exports, however, and this may be too optimistic. At the existing margin of growth, the dominant constraint on a more rapid rate of economic expansion in Latin America is the availability of foreign exchange. If this remains unchanged, the growth rate is likely to be relatively insensitive to all but the most extreme shifts in economic policy.

An increased emphasis on distributional and redistributational objectives will exact a certain price in terms of reduced growth, but the cost is not likely to be substantial. I cannot share the hopes of some that a focus on redistribution will provide a substitute for ISI as the major dynamic element in the Latin American economies. But neither can I share the fears of others that a redistributive focus and growth are strongly antithetical. The basic outlook is one of much policy and little change. The public may not feel that much more frustrated, but the policymakers certainly will.
The most predictable change in economic policy is an increased effort to allocate resources by administrative decision. There appears to be both a perennial pessimism in Latin America with respect to the reasonableness of market solutions and a perennial optimism with respect to the ability of the government to remedy market deficiencies by direct controls. The temptation to allocate by decree in the face of the frustrations of stagnation and structural rigidity will thus I fear prove irresistible. The greatest push will come in the area of price control over consumer goods. These will be expanded in coverage and more vigorously enforced. An explicit wage or income policy is also likely to be developed. This will aim to reduce wage differentials and establish limits on wage settlements that are tied in some fashion to a consumer price index.

Income transfers will also be achieved through the fiscal process. In particular, expenditures on labor-intensive public works projects will increase. Social welfare and service expenditures will also rise. Some effort can be expected to fund these expenditures through increased sumptuary taxes, a better enforcement of income taxes, and land taxes, but for the main they will be financed through the banking system. In those governments where the developmentalist tradition is relatively strong, a considerable planning effort will be organized to try to insure that these expenditures are capital creating, that the labor component of expenditure is high, and that a substantial portion of the expenditures is made in rural areas. The impact of this planning effort will be generally disappointing. If it is successful with respect to the investment objective, it is less likely to be successful with respect to the employment objective. The reverse proposition is also likely to hold. If the planning effort is successful with respect to the employment objective, it is less likely to be successful with respect to the investment objective.

An effort will be made to compensate for the monetary effects of the increase in government expenditures through tightened bank reserve requirements and monetary sterilization devices such as advance import deposit requirements. These policies will be periodically relaxed for substantial periods, however, as credit stringency results
in industrial and commercial slowdown and a decline in revenue collection. Although fewer countries will maintain a "fixed" exchange rate system than in the 60s, those countries that adopt either a policy of frequent rate adjustments or some form of the "floating peg" system will probably not permit a rate of devaluation that parallels the domestic rate of inflation very closely. A comprehensive system of import controls will be maintained. Controls over profit remittances will be tightened, and the period between approval of remittances and provision of exchange will lengthen, in certain cases to the point of apparent default. An effort to slow down the rate of price increase for items of basic consumption will result in an increased dispersion in the exchange rate structure.

There is nothing very surprising in this predicted policy package. That in itself is, I suppose, a prediction. More radical redistributionist schemes such as the Peruvian profit-sharing experiments will be proposed and in some cases even attempted, but they will not be pursued vigorously. The boundary between the private and public sectors of the economy will probably remain roughly static.

THE CONSEQUENCES OF POLICY CHANGE

What will be the economic consequences of all this? The answer to a question can be no more precise than the question itself, and since I have given only the most general description of the policy response, I can give only the most general description of the policy consequences. The impact on unemployment will be negligible. The bulk of the changes in the distribution of income will derive from the differential impact of inflation. The rate of inflation will increase. There will be some reduction in the rate of growth of real output.

I think it important to understand from the outset that there is no "solution" to the unemployment—underemployment problem outside the context of more rapid growth of output or less rapid growth of population. Although there are certain features of the policy environment in Latin America that depress the labor—capital ratio and reduce the amount of employment generated by a given expansion of output, the primary reason for increased unemployment—underemployment is simply
a supply of savings and a supply of foreign exchange that generate a rate of growth of the demand for labor that would be less than the rate of increase of the labor force even in the absence of market imperfections. The unemployment problem is a special problem -- separable from the growth problem -- only in a marginal sense. Policies based on the assumption that the problem is structural will have only a marginal impact. Unemployment in Latin America stands out as especially difficult not so much because of the structure of growth or market imperfection but because of demographic facts. I say this not to condemn "structuralist" policies. Many of them are highly desirable. But it should not be expected that they will have a major effect.

The size distribution of income is notoriously more sensitive to the stage of economic development -- the occupational structure of the labor force and the distribution of human capital -- than it is to most of the policy instruments thought of as redistributive. Barring a Keynesian-like circumstance of deficient aggregate demand, a government is most likely to be able to secure an important change in the size or sector distribution of income by changing the rate of inflation. Yet it is very difficult to predict just what these changes will be. The effect of inflation on income distribution has been widely studied, but there are few conclusions, even of the qualified variety, and no theorems. I suspect that agricultural income will suffer relative to nonagricultural income, that the relative shares of the lowest 50 percent and the top 2 percent of income recipients will remain largely unchanged, and that the share of workers who have property rights in jobs in the modern sector of manufacturing will increase. But I can't defend these propositions very vigorously. The only thing that is reasonably clear is that internal perceptions of the redistributive effects of inflation will be exaggerated relative to the changes themselves. Policymakers will typically begin their endeavors with the objective of redistributing income from the rich to the poor. But they are likely to end up seeking to reassure middle income groups that there has been in fact no redistribution after all.
EVALUATING DIRECT FOREIGN INVESTMENT IN LATIN AMERICA

Shane J. Hunt

Social and political attitudes toward foreign participation in Latin American economies are changing fast. Since these attitudes are the foundation from which government policy is made, policies are also changing, although with a lag. This paper addresses the challenge that faces every Latin American country in reassessing its policies regarding direct foreign investment. The first part reviews techniques for assessing the costs and benefits of foreign investments, discussing both arguments that are customarily given, and arguments that ought to be given. It begins with evaluation techniques that take a narrowly economic focus, and continues by broadening out to cover externalities and psychic costs not easily handled with the economist's tools. The final section of the paper hazards some judgments as to how evaluations will be made by Latin American countries in coming years.

ECONOMIC EVALUATION OF FOREIGN INVESTMENT

The simplest view of foreign investment comes from traditional neoclassical analysis, which treats of only two factors of production -- labor and capital -- and views foreign investment as an addition to the capital stock in the domestic economic system. If we assume the conditions dearest to the heart of the economic theorist, that markets are competitive and changes are marginal, then an increment to foreign-owned capital causes gross domestic product to increase, but that increase is the marginal product of newly introduced foreign investment and is paid to the foreign owners of the investment. Therefore, factor payments to nationals -- GNP -- remain what they had been previously.¹

¹This conclusion is overturned if the increment to foreign capital is so large that payments to capital are driven down and payments to labor raised throughout the economy. If some portion of the preexisting
The assumptions necessary for arriving at this negative conclusion regarding the contributions of foreign investment are obviously highly restrictive, so much so that the result cannot be considered to represent a real world situation. Nevertheless, this approach performs the only function that should be expected of models of perfect competition: to make us rethink assumptions and not take conventional wisdom for granted. In the case of foreign investment, conventional wisdom suggests that it is a Good Thing, because foreign investment brings jobs and progress. It is perhaps more valid to start from the conventional wisdom of perfect competition, which says that foreign investment will take away from a country as much as it contributes to domestic output.

The conventional wisdom of perfect competition should also remind us that foreign investment is more favorable to the recipient country if capital can be obtained at rental rates below the marginal product of capital in the domestic economy, e.g., through bond financing or bank borrowing at fixed interest rates, or through levying taxes on the foreign company's profits in a situation where the tax cannot be shifted. Also, the gain to the domestic economy is all the greater if wage payments by foreign firms are above the domestic opportunity cost of labor.

THE FOCUS ON BALANCE OF PAYMENTS

In recent years the purely economic evaluation of foreign investment has been conducted not by comparing increments to output with payments to foreigners, but rather by focusing exclusively on balance of payments effects. The thrust of the argument is by now well known. It has appeared in a variety of published articles and speeches, including the statement made by Chile's Minister of Foreign Affairs capital stock was foreign-owned, then payments to local labor are raised partly at the expense of preexisting foreign capital, and GNP rises. GNP also rises by a "welfare triangle" equal to one-half the change in marginal product of capital times the increment of foreign capital. These points are elaborated in C. D. A. McDougall, "The Benefits and Costs of Private Investment," in American Economic Association, Readings in International Economics, Irwin, Homewood, Ill., 1968, pp. 172-194. A similar analysis has been applied to emigration of labor -- the brain drain. See R. Albert Berry and Ronald Soligo, "Some Welfare Aspects of International Migration," Journal of Political Economy, September/October 1969.
Gabriel Valdez upon presenting the Consensus of Viña del Mar to President Nixon, it generally focuses on three items in the balance of payments: long-term capital inflow, long-term capital outflow through amortization and repayment of indebtedness, and outflow of profits and interest payments from Latin America to the rest of the world. For nearly any time period chosen, the result is the same: outflows exceed inflows. The mild criticism of this situation holds that foreign investment has contributed nothing to the Latin American economies. The more severe interpretation states that foreign investment has "decapitalized" those same economies.

This statistical argument is, however, almost devoid of interpretative significance. Any given investment, by the time it is fully amortized, will return an outflow greater than its original inflow even if it pays the foreign investor only one percent annually on invested capital, and yet such a return could hardly be considered excessive. In fact, a net inflow favorable to the Latin American balance of payments would create its own problems, as it would indicate increasing foreign influence and greater Latin American economic dependence.

This approach to balance of payments analysis contains a glaring omission in its failure to consider foreign investment effects on the merchandise account. Foreign investment earns dollars by producing exports and saves dollars by producing import substitutes, so its net balance of payments effect must include these contributions as well. The case of import substitutes presents severe measurement difficulties, however, both because domestically produced goods are

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2"Private investments have meant, and mean today for Latin America, that the amounts that leave our continent are many times higher than those that are invested in it. Our potential capital is diminishing while the profits of the invested capital grow and multiply at an enormous rate, not in our countries but abroad." Partially quoted in The New York Times, June 12, 1969, p. 1. Other references to this argument include Teotonio dos Santos, "Foreign Investment and the Large Enterprise in Latin America: The Brazilian Case," in James Petras and Maurice Zeitlin, eds., Latin America: Reform or Revolution? Greenwich, Conn., 1968, pp. 441-442; Keith Griffin, Underdevelopment in Spanish America, London, 1969, pp. 145-147.
never perfect substitutes for similar imports, and because the quantity of imported intermediate product required to sustain domestic production can be estimated only through the statistical imperfections of an input-output table. Different assumptions on these matters lead to drastically different results. The most recent study of this nature, done by Herbert May under the sponsorship of the Council of the Americas, assumed replacement of an equal physical amount of imports, but also assumed the c.i.f. value of replaced imports to be only two-thirds of domestic manufacturers' sales. These assumptions lead to the conclusion that the most important balance of payments effects are accomplished through the merchandise account, and that direct foreign investment makes a strongly positive contribution to the Latin American balance of payments.

This exclusive focus on the balance of payments could lead us to the unsettling conclusion that a dollar's worth of exports, for which domestic factors of production must be used, is as valuable in a country as a dollar's worth of capital inflow or a dollar received as a gift. But the curious truth of the matter is that hardly anybody is interested in pure balance of payments effects anyway. When Latin American critics of direct foreign investment complain that foreigners have invested X over a given time period and taken out 2X, their fundamental concern, I think, has been with the rate of profit earned by

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foreign investment, a concern that such profit is in some sense excessive. Not having access to profit statistics, they have couched their arguments in terms of the balance of payments, and poorly at that, doing a disservice to themselves as well as to their readers.\(^5\) Herbert May and the Council for Latin America have picked up the argument and hoisted Latin American critics on their own petard. It would, however, be equally fallacious to argue that favorable balance of payments effects produced by direct foreign investment imply that such investment has been beneficial and desirable. May's report should help put a permanent finish to arguments couched in terms of the balance of payments, and oblige us to turn directly to the overriding concern: excess profits.\(^6\)

**THE CONCERN OVER EXCESS PROFITS**

Critics of direct foreign investment have stayed away from the study of profit rates because reported profit rates are low and seem reasonable. For example, the battery of numbers reprinted in Magdoff's *Age of Imperialism* draws heavily on data of the U.S. Department of Commerce, yet not once does it make reference to Commerce data on profit rates.\(^7\) Nevertheless, Commerce data are the standard source, virtually the only source, for this crucial statistic. They show U.S. earnings

\(^5\)"Foreign capital retains control over the most dynamic sectors of the economy and repatriates a high volume of profit; consequently, capital accounts are highly unfavorable to dependent countries." Teotonio dos Santos, "The Structure of Dependence," *American Economic Review*, May 1970, p. 233. In some cases, however, balance of payments effects are so lopsided as to give good indication of excess profits. For example, repatriated profits of foreign nitrate companies are said to have reached fully 7 percent of Chile's gross domestic product during 1880-1930, yet the foreign capital inflow induced by the nitrate boom was insignificantly small, the major foreign entrepreneurs having borrowed Chilean funds through local banks. See Markos Mamalakis, "The Role of Government in the Resource Transfer and Resource Allocation Process: The Chilean Nitrate Sector, 1880-1930," in Gustav Ranis, ed., *Government and Economic Development*, New Haven, 1971, esp. p. 195.

\(^6\)May, op. cit., p. 20.

in Latin America manufacturing to have averaged 10.7 percent of capital invested during 1960-1970.\textsuperscript{8} This figure is higher than the 8.8 percent earned by investments in Canada during the same period, but lower than the 12.8 percent earned in Europe. All these figures are very similar, however, and not different from the average return of 11.0 percent reported on domestic operations in the United States.\textsuperscript{9} From the viewpoint of Latin America, a region accustomed to high interest rates even when inflation is not proceeding apace, these rates must appear low and reasonable, certainly not the source of criticism on exploitation.

In the last few years, however, we have come to realize how totally unreliable these Commerce Department figures are. Not because the reporting companies lie; it is fairly well accepted that multiple sets of books are too confusing and dangerous for a large company to maintain. To be sure, suspicions have existed for some time that profits have been transferred out of Latin American countries by arbitrary overpricing of technical services and royalties sold by the U.S. parent to its Latin American subsidiary. But in the absence of solid data the magnitude of such transfers has remained unknown, and \textit{faute de mieux} Commerce data have retained their respectability.

This respectability has been jolted by revelations in Colombia, where the government put the following problem to its economic planners: Why did American companies operating in Colombia report such low profits, the Colombian government asked, when at the same time they seemed so intent upon expanding their Colombian operations? The problem devolved upon Constantine Vaitos, who set about a massive task of data collection that obliged him to examine a large sample of


\textsuperscript{9}U.S. Federal Trade Commission and Securities and Exchange Commission, \textit{Quarterly Financial Report for Manufacturing Corporations}, various issues. Figure shown is profits after Federal taxes expressed as percent of shareholders' equity. Corresponding figure before taxes for 1960-1970 is 19.0 percent.
economic transactions between foreign parent companies and their Colombian subsidiaries. This included not only royalty payments and technical assistance consultations, but also valuations of raw materials and semi-finished products purchased from the parent and imported into Colombia for final processing. For each such purchased input, Vaitos compared the transfer price charged by parent to subsidiary with world market prices for precisely the same commodity. The table below shows the results.  

<table>
<thead>
<tr>
<th>Industry</th>
<th>Average Rate of Overpricing</th>
<th>Declared Profits</th>
<th>Effective Profits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pharmaceutical</td>
<td>155.0%</td>
<td>6.7%</td>
<td>79.1%</td>
</tr>
<tr>
<td>Rubber</td>
<td>40.0</td>
<td>16.0</td>
<td>43.0</td>
</tr>
<tr>
<td>Chemical</td>
<td>25.5</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Electronics</td>
<td>16 to 66%</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

In the pharmaceutical industry, for example, a chemical input selling for $100 on the world market was, on the average, sold by parent to Colombian subsidiary for $255. Systematic overpricing of this sort served as a convenient means for removing undeclared profits from Colombia. In the most extreme case, foreign firms in the pharmaceutical industry declared annual profits of 6.7 percent on the value of invested capital, but their total effective return turned out in fact to be 79.1 percent per year. Some 80 percent of the extra profits accrued through overpriced inputs. Royalties and consultant fees turned out to be substantially less important.

Vaitos's results are a dramatic consequence of an increasingly widespread phenomenon: A large portion of world trade today is

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11 Ibid., pp. 34, 59-62, as corrected by personal communication. Figures for electronics give the range of overpricing discovered. Weighted average could not be calculated due to absence of data on import volumes. Effective profits expressed as percent of net worth, with capital valued in constant dollars. Two electronics subsidiaries that declared profits of minus 18% and plus 11.4% were estimated to have earned effective profits of 7% and 50-80% respectively.
conducted between various branches of the same multinational corporation, and pricing assigned to such trade is totally arbitrary, serving merely to shift profits about and permit them to be realized in any country of the corporation's choosing. Generally profits shifted out of one country reduce tax liabilities there only to increase liabilities in some other country, so tax gains from such transfers should be negligible. However, high profits may be shifted out of Latin American countries to evade regulations concerning profits remissions as well as to avoid the political embarrassment of showing that certain foreign companies are making a killing.

It is difficult and dangerous to generalize from the Vaitsos results alone. The pharmaceutical industry is notorious in the United States as well as in other countries for its high profits and deceptive competitive practices. Nevertheless, there are other pieces of evidence available, each one amounting to little more than casual empiricism, but accumulated they substantiate the impression of high profit rates. For example, regarding payback periods required by investors in Latin America, I have heard the following figures quoted, mostly by businessmen: for automobile factories, two and one-half years; for a major durable goods producer, three years; for American clients of a major U.S. bank, three and one-half years. These payback periods imply that required annual gross profits, including depreciation, are 40 percent, 33.3 percent, and 28.6 percent of invested capital respectively. If we assume that the length of life for invested fixed capital averages 20 years, then annual depreciation would amount to 5 percent of the original investment, and the gross profit estimates should be reduced by five percentage points to arrive at estimates of net profit rates. Another similar estimate comes from a Rand Corporation study of Colombia, which estimates the profit rate on investment in the modern manufacturing sector, including both Colombian and foreign companies, to be at least 30 percent and probably as much as 40 percent per year.13

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12 If the parent company has managed complete avoidance of tax liability through depletion allowances or other means, such shifts could result in substantially reduced tax payments.

Other pieces of evidence suggest substantially lower profits rates, however. A survey of 41 locally owned firms in five Latin American countries concluded that after-tax net profits averaged 12.4% during 1958-1962, with Argentina producing the highest return (18.3%), Chile the lowest (8.7%), and Colombia a modest 10.5%. Another questionnaire survey of 90 U.S. firms found that their expected return on Latin American investment averaged about 19%. These expected returns undoubtedly fail to include parent company profits obtained through transfer pricing, but on this point as well we should generalize from the Colombian results only with great caution. To be sure, similar overpricing phenomena are being revealed in other parts of the Andean Group, including Chile, Peru, and Ecuador. However, studies of Australia and New Zealand found great variation between transfer prices and world market prices, but no systematic tendency for transfer prices to be higher. Moreover, in the case of mineral petroleum sales by subsidiaries to parent, the tendency seems to go in the opposite direction, with transfer prices raised above world market prices, thus shifting profits toward the less developed country. Thus companies may register higher depletion allowances against tax liabilities in the United States.

In the age of the multinational corporation, the calculation of country specific profit rates presents difficulties for the corporation itself. It also presents a statistical challenge that the U.S. Department of Commerce has failed to meet, at least up to the present.

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15 Guy B. Meeker, "Fade-out Joint Venture: Can it Work for Latin America?" *Inter-American Economic Affaire*, Spring 1971, p. 37. (Note clear if figures are before or after taxes.)

16 Constantine Vaitos, personal communication.

17 Studies by Brash and Deane cited in Vernon, op. cit., p. 139.

Furthermore, it presents a statistical and a policy challenge that Latin American countries have only recently confronted. The rough profit estimates we have presented range from 8 to 80 percent. Such gross divergence no doubt derives in part from error in measurement and from calculations being based on different definitions. But much of the divergence is undoubtedly a correct reflection of different realities, and should remind us of the dangers of generalization across heterogeneous groupings. Some, but not all, foreign investment in Latin America earns very high rates of profit. One suspects that high-yielding investment is concentrated particularly in manufacturing, where a cascading of tariffs, quantitative restrictions and exchange controls generally bestow solid monopoly positions to producers of import substitutes.

Indeed, if profit rates of say 25 percent per year were not available in Latin America, one would wonder why North American manufacturing companies would be interested in expanding investments there. After all, the U.S. multinational corporations whose investment horizons extend to Latin America are generally high technology companies with market positions in the United States sufficiently entrenched to give assurance of solid and substantial profits. Doing business in Latin America is more complicated and riskier than in the United States, and corporations should require correspondingly higher profits. It is often suggested that corporations invest abroad for reasons of security and control more than for profits, but with few recent exceptions one has little impression that U.S. corporations are hanging on in Latin America through adverse times. Certainly that was not the impression of the Colombian government when it commissioned the Vaitsos study in the first place.

**COST-BENEFIT CONSIDERATIONS**

While high profit rates earned by foreign companies are naturally a cause for concern, they too are a deceptive guide for evaluating the desirability of foreign investment proposals. Direct foreign investment is merely another type of investment project, and the proper way
to evaluate any investment project lies with the tools of benefit cost analysis. A properly executed benefit cost analysis will give particular weight to balance of payments effects through using a shadow price for foreign exchange. Domestic resource costs would also be considered, however, each resource valued at its social opportunity cost. If benefits exceed costs when both are evaluated with correct shadow prices, discount rates, and distributional adjustments, then the project should be undertaken. And it is quite conceivable that a project providing a 100 percent return to foreign investment will nevertheless produce benefits in excess of costs.

So should the project therefore be accepted and foreign investment given such a bounty? Not necessarily, because there may be less expensive ways of getting the same project done. In the terminology of benefit cost analysis, we have here the case of mutually exclusive projects. If various projects can be undertaken to furnish the same need (e.g., hydro verses thermal power plants for supplying electricity) that project with the highest benefit cost ratio should be undertaken, and other mutually exclusive projects, even those also having benefit cost ratios in excess of one, must be passed up. In the case of direct foreign investment, various institutional arrangements for undertaking the same production facility may be considered separate projects, e.g., 100 percent foreign ownership with existing tariff structure, joint ventures with lower tariffs, domestic enterprise relying on purchased technology, and all other possible combinations of protection, ownership shares, and tax liabilities.

Here we arrive at the policy significance of the high profit rates recorded by Vaitsos and others and the policy insignificance of statistical exercises showing that contributions of foreign investment to Latin American income or balance of payments have been positive.¹⁹ Such high profits strongly suggest that there existed other institutional arrangements that would have induced the same inflow of foreign investment at lower cost to Colombia, or to other Latin

American countries. In this special sense profits were probably excessive and Latin America has given away too much for the foreign investment received. Such is the lesson of the transfer pricing revelations.

A BROADER FRAMEWORK OF ECONOMIC EVALUATION

Thus far, our analysis of foreign investment has taken the narrow view, considering capital the only factor thus provided to the host country and ignoring repercussions of foreign investment on households and other firms. Direct foreign investment provides a whole package of inputs, however — capital, technology, organization, and, in the case of some exports, an overseas distribution network. Since the evaluation of foreign investment proposals should oblige a country to identify the institutional arrangements by which a given output may be produced at lowest cost, alternative means for obtaining each of these factors must be assessed. A country should always consider the possibility that these factors will cost less when obtained separately, since when they are obtained together as direct foreign investment the foreigner rather than the national receives opportunities for monopoly profit.

Capital presents the fewest problems. It can be borrowed overseas from banks, bond markets, or international official agencies, and it can be mobilized domestically. For all the emphasis given foreign investment in Latin American development, it should not be forgotten that the bulk of savings funneled into investment in Latin American countries comes from domestic sources.

Alternative sources of supply for technology and organization are more difficult to come by. Multinational corporations exert much of their bargaining power in Latin America through control of these factors. Nevertheless, technology is also available through licensing arrangements, and organizational capability is available through both management contracts and domestic sources. While great strides have been made in recent years, it still seems fair to say that Latin America is hobbled in its dealings with representatives of direct foreign investment through ignorance of licensing arrangements and lack of
capability in evaluating the alternative technologies available for licensing. Additional knowledge in these fields could pay tremendous dividends to them by opening up lower cost alternatives for given investment projects.

Managerial ability and entrepreneurship may be considered another factor of production. It is developed by experience, through learning by doing, and so the presence of foreign investment has repercussions on the rate of domestic accumulation of this crucial factor. No general statement can be made about the direction of its effect, however. On the one hand, certain projects may be accomplished only through technology and organizational skills available to the foreigner. Then foreigners undertaking such projects would in no way diminish opportunities to domestic entrepreneurs; in fact, opportunities would be increased if the projects generated backward linkages to domestic suppliers. On the other hand, foreign investment would diminish entrepreneurship to the extent that national entrepreneurs are shut out of projects they otherwise would have undertaken. Each particular case must receive its own evaluation. Such evaluations need to be made not only by host countries, but also by scholars in pursuit of better understanding. Up to now, virtually all we have in the way of published material is intensely partisan, either totally favorable to foreign investment as in the case of May and the National Planning Association, or totally opposed to it as in the case of the CIDA studies, and the dependence literature.

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20 Albert Hirschman argues that this negative effect has acquired increasing significance in Latin America, since national entrepreneurs are increasingly able to undertake projects formerly undertaken by foreigners. Cf. How to Divest in Latin America, and Why, Essays in International Finance, No. 76, International Finance Section, Princeton University, 1969, pp. 4-9.

NON-ECONOMIC FACTORS IN THE EVALUATION OF FOREIGN INVESTMENT

The impact of foreign investment on domestic entrepreneurship is but one of several types of external effects that must be considered in evaluation, even if prospects for quantifying the effects are dim. Other externalities lead us out of the realm of conventional economic accounting, into what may be called the non-economic or psychic costs of foreign investment. Costs are no less real if they are merely psychic and nonquantifiable, however. In fact, such costs may represent the most onerous burdens placed upon Latin America by the presence of direct foreign investment.

Consider the case of a foreign investment that not only hampers the creation of new entrepreneurs in the future, but also displaces existing entrepreneurs. Those displaced may become employees in the new foreign company, at incomes equal to or greater than what they had been before. But they have lost the decisionmaking freedom of a self-employed person, and they have also lost the power and prestige that the importance of their previous position had conferred upon them. In this way, foreign investment tends to radicalize a portion of the middle class through the frustration associated with change of status, and thus to polarize the society into which it is introduced.

This process has recently been documented in the case of the large sugar haciendas on Peru's northern coast. As these foreign-owned estates expanded across the coastal valleys, they displaced numbers of medium-sized farms. The foreign concerns generally developed their own


22 Peter Klarren, La formacion de las haciendas azucareras y los origines del APRA, Lima, 1970.
purchasing channels; they bypassed the merchants of local cities and brought ruin to many. Income per capita undoubtedly rose in the region, but so did radical politics in the form of the early APRA.

The enlightened policy of hiring nationals for managerial positions only partly alleviates the problem. In the end, the foreigners are still the bosses whose job is to give orders, and in the end this social and political situation may only be described as unstable and intolerable.

Such tensions are by no means confined to the national employees of a foreign company. Indeed, they may be far more severe outside the company, where the foreign boss becomes merely a symbol and not a person. Within the national society outside the company, the very presence of foreigners and direct foreign investment remains a continuing reminder of the meagerness of national economic achievement. The source of friction and of psychic costs lies not in the foreignness of such investment, but in its cultural distinctiveness. Far worse than being merely foreign, it is generally Anglo-Saxon, and thus generates tensions within a Latin culture that feels itself placed on the defensive.23

We return to the realm of conventional economic accounting in order to consider one final externality in the demonstration effect of consumption standards brought to Latin American countries by foreign managers and technicians. For Latin America's middle classes, this effect adds yet another inducement to higher consumption and lower savings. Therefore, in two ways, by converting entrepreneurs into bureaucrats and by raising the consumption standards of the middle classes, the presence of foreign investment is damaging to Latin America's savings rate and growth rate.

23 For a discussion of the roots of Argentine hostility to British investment, see Carlos F. Diaz-Alejandro, Essays on the Economic History of the Argentine Republic, New Haven, 1970, pp. 60 ff. Also Diaz-Alejandro, "Direct Foreign Investment in Latin America," op. cit., p. 129. Also note the opening sentence of the well-known "Latin American Consensus of Vina del Mar," a purely economic declaration sponsored by the Comité Especial de Coordinación Latinoamericana (CECLA) in 1969; The CECLA member countries affirm the distinctive personality of Latin America."
It bears emphasizing that every North American present in Latin America imposes, by his very presence, a series of psychic and economic costs. Let him ponder his role to make sure that he brings compensating virtues.

TRENDS IN LATIN AMERICAN EVALUATION OF FOREIGN INVESTMENT

These various externalities and social effects will never be quantified satisfactorily and plugged into a benefit cost ratio. The weights implicitly applied to these factors in the evaluative process will inevitably shift about as new perceptions alter conventional wisdom. Forecasts of future trends in Latin America's evaluation of foreign investment therefore proceed on a shaky foundation.

First, it seems likely that Latin American governments will increasingly recognize that they have paid dearly for foreign investment acquired in the past. This recognition is made most dramatic in the Vaitsofos study, and will probably be reemphasized as similar studies are produced in other countries. These high profits represent yet another unfortunate result of the uncritical and excessive pattern of tariff protection and quantitative restrictions that Latin American countries have plunged into through firm belief in the virtues of industrialization. The excessive profits obtained by foreign companies are merely one manifestation of generally high profit rates made available to monopolistic industries insulated almost completely from the pressures of world competition. Not only have these policies produced a hothouse industrialization; they have also exacerbated the already serious problems of unequal income distribution plaguing Latin America. It seems likely that in coming years programs of import liberalization and import substitution in intermediate goods industries will lower effective protection and make astronomic profit rates more difficult to come by.

Direct foreign investment will also prove less attractive as Latin American countries become increasingly able to generate lower

24It bears emphasizing, in harmony with the arguments of Schydowsky in this same volume, that some but not all Latin American industries bear the mark of hothouse inefficiency.
cost alternatives. Increased familiarity with licensing arrangements and increased knowledge of technologies available for licensing will increase Latin America's bargaining power with multinational corporations, particularly if greater competition arises among sellers of technology through development of Japanese and European technology sources. As Latin American industry acquires greater experience, its own organizational and technological capabilities will also be enhanced.25

While these various factors will tend to generate lower cost alternatives to direct foreign investment, on the other hand the perceived psychic costs of foreign investment will increase to the extent that nationalist sentiment gains further strength. One hesitates before the foolhardy task of predicting trends in nationalism, but one can certainly point to a long-run increase in nationalist, anti-foreign-business sentiment that has been running throughout the present century. Moreover, the experience of the 1960s seems to have no exception to this trend.

On the other hand, some factors make direct foreign investment more attractive. In some sectors the technology gap may be widening. Although Latin American organizational and technological capabilities may be improving, the multinational corporation's capabilities may be improving at a faster rate. In such sectors, Latin American countries will be in a weak bargaining position and must either take foreign investment pretty much on its own terms or give up on production possibilities and import. As the process of import substitution becomes less uncritical during the 1970s, the alternative of importing may be used increasingly.

Another factor favoring direct foreign investment concerns the export of manufactures. Exports of traditional primary products will continue to play their essential role in earning foreign exchange, but new exports, many of them manufactures, must be relied on for an increasing share of dollar earnings. Brazil, Mexico, and Colombia

have demonstrated in recent years that appropriate exchange rate policies can do much to encourage manufactured exports, and that foreign companies will be particularly active in this new export trade. The wholly owned subsidiary of the multinational corporation may be a particularly advantageous form for export development. It has the worldwide distribution network of the multinational corporation available to funnel its products to distant markets, and the multinational corporation would have no incentive to discriminate against it in decisions regarding choice of production facility for serving a third country's market. The situation would be different for a joint venture, since the multinational corporation would obtain only a fraction of the profits earned by its exports, whereas it would earn all the profits if the same sales opportunity were served by other plants within the corporation's production network.  

The question of export performance is but one of several reservations that may be raised about joint ventures as the institutional solution to Latin America's foreign investment problem. Compared to wholly owned subsidiaries, joint ventures seem generally to make higher payments to the foreign partner for technical services and capitalized technical knowledge, thus adding to the host country's costs. However, they also present distinct advantages, since the partial transfer of control to local partners may be expected to reduce transfer prices for purchased inputs and to diminish psychic costs of a foreign presence.

For these reasons, it seems likely that joint ventures, including the fade-out variety, will be experimented with increasingly. The rather rigid fade-out formula embodied in Decision 24 of the Andean Group seems unlikely to be the final word in the search for new


institutional arrangements. In some cases, investments that might be judged socially useful, e.g., labor-intensive assembly plants that re-export back to the United States, may be available only on a 100 percent foreign basis. In other cases, the social purpose of a joint venture may become corrupted by local partners who merely go along for the ride, leaving all decisions to the foreigners and making no effort to perform a watchdog function. Therefore, we may expect the key words of Latin American policy in the next decade to be flexibility and control. Despite the dangers of corrupting traditionally weak bureaucracies by endowing them with discretionary powers, a flexible approach will probably prove imperative as various combinations of joint ventures, production contracts and special controls over wholly owned subsidiaries prove most suitable in different cases. The constant objective sought by these various institutional arrangements will surely be greater national control over foreign investment.

New institutions and greater control should cut down opportunities for foreign companies to earn excessive profits. At the same time, returns will undoubtedly be cut below minimum levels required by certain foreign companies, and the flow of new investment will be reduced accordingly. This development will hurt growth rates, but it must be accepted as a price to be paid for the rapid social change experienced in some parts of Latin America and desired everywhere in Latin America. Rapid social change may well increase risk to foreign investors and induce them to raise their minimum required profits to levels judged by Latin American governments to be unacceptable.

Although growth targets may suffer, quite possibly social welfare will be increased by stringent controls on foreign investment even at the price of some growth. To state the obvious only because it is

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occasionally forgotten, the objective of economic policy lies in maximizing social welfare, not GNP.

Finally, we may expect the lively social concern over foreign investment to have effect in statistical reporting and in the explicit setting of social goals. Only ten years ago, for example, the only source available to the Peruvian government regarding the extent of foreign investment in Peru was the U.S. Embassy. Ten years hence, we may expect that effective reporting systems on all types of foreign indebtedness, especially direct foreign ownership of capital, will be imperative in Peru and elsewhere. Furthermore, I think we can anticipate the day when regularly produced reports on the stock of foreign-owned capital are given the public attention that reports on GNP receive today, when a decrease in the level of foreign capital is viewed as a measure of social progress in the same way that we now view an increase in the level of GNP.
V

INTERNATIONAL RELATIONSHIPS

Conflict and Cooperation Among Latin American States

The Nonhemispheric Powers in Latin America

The Politics of Direct Foreign Investment
The last quarter of a century has been remarkably free of interstate conflict in Latin America. The nearly three decades stretching between the Peru-Ecuador conflict of 1941 and the Honduras-El Salvador clash of 1970 provided occasional smoke but little fire. In the past, this relative harmony derived less from the elaboration of regional union or from the absence of potential conflict among the Latin American states than from an international environment, based partially on the regional predominance of the United States, that was not conducive to regional conflicts. In the 1970s, the assertion of increased national identity and governmental capacity in the separate Latin American states seems likely to combine with manifestations of world political multipolarity to accentuate the region's overall diversity.

Before examining some of the elements that support this conclusion, it is worth emphasizing that diversity need not imply conflict. Differences may be resolved -- even struggled over -- through a variety of means, of which armed force is but one. Sometimes national differences help foster cooperation as a means of avoiding or minimizing conflict. Indeed, increased economic interdependency and international communication may make cooperation rather than conflict the most likely long-range outcome of diversity in Latin America, despite the fact that economies are still more competitive than complementary. Politically, however, the internal differentiation of Latin America will present a severe test of the vitality of the inter-American system, particularly as Latin American differences may occasionally appear magnified in the absence of U.S. predominance.

THE RECOGNITION OF DIVERSITY

The differences among Latin American states are sufficient to question whether the term "Latin America" conveys anything meaningful. This is particularly obvious with the rise of several English-speaking countries in the Caribbean. But it was also true previously of the
areas traditionally labeled "Latin America." Brazil, with its varied nearly 100 million Portuguese-speaking people, inhabiting a continental region geographically though not spiritually closer to Africa than to North America, has very little in common with the one million Spanish-speaking former Colombians who straddle the Panama Canal. Argentina has far closer ties to Europe than to most of its Latin American "sister states." Nor do Peruvians, Guatemalans, Paraguayans, and Mexicans have very much in common geographically, politically, socially, or even culturally, despite the superficial ethnic similarities deriving from their heavily "Indian" populations -- which themselves share little other than the very "non-Europeaness" that led them to be mistakenly identified as "Indians" in the first place.

This great natural diversity of Latin America once led John Plank to comment to his Harvard students that it sometimes seemed as though the one thing Latin American countries had in common was the United States. Just a generation ago, for example, most major lines of communication flowed between the United States and individual Latin American countries. It was sometimes difficult to fly from one Central American country to another without first passing through Miami or New Orleans. And the consequences were both more widespread and politically significant than travel inconvenience.

The news available to the citizen of one Latin American country about activities elsewhere in Latin America came secondhand. Only a few major newspapers had their own foreign correspondents, and these tended to be in the United States or Europe. The international press agencies that serviced the area in the 1950s were American: INS, UP, and the Associated Press. The decline in the relative influence of the United States is illustrated not merely by the disappearance of INS and the rise of European competitors such as the French Agence France Presse (AFP) or the English Reuters, but much more fundamentally by the growth of national press associations within Latin America and their expansion into frequently loose but nonetheless increasingly effective regional press associations, such as Argentina-based Latin, or the Catholic inter-Press service.
On the whole, improved local reporting favors the rise of Latin America's own regional consciousness and could therefore be said to be a factor of unity. Latin American regional news reporting, even Cuba's Prensa Latina, which follows a similarly named and similarly biased press service started by Perón, frequently reflects common assumptions of the need to define Latin America's own interests vis-à-vis the outside world. Given Latin America's previous informational dependence on the United States, however, increased news about individual Latin American countries, even in a regional or biased context, also tends to increase differentiation through heightened self-awareness.

THE "NATIONALIZATION" OF LATIN AMERICAN SOCIETIES

Viewed domestically, the spread of communication within Latin American societies has done a great deal to erode the frequently complacent foreign orientation of capital cities and governing elites. Nationalist assertiveness, including the rejection of foreign influences through restrictive measures limiting foreign ownership of communications media and the presentation of foreign movies or television programs, increasingly reflects a desire to value or develop local cultural traditions as a basis for national self-confidence.

The search for national identity helps overcome the localisms that block progress by dividing a country against itself or that allow significant portions of the population to remain on the margins of national life. To some extent, therefore, nationalism provides an integrating value, exploiting the communications explosion to direct the aspirations of persons gradually entering the modern sector.

But nationalism also frequently tends to emphasize those characteristics that differentiate one country from another. As one Latin American historian has commented, the national history of each Latin American republic since independence tends to be an "anti-history" of the other republics, with different interpretations of shared events helping to foment mutual suspicions if not hatred.

The spread of nationalism thus sometimes creates new tensions alongside its contributions to development and social consciousness.
In a region studded with historic rivalries and deep-seated mutual suspicions, the danger is ever present that demagogues could seek to divert attention from domestic problems by creating international incidents. In addition, a number of other trends also foreshadow increased interstate tensions, if not outright conflicts.

TRENDS ENCOURAGING CONFLICT

The Increased Presence of Foreign Powers

With the exception of Guatemala during the early 1950s and of Cuba during the 1960s, Latin America after World War II had relatively few "confrontations by proxy" between major world powers. By the end of the 1960s, however, as indicated in the paper prepared for this conference by Herbert Goldhamer, the decline in the presence of the Western European countries, and with it the temporary predominance of the United States, both resulting from World War II, had largely been reversed. The new prominence of Japan and the assertion of global power by the Soviet Union will further accentuate the "reintegration" of Latin America into the broader world scene. These trends make it likely that during the 1970s many of the activities of the individual Latin American countries will once again reflect the imprint of international competition in ways that will certainly encourage regional diversity.

The simultaneous increase in Latin America's own governmental capacities and institutional development suggest that Latin American states will normally be able to maintain their own position even in an increasingly multipolar world. To some extent, also, the increased presence of foreign powers other than the United States may cushion the anti-U.S. focus of much Latin American nationalism. But a number of local situations exist that could, in the presence of interstate frictions, damage regional harmony and provide opportunities for major power conflicts. These frictions include border controversies, economic competition, and potential internal security problems, and it is to them that we now turn.
Migration Across International Boundaries

It seems unreasonable to expect, for example, that Mexican migrants in the United States might become a source of armed conflict between the two countries. Nonetheless, should potential rivals be more evenly matched, and should the stakes become higher and more complicated by nationalism and economic and ideological rivalries, population problems could trigger broader controversies. The El Salvador–Honduras border warfare was triggered partially by migrations of Salvadorians into Honduras. Large numbers of Chileans, Paraguayans, and, to some extent, Bolivians, have moved for economic reasons into Argentina as have Colombians into Venezuela. Although it is possible that armed conflicts might again break out over such issues, it is more likely that large migrant populations will serve as a basis for occasional social and economic controversies.

Competition Over Natural Resources and Markets

The discovery in 1970 and 1971 of substantial new petroleum deposits in territories affected by conflicts in the 1930s and 1940s between Ecuador and Colombia, and Ecuador and Peru, underscores the potential for interstate tensions over the control of large sparsely populated areas where abundant natural resources may be found. Similar areas exist along the Brazilian frontier and along the Venezuela–Guyana border. Small "buffer" states like Paraguay and Bolivia experience pressure by their larger neighbors anxious for access to resources and potential markets. Nor are the major states immune: Argentina is concerned over Brazilian water usage, as is Mexico over the salinity of Colorado river water.

Resource conflicts may derive from international pressures as well as from national ambitions. The industrialized countries may be less interested in Latin America as a reservoir of new materials and industrial capacity for postwar reconstruction now that nuclear parity has lessened the likelihood of World War III. But they seem likely to remain interested in retaining access to dwindling world raw material reserves and may thus transmit additional tensions to Latin America.
Threats to Internal Security

Terrorists in one country, to the extent they receive foreign encouragement or support, can become a source of interstate tension. Nonetheless, governmental capacity to cope with insurgent activities is increasing and may lead military forces to concentrate on supporting national development as a preventive to potential future internal security problems. The resurgence of a primitive "frontier-minded" military nationalism focused on more traditional missions of external defense may be fed by concern with resources and ocean frontiers, exemplified by the spreading claim to a 200-mile limit. Tensions within Latin America will also be affected by the perception that foreign corporations have the potential to affect the internal security of the countries in which they operate.

TRENDS ENCOURAGING UNITY

Two major trends stand against the pressures for conflict just analyzed. These include, first, the growing recognition that Latin America, if it is to take its rightful place on the world stage, may in the long run need to emulate the gradual process of unification now taking place in Europe, and, secondly, that Latin America will certainly in any case need in the short run to cooperate in certain economic and security fronts where conflict would be disastrous.

The Forging of a Regional Consciousness

During the 1960s, Christian Democratic leaders were perhaps the most outspoken proponents of the thesis that strength comes through unity, and that Latin America could carry increased weight in world councils to the extent that it did not allow itself to become "Balkanized" through the pursuit of bilateral relations with outside powers. Moves toward regional or even subregional unity seem unlikely to overcome the nationalism of individual sovereignties much before the turn of the century, if then, but the increased regional consciousness of younger political elites, and the current emphasis on multilateral discussions and international agencies are both signs of future possibilities.
The Need for Economic Cooperation

The economic future of Latin America over the near term seems more closely linked to development of the national economies of the individual countries rather than to the establishment of common markets. Regional cooperation is becoming increasingly important, however, as regards foreign investment. The Andean Code is one attempt to develop a common policy. And if it is clear that it is impossible to establish a unanimous ideological front between countries as different as Colombia and Chile, it is nonetheless equally clear that Latin American leaders consider cooperation in technical information exchanges as one base of the regional unity essential to at least partially counterbalance the power of the major international economic corporations. Within the public sector, for example, the national petroleum agencies meet regionally through ARPEL to exchange information, training, and even equipment.

The Need to Avoid Unproductive Military Expenditures

Latin America is increasingly industrializing. Entire sectors of the major countries of South America seem comparable to Europe of the 1950s. But limited resources and continuing uneven development combine to produce a practical mandate to avoid military activities that could escalate into conflicts. In particular, the costliness of maintaining modern military establishments seems likely to foster tacit limitations on arms acquisitions, already lower than elsewhere in the world. In addition, the ever-present dangers of foreign manipulation of Latin American security environments will inevitably foster some informal cooperation and information exchange in security matters as a counter to historic mutual suspicions.

The Problem of Subregional Balances of Power

These many contradictory trends are visible to varying degrees in the controversies over the possible emergence of Brazil as the new giant of the Southern Hemisphere. Psychologically, at least,
some Spanish-speaking countries seem to fear Brazil's rise almost as much as they currently suspect U.S. domination.

The presence of Brazil underscores the absence of universal solutions to Latin America's problems, and thereby also underscores the short-term trend toward diversity. Brazil is strategically located, far enough away not to conflict directly with the United States over contiguous territories, yet bordering on every South American country except Chile and Ecuador. It is probably the only Latin American country to credibly aspire to world power status by the end of the century.

Brazil's very prominence, however, marks it as a target for resistance and suspicion. Brazilian concern over instability in neighboring countries, such as Uruguay — a concern some have argued coincides with American interests — has sometimes been regarded as evidence of a potential Brazilian desire for expansion at the cost of her neighbors. Partially for these reasons and partially because Brazil is currently ruled by a military government that is both strongly anti-Communist and relatively favorably disposed toward U.S. investors, Brazil has sometimes advanced itself as a candidate for favored treatment or has been suspected elsewhere in Latin America of receiving such treatment from the United States.

Among Brazil's neighbors, Argentina has ambitions of its own and is quick to feel slighted by any hint of favored U.S. treatment for Brazil. While Brazil has consistently been opposed to any groupings that would counter its power, Argentina has just as consistently sought federation or alliance to counter Brazilian influence. Today, for example, Argentina seems increasingly well disposed toward the Andean subregional group, while Brazil continues to seek bilateral advantages with countries such as Bolivia.

It is important not to overstate these differences, however. Within Brazil, sensitivity to charges of pro-Americanism may increase tendencies to prove Brazilian independence through the advocacy of positions conflicting with those of the United States (as has happened recently with Brazil's espousal of a 200-mile claim to territorial waters). In the short run, any supposed U.S. favoritism toward Brazil
could well contribute to increased alliances, possibly with anti-U.S. overtones, among the countries of Spanish-speaking South America. In the longer term, however, Brazil is both too important to the future of Latin America as a whole and too diplomatically skilled to allow herself to be isolated from her neighbors.

A primary effect of the international environment of the 1970s may thus well be to restore an awareness of the more traditional aspects of "power politics" among the Latin American countries themselves. Unstable conditions in Bolivia, urban guerrilla movements in Argentina, Uruguay, and Brazil, tensions between Venezuela and Colombia, and the election of the Popular Unity government presided over by the socialist Salvador Allende in Chile are all recent examples of situations that have occasioned regional concern and attempts at balancing among nations and security forces. The lowered political and military profile of the United States in Latin America, and the increase in Russian diplomatic, economic, and military activities are similarly likely to contribute to heightened Latin American interest in regional conflict environments and in the national characteristics, aspirations, and fears of their individual countries.

Much the same ambiguity and diversity is revealed, as we have seen, by a consideration of economic prospects. Integration, particularly at a subregional level (as in the Andean Group or the Central American Common Market), has made some headway, thereby underscoring national interdependence. But the process of integration also brings national rivalries to the forefront by highlighting issues of economic competition and expansion. Together with population movements across national boundaries, this could once again lead to the kind of bilateral tensions that have historically been associated with conflicts over sparsely settled but potentially rich border territories.

The mutual interactions and national security policies of individual Latin American countries are thus an increasingly important, although largely neglected, topic for analysis.
CONCLUSION

It would therefore appear that during the 1970s diversity and nationalism will be the prevailing features of the Latin American scene, and that no one nation will establish regional dominance. Subregional alliances based on specific economic and security interests rather than on over-arching ideology seem likely to become the chief form of cooperation. Within this framework, we may speculate that the Organization of American States, long in decline in comparison to the United Nations during the period of U.S. predominance, may retain significance mainly as an instrument for the exposition of the differences among Latin American countries themselves and for the forging of a new regional consciousness that may in the longer run replace the current trend toward diversity with one toward unity.
The late fifties and the sixties witnessed a sharp growth in the presence of the nonhemispheric powers in Latin America. What the seventies will hold in store for these relations can most readily be assessed by examining the likely fate of those motives, capabilities, and international contexts that during the sixties shaped the behavior of the principal actors in the southern continent and produced the trends that were then established.

I. THE POSTWAR PERIOD AND THE SIXTIES

Developments both external and internal to Latin America shaped the nature of the nonhemispheric presence.

A. External Developments

(i) The Effect of World War II. World War II and its aftermath had a major effect on the fortunes of the foreign powers in Latin America.

The burdens and sacrifices of war led to the loss by both the European allies and the Axis powers of positions acquired in Latin America during the nineteenth and early twentieth centuries. Both Britain and France as well as Germany suffered sharp setbacks, while Italy and Japan, whose stakes were smaller and who had largely a physical (migrant) presence, suffered less.

The beneficiary of this was the United States whose presence increased greatly in Latin America after World War II. In 1938 the United States provided only 37 percent of Latin America's imports, but immediately after World War II the U.S. share stood at about 60 percent. In the decade 1950-1959 the United States accounted

*In this paper the "nonhemispheric powers" should be taken to include Canada.
for about 80 percent of direct private investment flow to Latin America. After 1939, U.S. military missions became successors to an earlier important European military presence.

(ii) Recuperation. The great upsurge, relative to other powers, in the United States economic, military, and political presence in Latin America after World War II did not last very long. It was more or less predictable that the nonhemispheric powers, more especially the former enemy nations that had been almost totally cut off from Latin America by the war, would, as their U.S.-assisted recuperation progressed, seek to reestablish themselves in the southern continent.

The United States 60 percent share in the Latin American market declined steadily after 1948 and did not stabilize until about 1962 at approximately 44 percent. Despite recent favorable U.S. trade balances in Latin America, there are signs of a new, but slower decline in the U.S. share. There is, however, as yet no clear indication that a new long-term trend is being established, especially in manufactured exports where the United States has almost held its own against its nonhemispheric competitors.

During the sixties, Japanese, German, and Italian recuperation had progressed to a point that permitted increasing amounts of capital to be sent to Latin America which was a preferred Third World locus for the investments of these three countries. In 1967, among the fifty largest public and private business enterprises in Argentina, seventeen European corporations outranked thirteen U.S. corporations, the former with 344 billion pesos annually of business and the latter with 260 billion. In Brazil, European and Japanese investment shares rose from about 32 percent in 1956 to 58 percent in 1967. Of course in Latin America as a whole, U.S. investments at the end of the sixties were still larger than those of the nonhemispheric powers.

*The predominance of U.S. capital was not the result of a U.S. preference for Latin America as an investment outlet. In 1950, 38 percent (without Cuba, 32 percent) of the book value of U.S. foreign private investment was in Latin America. By 1966, this figure had dropped sharply to 18 percent. From 1960 to 1966, Latin America
(iii) The Migrant Presence. The return of the foreign powers to Latin America after the war was not only commercial and financial (trade and investments) but also physical in the form of a very substantial postwar wave of emigration to Latin America. Between 1946 and 1960 Argentina, Brazil, Colombia, Uruguay, and Venezuela received about 2-1/2 million migrants, who continued to reinforce an already strong Japanese, German, Spanish, Italian, and Portuguese presence, among others. These migrants, like their forerunners, have facilitated the commercial and financial penetration of the Latin American world by those industrial countries with a substantial migrant presence, that is, Germany, Italy, and Japan.

(iv) United States Programs and Diplomacy. The United States economic and military aid programs helped during the early sixties to stabilize the trade decline that had progressed steadily from 1948 to 1962. But the not infrequent tutelary and managerial interventions of both the Administration and Congress counteracted at times the benefits that the United States derived from its efforts to guide political and economic developments in South America. These irritants in United States–Latin American relations were magnified in their effects by the whole history of U.S. interventions in the Caribbean and in Latin America, and by other factors (see below) that intensified economic and political tensions while affording increased opportunities for the nonhemispheric powers.

(v) Nonhemispheric Political Offensives. Political offensives on the part of France, the Soviet bloc, and to a lesser extent Italy, encouraged Latin American willingness to risk alienating the United States. That nothing significant came of French and Italian (and for several years of Soviet) gestures did not prevent them from supporting a Latin impetus toward the nonhemispheric powers and away from the United States.

received only 9 percent of all U.S. net foreign direct investment, or only one-third of such U.S. investments in the less developed countries. By 1968, 38 percent of U.S. direct foreign investment was in Canada as compared with only 17 percent for all the Latin republics together.
B. Internal (Latin American) Developments

(vi) Diversification. The return of the nonhemispheric powers to Latin America was facilitated by an increasing Latin American interest in commercial, financial, and political diversification. President Frei took well-publicized initiatives in this respect that reflected a general Latin American interest of some duration. This interest was enhanced by U.S. actions and nonhemispheric encouragement on the one hand (see above) and by left and left nationalist tendencies with strong anti-U.S. components, on the other hand (see below).

(vii) Latin America in the United Nations. Latin American interests in moving on a larger (world) stage and in escaping too great dependence on the United States were further encouraged by the role the Latin states were able to play in the United Nations and by the considerable value of their votes.* Unlike the League of Nations, in which participation was passive, hesitant, and only partial, the U.N. became not only an important world forum for the Latin governments but also a locus where they could experience the political impact of Third World countries.

(viii) Politics and Economics. The large role played by most Latin American governments in the economic life of their nations (through the direction of economic policy and through semi-autonomous state enterprises) tended to give international economic relations with Latin America a government-to-government character rather than a private enterprise framework. This seems to have provided some advantages to foreign states with dirigiste or centrally managed economies, or with at least counterparts to Latin American semi-autonomous state enterprises or corporations. Thus, when Colombia awarded Renault a contract to build and operate an auto assembly plant, a Colombian official remarked that Renault's status as a government enterprise helped it to win out over nine other bidders.

*At the First Session of the United Nations, 20 Latin American states were 39 percent of the membership. This fell to 24 percent in 1959 and to 19 percent in 1966. African membership is approximately double that of Latin America. Of the 15 Security Council seats, two are reserved for Latin American states.
Another firm awarded a contract for an auto assembly plant was also a state enterprise, Mexico's Diesel Nacional. United States bidders—General Motors, Ford, Chrysler, American Motors—thought it "nonsensical" that the successful bidder must agree to buy and market Colombian products equal in value to the automobile components it imported. But for a foreign state enterprise like Renault, there was no apparent problem in buying and marketing (in 1969 and 1970) $3 million worth of Colombian coffee, meat, tobacco, cotton, and rice.

Several of the nonhemispheric countries were able to present themselves as models for the Latin American nations and to imply, but without any convincing results, that relations with them had special value because of national experiences or talents that had Latin American applications.

(ix) Marxism, Radical Nationalism, the Soviet Union. The Cuban Revolution, the diplomatic recognition of the Soviet Union throughout almost all of Latin America, the election of Salvador Allende, and various guerrilla outbreaks were only the more conspicuous events in domestic political developments in Latin America that marked the increased influence of nationalist, left nationalist, and communist tendencies that were hostile to a U.S. presence and that welcomed nonhemispheric relations, especially when it had anti-American overtones. The political right (e.g., the large landowners who found among some Alliance for Progress strategists an enthusiasm for their liquidation) and the political center (business men, government officials and administrators who felt harassed by Alliance for Progress overseers or by the latter's insistence on a tax structure and other reforms that would have touched them too closely) also contributed to this anti-American sentiment. The radicalization and nationalism of the Catholic clergy in Latin America added to anti-American attitudes in a sector formerly attached to the political right.

Relations with the Soviet Union seemed, on the other hand, less dangerous to Latin states that took comfort (after the Cuban missile crisis receded into the background) from the great distance of the Soviet Union from Latin America, just as some of the East European
countries find relief from the disagreeable proximity of the Soviet Union in relations with the United States and other Western powers.

II. THE SEVENTIES

As the decade of the seventies opens, there is no clear sign that the rising fortunes in Latin America of the nonhemispheric powers, relative to those of the United States, have stabilized or reached their apogee. Nor is it as yet clear who, among them, will in the long run benefit most from the economic and political competition—an issue important to the United States which may feel less endangered by an erosion of its own influence in Latin America than by the particular parties whose presence may partially replace its own. Nonetheless, if we examine the sources of the increase in the nonhemispheric presence outlined above, and if we assess their future significance, we can make some useful guesses about the later years of this decade. It will, of course, be necessary to take into account new developments that may occur in the seventies, as well as the future fate of those that dominated the sixties.

The effect of nonhemispheric postwar economic recuperation on trade had largely run its course by the mid-sixties. In the seventies any further increase in nonhemispheric shares and a corresponding decline in U.S. trade shares will depend on rather different factors.*

The future U.S. trade position will depend in part on the investment policies of Japan, Germany, Italy, Canada, and perhaps several other countries. If U.S. investment in Latin America continues

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*A decline in U.S. trade shares has not generally meant a decline in the absolute size of U.S. trade with Latin America. Small declines in U.S. trade shares at the turn of the decade were, however, accompanied by absolute declines in Colombia and Peru. U.S. exports to the 22 OAS republics in 1971 increased only one percent over 1970's $6.1 billion. U.S. and parallel Latin American monetary devaluations will probably improve the U.S. position over that of its nonhemispheric competitors, but this may produce only a temporary reversal of present trends.
to slow while other foreign investments continue, this will almost certainly lead to a reduction in the U.S. share of the Latin American market. Investments in Latin America, as elsewhere, produce for the countries making them an increase in exports since the foreign firms in Latin America are substantial consumers of goods imported from their own country. Every £100 of direct private investment by Great Britain in Nigeria generated about £39 of increased trade with that country. This effect is apparently the greater according to the degree to which the industry of the country in which investments are made is underdeveloped, and the ratio in Latin America is unlikely to be as large as in Nigeria. Nonetheless, Japanese, German, British, and Italian investments in Latin America are undertaken in many instances precisely in order to protect trade interests and to advance them.

During the sixties the U.S. trade position was strengthened by the Alliance for Progress whose tied loans led to purchases in the United States that otherwise might have gone to other countries. Unfortunately, available data do not seem to provide any clear answer to the question of how much trade the United States gained from its aid activities. Nonetheless, as U.S. aid and the practice of tying aid decline, and as multilateral aid replaces bilateral aid, it is likely that some negative effect on the U.S. trade position will occur.**

The increased physical presence of the nonhemispheric powers achieved by postwar migrations ceased to be reinforced in the late sixties when the flow of workers from Spain, Portugal, Italy, Greece,

*The U.S. Overseas Private Investment Corporation (OPIC) has reported sharp declines in applications for investment insurance. The Department of Commerce anticipated a small decline in 1971 in plant and equipment expenditures by U.S. affiliates in Latin America as compared with accelerating expenditures in all other parts of the world. This decline does not, however, apply uniformly to all of Latin America. Brazil and Mexico are still favored countries for U.S. investments.

**When the United States began to tie aid in 1960, only 41 percent of AID assistance was used to buy U.S. commodities. By 1968 this figure had risen to 98 percent. The campaign for untying aid was supported in 1970 in the OECD by the United States and was opposed by Canada, France, and Japan.
and Turkey was diverted by opportunities in Western Europe. These opportunities have now declined, but it is not likely, given European and Japanese prosperity, that there will be a new major wave of migration to Latin America in the seventies. Nonetheless, the presence in Latin America of first, second, and third generation migrants who maintain a close identity with their country (and language) of origin, will continue to provide some commercial and financial advantages to these countries. * Japan especially has appreciated this. Although hard pressed at home for skilled workers and technicians, she has arranged the migration of technical personnel to Brazil and helped to establish them in Brazilian enterprises where their influence will favor purchases from Japan.

The U.S. trade (and perhaps even investment) position in Latin America may be eased by increasing European preoccupation with trade within the EEC and with new opportunities that may open in the seventies in the Soviet Union and China. ** Those industrial countries that are not associated with important regional economic groupings may find themselves increasingly drawn together. *** If, in addition, the United States finally gets around to providing Latin America with the tariff concessions promised some time ago, the United States may develop a special entrée to Latin American markets more effective than its aid programs. Its effectiveness is likely, however, to be diminished by the growing ability of the nonhemispheric countries, as the decade moves on, to compete more effectively in manufacturing fields in which U.S. technology and productivity formerly had a marked advantage. Nonetheless, the current U.S. trade and investment position

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* Thus, in 1970 Italy ranked third (to the United States and Germany) in the Argentine market, and Japan third (to the United States and Germany) in the Brazilian market.

** This may also render more unlikely a renewal in the seventies by France and Italy of those initiatives taken in 1964–1965 to stem the tide of U.S. dominance in Latin America.

*** LAFTA and CACM are likely in the long run to increase the amount of intra-Latin American trade, but this will affect the nonhemispheric competitors of the United States as well as the United States. It is true, nonetheless, that European traders have lost less from CACM than has the United States.
in Latin America will, despite further declines, almost certainly continue to make the United States the single most important foreign economic power in Latin America throughout the decade.

The current U.S. trade position and its position in the seventies relative to the nonhemispheric countries is alleviated to some extent by a factor sometimes overlooked. The position of the United States is usually calculated in terms of exports from the United States proper, but many U.S. firms operate in Canada, in Europe, and in Latin America itself, and these firms sell their commodities to Latin America.* Thus, from the standpoint of U.S. economic interests, a certain amount of the trade of Canada and Europe and sales within Latin America itself must be viewed as at least ancillary to if not an integral part of what is usually called U.S. trade with Latin America.**

Probably more essential than the foregoing factors to the future balance of the nonhemispheric and the U.S. presence in Latin America are certain larger political or political-economic developments that emerged primarily in the sixties (see above) and whose final course has not yet been run.

The Latin American interest in political and economic diversification that played so important a role in the mid-sixties will almost certainly continue to play a significant role in the present decade. Apart from politically inspired motives, the U.S. economic presence will continue to loom large enough to provide the necessary stimulus. However, the partial success of Latin America's drive toward diversification will probably deprive this interest of the strong emotional

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*In 1966 United States manufacturing affiliates in Latin America had $5.9 billion in local sales, that is, about $1.5 billion more than U.S. exports to Latin America for that year.

**A decline in the U.S. share of the Latin American market has also to be interpreted in light of the relatively small role international trade plays in the United States GNP — about 4 percent as compared with 10-35 percent for the principal industrial nations. Exports as a percent of GNP were (1968-1969): Japan 10, France 11, Italy 14, Britain 16, West Germany 19, Netherlands 35, Belgium 40. Since, however, U.S. exports comprise almost 17 percent of the exports of the non-Communist world, even a modest U.S. trade deficit can create difficulties for the U.S. balance of payments.
motivation and appeal that it had in the mid-sixties. In the coming years, Latin American leaders will probably be more cautious in their dealings with the Soviet Union, China, the European countries, and Japan than they were in the sixties when they were misled by gestures made by General de Gaulle and President Saragat, and looked forward to much more in the way of economic assistance and trade than they in fact received. The Latin American states still want increased trade with and investment from the nonhemispheric powers, but they are likely to avoid slighting opportunities in the United States. However, if the political left and intense nationalism continue to grow, both political passions and political expediency may lead in some instances to a decline in economic relations with the United States, even when it injures economic interests.

There will no doubt be some interaction between domestic developments in the Latin American states and U.S. policy toward Latin America. However, a U.S. policy in the seventies that provides less economic aid and reacts more sharply to some Latin American actions (uncompensated expropriations, for example), may not exacerbate U.S.-Latin American relations provided it affords Latin America satisfactory opportunities for trade and investment. It may lead to less good neighbor rhetoric than in the sixties, but also to fewer of the day-to-day all pervasive forms of irritation and dissatisfaction that stemmed from U.S. large-scale assistance in the early sixties and the tutelary and managerial relations that accompanied it. Unless it becomes severely punitive rather than simply hardheaded and self-interested, U.S. policy is not likely to be a major determinant of whether or not radical nationalism or marxism spreads in Latin America during the seventies.

Just as Western Europe and Japan played a major role in the sixties in providing Latin America with new alternatives or additions to U.S. relations, so the Soviet Union and China will almost certainly play an increased role in the seventies. This should not be interpreted solely in terms of political penetration and economic assistance. The Soviets and, increasingly, the Chinese are major powers and given their apparent interest in benefiting from the international division of labor, it is likely that they will find economic relations with
Latin America advantageous to them. Even a modest incursion into the Latin American market by countries of this size will by the late seventies involve a not trivial redistribution of trade shares. The Soviet Union and China may for the moment find economic penetration hindered by their inability to provide quality goods at competitive prices, but it would be dangerous to assume that this condition will continue indefinitely. By the late seventies the Soviet Union will have had enough experience in international nonsocialist markets to provide competition even where political considerations and special concessions do not smooth their path. The Russians are already showing increased flexibility and a willingness to drop their former exclusive reliance on barter deals.

For the present, Soviet interests in Third World areas would be modest were it not that these relations are an important aspect of her concerns with the United States and China. It is likely that the Soviets will continue to be particularly active in areas which border on the Soviet Union and China, or are contiguous to areas that do, that is, especially in the Middle East and South Asia. These preoccupations will limit Soviet assistance to Latin America. China is already exceeding Soviet disbursements and offers in a number of Third World areas. Since, however, the Soviets are likely to confine highly concessionary relations in Latin America to countries that follow a Marxist or "noncapitalist" line and show some sympathy for her foreign policy positions, she will not have to support, at least for the time being, a continent-wide effort in Latin America, as did the United States in the sixties.

It is unlikely that in the seventies the Soviet Union will find it necessary to try to exploit the Latin American states for prime Soviet security objectives. In 1962 Cuba provided the Soviets with a chance to lessen strategic imbalance and thus to serve a high priority security concern. However, in the seventies, under conditions of strategic parity with the United States, urgent military use of a Third World country, particularly a Latin American country, is not so likely to occur. This, however, certainly does not mean that Latin American states may not be used by the Russians for national security.
purposes. It only means that these purposes will not be quite so vital as those that were probably at stake in Cuba in 1962, and that therefore the risks to be taken and the costs to be paid will have to be in proportion to the benefits that the Soviets can expect to derive.

Soviet attempts to eliminate or discredit anti-Soviet left groups in Latin America may be supplemented in some instances by attempts to win over far left political movements by providing discreet support even at the risk of jeopardizing government-to-government relations. The apparent Soviet willingness to get involved in Ecuador, in Mexico, and in Costa Rica in domestic affairs suggests a Soviet judgment that they cannot pursue a purely "correct" policy without risking the loss of influence in political circles that they do not want to write off.

Soviet willingness to risk their diplomatic relations* may in part be motivated by a lack of confidence that they can, at least within the limits of the costs they are willing to bear, displace in any real way the influence of the United States and the larger nonhemispheric powers. The Russians cannot now provide either the capital, the trade, or the types of cultural contacts required by the Latin American states. The United States, West Germany, Japan, and where cultural relations are also involved, Italy, Britain, and France, will continue to be more useful to Latin America than the Soviets. Perhaps for this reason the Soviets do not feel they are risking a great deal, particularly given a tendency for some states to tolerate more interference from the Soviets than they do from other countries.

Three factors may in the long run assist the Russians. As the decade moves on, Soviet ability to provide capital assistance, to absorb Third World semi-manufactured and manufactured goods (as well as raw materials) will probably improve. Second, the large role that government and semi-autonomous government corporations play in Latin economies may give the Soviets some advantage as compared with Western private enterprisers. Third, Latin American countries with anti-

* It is, of course, difficult to determine whether what we observe is two (partly incompatible) strains in Soviet policy or the rivalry of their diplomatic and security services.
capitalist leanings will continue to avoid a too great dependence on
capitalist states suspected, even when there is no foundation for this,
of being secretly hostile to them. Latin American expropriations,
particularly, may lead some Latin American governments to feel that
sooner or later in one form or another, the United States or other
Western powers will seek restitution. In any case, relations with
the Soviet Union may be a useful means for undercutting the political
appeal of party rivals on the left.

The Soviets may use their political influence and their economic
and military assistance programs to obtain bases in Latin American
countries. Bases would be useful to the Soviet Union, although it is
apparent that her opportunities to "show the flag" are plentiful with-
out their expense. Countries such as Chile have, for the time being,
reasons to conform to President Allende's statement that Chile will
not permit a foreign country to establish bases. However, future
Chilean economic crises may provide opportunities for the Soviets if
they wish to take them. Soviet credits to Chile granted in 1966 and
still unutilized are apparently going to be applied to the construction
of a large fishing port in Valparaiso. Agreements have been reported
between the Soviets and the Peruvians for the construction of a Peruv-
ian fishing port. These two ventures, if they are in fact undertaken,
will no doubt provide the Soviets with useful experience in South
American West Coast waters and might provide an opportunity for naval
utilization of these ports if political and economic relations of the
countries involved deteriorate to the point where a willingness to
bail them out might enable the Russians to get concessions of this
sort.*

There are some offsetting difficulties that may suggest caution
to the Soviets. Although the changeable character of Latin American
politics often permits rapid gains for the outsider, political insta-

* The United States might find it easier to prevent this by deal-
ing with the USSR rather than by trying to compete with it for influ-
ence in Chile.
patrons of the Third World in the seventies will be handicapped by substantial residues of an iron curtain mentality that complicates relations with other people. Another limitation on Soviet Latin American ambitions is the greater cultural prestige of the Western nations. In Latin America the cultural affinities of the middle and upper classes with Western Europe and the United States can hardly be offset by Soviet offerings. It is difficult to know to what extent a major power can exercise an enduring and substantial influence of a noncoercive character over another nation when their cultural contact is limited and when the cultural prestige or importance of the big power is not very great for the smaller one. The political role of Western culture in the Third World may alter as time goes on, but it is unlikely that in the decade of the seventies the USSR will be able to operate as freely as it would were it not handicapped by its limited ability to associate cultural affinities with economic and possibly military ties.

There is a fourth difficulty that the Soviet Union increasingly meets as it expands its relations in the Third World. Like the United States, the Russians as a big power pursue activities in one part of the world that conflict with objectives elsewhere. Thus, Soviet attempts on behalf of East Germany to limit West German participation in U.N. aid activities were resented by some Latin American and other Third World countries that received West German aid.

The United States, were it to combine with Canada, West Germany, Japan, and Italy, could provide considerable leverage for the protection of such common economic and political interests in Latin America as these countries have. But it is not clear how much Canada, West Europe, and Japan will attempt primarily to benefit from Latin American disaffection from the United States and how much they will prefer joint action. The United States might be able to make concessions to nonhemispheric trading and investment interests in Latin America in order to ensure cooperation on what it views as its most essential economic and political interests in the southern continent. The United States ability to achieve some measure of cooperation would,
of course, depend on judgments by the nonhemispheric countries that their own interests, and not only those of the United States, are involved.* The left and radical nationalists have sometimes attempted to convey that only the United States stands to lose by their accession to power, but it is evident that this has not been entirely convincing in Cuba and may seem increasingly unconvincing in Chile. In the sixties the United States had little success in eliciting European cooperation for its Latin American programs and policies. In the seventies the European powers and Japan may be too preoccupied in the competition to replace United States economic and political influence to be much more willing to cooperate with the United States. Still, their own position in Latin America may eventually seem to them to be not so different from that of the United States and this might provide the basis for greater unity of policy than existed in the past decade.

*The investments of Germany, Japan, and Italy in Latin America are, taken individually, far less than those of the United States. On the other hand, their investments in Latin America are in each case a much larger part of their total investments abroad than is true for the United States, a not unimportant matter, especially for Germany already rendered sensitive by losses suffered in Latin America in two World Wars.
THE POLITICS OF DIRECT FOREIGN INVESTMENT
Charles T. Goodsell

Two principal trends would appear to be operating during the current decade with respect to the politics of direct foreign investment in Latin America. First, "host" governments are becoming increasingly tough-minded and antagonistic toward investors. Second, "home" governments (an equivalent euphemism for the national regime with direct jurisdiction over parent headquarters) are becoming increasingly supportive of investors — at least in the case of American investors.

These trends are very long-range, however, and within the time frame of a single decade net movements along them may be slight. Also they may be obscured by short-term shifts and differences between cases. A main contention of this paper is that a prime feature of contemporary foreign investment politics in Latin America is not regularity and uniformity but distinction and difference.

THE PERSPECTIVE OF THE LONG VIEW

At one time, say around the turn of the century, it may have been possible to think of the politics of foreign investment in terms of a single basic model. It has been characterized by some as "economic imperialism." Latin American governments were avid to attract foreign capital on almost any terms and they eagerly signed investment agreements. Negotiations over external financing were conducted by a small, tight elite which the investors could buy off if necessary. If a coup displaced the elite and further bribery failed to produce the desired outcomes, the businessmen turned to their own governments for protection and support. This was generally afforded with alacrity and vigor. The outcome was a highly asymmetrical power relationship between the foreign economic interest and Latin host government.

1 Excerpts from the classic literature on this concept are conveniently found in D. K. Fieldhouse, ed., The Theory of Capitalist Imperialism, Barnes & Noble, New York, 1967.
But by the 1970s this tidy concept of foreign economic domination had become an empty myth in many respects, although the concept's occasional validity keeps the myth very much alive.

As the decades of the twentieth century accumulated, so did the force of economic nationalism in Latin America. Foreign companies were increasingly put on the defensive. It was no longer possible for Latin American elites to sign investment contracts without consideration for their domestic political impact. Large-scale bribery became increasingly risky from a political standpoint to both parties involved. Although developmentalist plans and ideologies temporarily glorified the role of external capital as a means of import substitution and economic growth, the foreign corporation also became identified with foreign interference, maldistribution of wealth, and the ancien régime in general. The "multinational corporation" emerged as a particular object of fear because of its supposedly multiple bases of power. Abandoning their former pliant acceptance of foreign capital and capitalists, Latin American governments began to drive hard bargains, limit the sphere of foreign business, and expropriate individual companies with or without compensation.

Meanwhile the investors' own governments became less cooperative as well. The emergence of world-wide mass media and anti-imperialist standards of international behavior required the large powers to become more image-conscious when furthering the interests of business abroad. Also other foreign policy interests sprang up to compete with the diplomatic protection of capital. This was particularly true with the United States in Latin America, where maintenance of friendly relations with even unaccommodating hemisphere governments was perceived as a national security matter. The American government was, moreover, inhibited in the pro-business posture it could publicly assume by domestic political forces within the United States; by the late 1960s, consumer, environmentalist, and populist movements were on the upswing at the expense of the popularity of "big business." And the Vietnam War had created a general hostility to foreign entanglements.
Thus, although Sergio Bitar argued recently in this context that "it is not unreasonable to think in terms of an increasing identification between the U.S. government and the largest corporations," it is my view that it is precisely American official support of capital abroad that is susceptible to erosion in Latin America. European governments, with their mercantilist pasts and "chosen instrument" styles of operating abroad, plus their secondary interest in the hemisphere, are perhaps as supportive as ever. But if one asks the typical U.S. businessman in Latin America today to describe the actual protection he is afforded by his local American embassy or the Department of State in Washington, he is likely to scoff at their unpredictability rather than praise their loyalty.

The consequences of this combined withdrawal of enthusiastic support by host and home governments are multiple for the U.S. business affiliate in Latin America. It "gets its way" less fully and less frequently, increasing the long-term risks of international business. The corporation must proportionately expend more effort to achieve its political goals and many goals now become unfeasible. It attempts to generate political forces within local societies by means of public relations programs so as to have an indirect effect on officialdom; this is sometimes dysfunctional, however, creating a backlash that weakens the corporate position further. The principal political strategy becomes not the personal, private payoff to decisionmakers, but rather the offering of investment deals whose payoffs to government are sufficiently favorable to make them highly enticing. In short, the style of political behavior is no longer intimate collaboration with public officials but arms-length negotiations and compromise; in relations with host governments big-time bribery is replaced by non-zero-sum bargaining and in relations with home governments intimate collaboration makes way for uncoordinated maneuvering.

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The existence of these trends cannot be proved and many will contest them. I offer elsewhere more systematic evidence for them than can be provided here. We can, however, illustrate the trends by comparing the behavior and experience in one Latin American country of one of the largest and oldest multinational corporations, Standard Oil of New Jersey, at two points in time: the company's first and last decades in Peru.

Jersey Standard in Peru, 1913-22 and 1959-68

In 1913 Standard acquired a controlling interest in a British firm that operated the now-famous La Brea y Pariñas oil fields in Peru. For the next ten years Standard conducted a brilliantly successful campaign to secure a confirmed ownership title and to avoid an increased and "normal" tax regime for this property. Without going into detail here, the effort was begun by sending well-financed agents to Lima who, in time, ingratiated themselves with the Peruvian oligarchy. When their lobbying efforts failed to secure satisfactory results, a cooperative Canadian government (the International Petroleum Company, Standard's affiliate, is registered in Toronto) requisitioned the only tankers available to transport oil from the fields to Lima. The resulting fuel crisis was ended after the Peruvian Congress capitulated in favor of international arbitration of the issue. The arbitration award simply duplicated a deal worked out privately between a company lobbyist and President Leguía of Peru, who demanded among other things a $1 million cash payment to his treasury. The settlement was technically "legal" (although the Peruvians dispute this), but was wrought under conditions of externally-imposed pressure, confidential collaboration, and a generous use of cash.

3 Writers who perceive a persistence of the economic imperialism model are well represented in K. T. Fann and Donald C. Hodges, eds., Readings in U.S. Imperialism, Porter Sargent, Boston, 1971.
If one now moves forward several decades, he finds Standard Oil's political behavior and capabilities in Peru grossly altered. Because of a low retail price for gasoline, the International Petroleum Company (IPC) was losing money in the 1950s. Despite unremitting company pressure on the Odría and then Prado regimes, management was unable to secure more than a token increase. In an attempt to get action the company offered to give up its privileged status at La Brea; also it threatened to lay off workers at the oil fields. Pressure gradually mounted and in 1959 Premier Pedro Beltrán, a prominent landowner and publisher, granted a price hike. But the result was a storm of anti-company protest that was whipped up to near-frenzy by ambitious Peruvian politicians and Beltrán's rival daily, El Comercio. Although not constant in intensity, this campaign of vituperation continued for ten years and produced for the company a uniquely bad reputation.6

During the 1960s, IPC tried to improve its image with an ambitious and multifaceted public relations program — but without much effect. Several attempts were also made to negotiate a settlement with the Belaunde government, with the company making added concessions each round. Nevertheless, by the time an agreement was finally reached in 1968, the armed forces were in a position to use it to justify their intervention in a deteriorating economy and political-party system, and they seized company assets with no intention of compensation.7

In the meantime, the American government had for its part, and for some years prior to the expropriation, intermittently attempted to pressure Belaunde into accepting a settlement by withholding development loans. This intervention had not been sought by Standard Oil but was informally welcomed by the company. The American ambassador in Lima worked hard to promote a settlement but played a relatively neutral role (his denunciation in the Peruvian press as "Mister IPC"8 was

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8. Víga (Lima), May 1969.
a politically useful slogan, but it exaggerated the ambassador's identity with Standard Oil). After the confiscation, the corporation let it be known to Washington that the Hickenlooper Amendment should be invoked, but President Nixon -- in the context of seeking a general détente with Lima on fishing and other matters -- refrained from doing so.

In short, whereas at the beginning of the century Standard could reach its goals by confidential deals and conspiratorial pressure, at mid-century intense hostility in Lima and equivocal backing in Washington required it to employ image-promotion and economic concessions. A "closed" politics had become a kind of "open" politics, comparatively speaking, in the sense of diffusion of both knowledge and interest. At least in this case, moreover, the results were by no means favorable to the investors.

THE VARIETY OF CONTEMPORARY BEHAVIORS

The withdrawal of enthusiastic governmental acceptance and identification with the private foreign investor has not led to a neat and uniform new model of politics of international business. Rather, termination of the old relatively simple economic imperialism has given way to greater differentiation of conduct. Governments and corporations are adopting a wide variety of behaviors as they cope with conflicting forces and motivations and respond to individual sets of variables. It is my prognosis that this confusion will continue for some years.

To analyze this confusion requires some ordering device, however. One is initially tempted to speak in terms of roles, for many political actors in this arena indeed seem to "play a part" over time. Castro, for example, is the blatant anti-imperialist, and Sears, Roebuck the unstinting corporate good citizen. Yet the roles themselves become

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mixed and change rapidly. Hence we shall simply note various patterns of political behavior.

Host Governments

It is popular to argue that in Latin America foreign investment is rapidly becoming untenable as a means of economic transfer in the face of powerful political opposition to direct foreign investment and the multinational corporation. It is true that expropriations have occurred in many countries, with Chile the most salient present case. All Andean governments, save Colombia, have forced some investors from their shores in recent years, and the Andean Pact has incorporated a "fade-out" concept for foreign investments in its Decision 24. Nevertheless, the large hemisphere countries, namely Mexico, Argentina, and Brazil, continue to welcome foreign capital and many Caribbean and Central American nations are doing so as well. While the dramatic instances of expropriation and anti-business violence dominate the news and hence our thinking, it must be remembered that thousands of foreign enterprises continue to operate quietly and unimpeded in Latin American countries.

Moreover, single countries can unpredictably veer their course vis-à-vis the foreign enterprise on a short-term basis. The reader must forgive me for returning to Peru, the Latin American country I know best, as a source of example. Successive Lima governments have exhibited a number of postures toward direct investment and a steady trend line is not demarked by them. Bustamante (1945-1948) imposed foreign-exchange and trade controls that were anathema to foreign capital. Odría (1948-1956) welcomed American businessmen with open arms and gave them exactly what they wanted. Belaúnde (1963-1968) actively sought foreign capital, but bargained on terms with varying strenuousness depending on actions of the congressional opposition. Velasco (1968- ) initially took a very hard line against foreign enterprise which caused the forced or pressured exit of several American firms. But by 1971 the military regime was relaxing its posture in a number of ways. The generals were communicating freely with the
capitalists, making minor concessions to them, and signing new investment contracts once again. It would be rash indeed to forecast that foreign investment as an institution is no longer viable in Peru and will recede from the scene in the 1970s. The same would appear to be true for much or even most of Latin America.

**U.S. Enterprises**

Turning now to patterns of political behavior exhibited by the American companies, at least three can be perceived. Again I shall illustrate with Peruvian cases.

One increasingly common type of conduct that has already been mentioned is *public image-building*. Whereas in past decades companies often liked to lower their visibility, today many are actively promoting themselves via institutional advertising, films, charities, plant visits, and so on. Such public relations activity is not uniformly practiced, however; in Peru prior to 1968 companies like Sears and IPC were very publicity-conscious, whereas W. R. Grace and Anderson, Clayton maintained low silhouettes. The mining companies were intermediate with regard to media exposure.

Another behavior pattern is a deliberate attempt to *earn political credits* not only among the public at large but among government officials. Normally this does not include high-level bribery, which carries high risks, but rather a variety of services and favors. These may be granted to an official personally, such as payment of air fare and hospital bills for a medical trip to the United States. They also are in the form of "institutional" favors, i.e., cooperation with government programs. In the 1967 Peruvian financial crisis, for example, General Motors organized a "Conspiracy in Favor of Peru" to promote confidence in the Belaúnde austerity program. This consisted of a series of timed announcements, a day or two apart, by several enterprises in which new investments were declared as going ahead.10 Similarly, Belco Petroleum and the Marcona Mining Company announced plans for expansion a few days after the 1968 coup, realizing full well that

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10 See *El Comercio*, November 4, 7, 9, 10, and 17, 1967.
the generals would appreciate words of approval that could be repeated in the New York press. 11

Still another tack is to ignore the "nice guy" approach entirely and instead to deploy aggressive bargaining pressures. Cerro de Pasco and some of the other mining companies in Peru were especially frank in offering quid pro quos. In 1967 the presidents of three U.S. mining companies personally told Belaúnde that they would develop several properties, provided the Mining Code was liberalized in a certain manner. 12 (It was.) For years ITT pressed for higher tariffs for its Lima telephone system by abandoning, in mid-stream (or threatening to do so), its telephone expansion projects. The public pressure for new phones could then, potentially at least, be harnessed to get new rates. This kind of horse-trading is not ubiquitous, however, and once again behavior is varied rather than uniform. The Southern Peru Copper Corporation, today Peru's largest taxpayer, did not indulge in overt threats of bluff tactics to come to agreement on its new Cuajone open-pit copper mine; it probably did not need to.

The U.S. Government

We consider finally patterns of behavior by the corporations and their government in the traditionalist realm of diplomatic protection. We have already noted how, during IPC's troubles of the 1960s, Standard Oil and the State Department were not in a particularly conspiratorial embrace. This lack of total identification of interests normally obtains. Beyond that, the extent to which individual companies seek help from Washington when they face difficulties, and the degree to which it is in turn granted, varies considerably. Once more we illustrate from Peru.

When, in 1969, Cerro and the other mining companies faced withdrawal of their unworked concessions they did not run to the State Department. The same was true when Cerro's vast sheeplands were being

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11 Peruvian Times (Lima), October 18, 1968.
12 The companies were Cerro de Pasco, Southern Peru Copper Corporation, and Anaconda Corporation.
expropriated that year under agrarian reform, and when Southern Peru Copper's Toquepala mine contract was being called into question.

Contrasting with this is ITT's behavior in 1967 when a measure passed by the Peruvian legislature was about to take effect which would have required international bidding for telephone expansion projects in Lima. Harold S. Geneen urgently wired Dean Rusk that "we request the intervention of your Department at the highest level possible." The law was, in effect, vetoed, but probably not because of the Geneen telegram. The most important political effect came a few days later when the text of the cable was made public, creating a notable political backlash against the Peruvian telephone company.\(^{13}\)

In 1971 Grace sought to achieve resumption of negotiations that had been stalled for some time over compensation for its expropriated sugar estates. The company formally proposed to the U.S. House Agriculture Committee that part of foreign sugar quotas be channeled to companies which have lost assets in recipient countries. The boldness of this tactic shocked the American business community in Lima and the American Chamber of Commerce formally opposed it. But the Grace Amendment was passed (in highly modified form) and Grace's compensation negotiations were resumed.\(^{14}\)

Thus the U.S. government is occasionally supportive but the response from Washington is never predictable. The State Department strongly opposed the Grace Amendment, for example, causing much unhappiness within Grace's management. During the sporadic tuna wars that are waged in the Humboldt current, demands of San Diego fishing interests for naval escorts are not satisfied although formal protests are lodged and fines are compensated. The American ambassador in Lima gravely listens to the complaints of U.S. businessmen at monthly meetings, but he does not necessarily jump to their every need. Sears, when exhibiting at a 1963 trade fair in Lima, was embarrassed by union

\(^{13}\)The text of the cable was read to the Peruvian Senate and published subsequently in the Peruvian press. See El Comercio, February 16, 1967.

\(^{14}\)The final version of the amendment is P.L. 92-138, Sec. 17 (c), October 14, 1971, 85 Stat. 389.
picketing of their exhibit (Sears has never been organized in Peru). The embassy was asked to put pressure on the fair management to remove the pickets, but it refused. Yet in another incident in 1968 the ambassador did not even wait for a request to deploy his diplomatic protection function; when the American manager of Xerox was taken into custody on a trumped-up customs violation, an immediate protest was lodged at the highest levels. It took four months to get the man released, however. 15

CONCLUDING OBSERVATIONS

We should not be surprised to encounter this rich variety of contemporary behaviors. Stimuli to political action are multiple and subject to continual change. Governments are not composed of monolithic, permanent structures of doctrine and organization, but rather of a great multiplicity of viewpoints and subgroups. Overseas affiliates and their parent corporations also do not fit a single mold; companies differ greatly in their political style, and within management staffs a broad spectrum of opinion regarding optimal strategies is normal.

The empirical reality of diversity merits emphasis because of the continuing persistence of stereotyped thinking concerning the politics of foreign investment. This is particularly true in certain academic and journalistic circles. Hopefully policymakers are sufficiently informed so as to avoid entrapment by outdated and simplistic models, but they too may benefit by reaffirming the need to avoid overgeneralization.

Latin American leaders, for their part, need to recognize clearly that all North American businessmen are not politically identical and that it may pay handsomely to be politically discriminating when signing investment contracts or distributing favors. This way an incentive is created for "enlightened" political behavior. Furthermore, Latin Americans should realize, if they do not already, that dealing assertively with American investments will not necessarily bring the wrath

of Washington upon them. There is no reason to be either grossly inhibited or flamboyantly pugnacious in dealing with U.S. economic interests when economic imperialism is largely a myth. Although the elusive reality of "dependencia" obviously cannot be removed with a wave of the wand, its extent too varies enormously from country to country. Moreover, part of its very reality is psychological. 16

Presumably American business and governmental officials are well aware of their inconsistent behavior and uneven influence in Latin America. Their long-term interests lie in trying to dispel the residuum of stereotyped thinking by encouraging business and diplomatic conduct that is minimally offensive to Latin American sensibilities. Without going into detail on this matter, stress should be placed on identifying areas of mutual economic self-interest and negotiating them out on their own terms rather than applying political or economic side pressures unrelated to the immediate subject of bargaining. Only in this way can any perception of "fairness" be created in the Latin American mind vis-à-vis the outcome of investment negotiations.

LOOKING AHEAD

The trends of increased host government antagonism toward the foreign investor and decreased home government support of him mean that in the future we can expect international business to face ever-greater political difficulties in Latin America. Increasingly overseas affiliates will be on their own in an antagonistic environment. The perceived threat of the multinational corporation will probably lead host governments to cooperate increasingly with each other in an effort to bargain from unity. At the same time, in individual countries various manifestations of nationalistic assertiveness will continue to plague the foreign businessman. He will be forced to bargain from a shrinking power base and to endure rising political conflict and a worsening public image. Levels of regulation and taxation

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16 For a somewhat different interpretation see Osvaldo Sunkel, "Big Business and 'Dependencia': A Latin American View," Foreign Affairs, Vol. 50, April 1972, pp. 517-531.
will continue to grow as will demands for nationalization, expropria-
tion, and confiscation.

Conceivably the eventual result could be massive foreign disin-
vestment from Latin America, thus ending the "problem." But that is
not the prognosis of this writer. The growing gap between rich na-
tions and poor nations will intensify conflict but it will also inten-
sify the imperativeness of transferring technology, capital, and
other means of production to the less developed societies. Interde-
pendence within this shrinking globe will increase, not lessen. New
forms of both cooperation and conflict will emerge but neither will be
eliminated. Perhaps wholly-owned direct investment will give way in-
creasingly to mixed enterprises, co-production agreements, management
contracts, and other devices. The time may come when international
attempts at governing the multinational corporation are made. But
the "problem" will not go away and neither will its complexity.

Speculation and proposals along this line are offered by Jack
N. Behrman, National Interests and the Multinational Enterprise,
VI

CONCLUSION

The United States and Latin America: Political Trends and Some Suggestions for Keeping in Touch
The containment of revolutionary violence has not stopped change in Latin America: indeed, as the papers in this volume demonstrate, local and international relationships are being transformed — often in unexpected ways. The purpose of this brief concluding paper is to highlight some of the major features of this process of change, to relate them to the rather different situation of the United States, and to suggest some activities that might help the two Americas keep in touch during this period of general redefinition.

I. THE LATIN AMERICAN REVOLUTION INSTITUTIONALIZED

During the 1960s, it sometimes seemed as though Latin American governments would be swept aside by a resurgent revolutionary tradition, ignited by the dreams of the Cuban revolutionaries and sweeping the hemisphere in a series of guerrilla uprisings led by young romantics who saw in armed rebellion the only clear answer to Latin America's problems. In an optimistic and generous, but also confused and somewhat defensive echo, many similar slogans were enshrined in the framework of the Alliance for Progress, making "revolution" the catchword of the decade in Latin America.

Predictably, the enthusiasms of the sixties led more often to failure than to success. The visionaries of the 1960s have yielded, where they have survived, to less dramatic yet perhaps more enduring efforts. For whether reforms are sought today through electoral politics (as in Chile), through the direct imposition of change from above (as in Peru), or as indirect consequences of rapid economic growth (as in Brazil), the fundamental trend of the 1970s is the translation of the impulse toward change into the programs and activities of central governments. Previous "outside" strategies of voluntaristic
violence have been replaced by "inside" strategies designed to reorient national institutions from within rather than replace them. As a result, the leaders of change today are frequently representatives of the very institutions that have traditionally dominated Latin American life: the Church, the military, "traditional" political parties, and the very central government establishments once criticized as obstinate defenders of the status quo.

Underpinning these efforts at change is a development of institutions that escapes many of the simpler generalizations through which we have become accustomed to view "Latin America." The spread of education and industrialization has transformed old institutions and created new ones. Throughout Latin America we find planning institutes, research centers, and similar manifestations of growing economic and intellectual modernity. A new generation of political leaders and government technocrats, politically socialized since World War II and frequently educated in the leading universities of the industrialized world, are applying innovative techniques to the solution of Latin America's problems and to the search for a revitalized international role, freer from external domination than in the past.

Generalizations such as these are dangerous in an area as varied as Latin America. They can be particularly misleading because of the poor mental hygiene displayed by use of the singular, as in "the Church," "the military," or "Latin America" for what are clearly plural phenomena within as well as among countries. Many of the developments discussed in this volume apply more to the larger rather than the smaller countries of Latin America. But the general nature of the trends we are discussing can be illustrated as follows:

-- Catholic authorities have abandoned their traditional legitimization of secular authority, adopting instead a role of independent social criticism, denouncing injustices in accord with a "prophetic mission" that profoundly alters the political environment in favor of change. Underpinning this evolution, publicly but rather inaccurately dramatized by the activities of radicalized priests, is the emergence of National Bishop's Conferences that establish guidelines for each country's Catholic communities. The deliberations of these conferences
are supported by Catholic study groups, research centers, and a growing number of scholarly and semi-scholarly publications.

— Military forces are increasingly concerned with the nexus between security, their primary mission, and development. National war colleges, considered twenty years ago primarily as centers for the transmission of U.S. military doctrines, have played a major role in the elaboration of indigenous doctrines, as has been most evident in Peru and Brazil. Argentina even has an independent Institute of Strategic Studies, which surpasses its own war college in the constant elaboration and public dissemination of materials on civil-military relations and national development. But this phenomenon has not been limited to the larger countries: Venezuela and now Guatemala have recently founded centers of "higher military studies."

— The spread of planning institutes and statistical offices in government ministries reflects the increased concern, and to some extent capacity, of Latin American leaders for dealing with socio-economic problems. Public and quasi-public corporations have risen, not only in countries like Chile, which is seeking explicitly "socialist" solutions, or Peru, which is experimenting with "participationist" formulas, but in the larger countries following more "traditional" forms of economic development, such as Argentina, Brazil, and Mexico.

— Public bureaucracies are gaining in strength and responsibility, have improved internal training procedures and display other signs of increasing rationalization. The foreign service training institutes ("diplomatic academies") within foreign ministries have become prerequisites for the diplomatic career and have improved in quality. Public bureaucracies are also increasing their regional linkages. Information and training activities related to petroleum exploration and production, for example, are now fostered by ARPEL, the Latin American association of state oil companies.

— Universities have proliferated and diversified. Over the past decade significant advances have been made in graduate studies and in the development of independent local research centers. Schools of public administration have sprung up to provide a source of public servants whose qualifications extend beyond partisan political militancy.
These developments suggest that to understand the course of Latin America in the years ahead it will be essential to focus on institutional processes and elite perspectives. Mass pressures will certainly continue, and will in many cases fundamentally affect the directions of change, but mass participation will normally occur through institutions and elections, rather than through voluntaristic uprisings and guerrilla violence. Relevant institutions are both public (military forces, government bureaucracies, planning institutes, and national universities) and private (the Church, political parties, private universities, trade unions, and major corporations). Significantly, semi-autonomous public agencies are also assuming major roles in key areas of economic activity, such as petroleum, banking, and heavy industry.

Some Consequences of Institutional Change

In sum, a basic feature of Latin American life today is increased institutional development and sophistication. This pattern of state-related institutional growth does not mean that the "free enterprise system" is being supplanted by "socialism," or even that Latin America is abandoning all of its traditional ways. The nature of emerging systems, their nomenclature, and their actual accomplishments will continue to vary greatly from country to country. But institutional development helps explain the recent decline of three of the major characteristics of past Latin American politics: dictators, oligarchies, and political instability.

-- The lessened power of individual caudillos may be exemplified by the evolution of military institutions. Despite the ever-present rewards for strong individual leadership, military leaders are now checked by the need to deal with their fellow officers within an institutional framework. Generals, not colonels or majors, command, but the road to personal power even for a general has become less a function of individual popularity or troop command than of technical competence and bureaucratic skill.

-- The lessening of oligarchical forms derives in part from the presence of new actors in the political game and greater diversification among old actors. Modern institutions are less subject to
elitist manipulation, and provide channels for elements of the middle sectors and the professions to make their views felt.

-- Lessened instability may not affect leading government officeholders, as these frequently still change rapidly, but takes the form of fewer chances of radical upheaval through revolution from below, and of increased bureaucratic stability. As in the United States, public policy and institutional relationships are acquiring a continuity that transcends specific regimes and narrow partisan limits.

Taken as a whole, these changes also follow from increased dispersion of power among different groups, no one of which has the power on its own to dominate the rest. The decision of many Catholic leaders to seek an independent and frequently critical posture, for example, contributes to public debate rather than to the emergence of a new single dominant power center, or "counter-elite." The weakening of traditional "parties of notables" and the still hesitant emergence of mass-based parties, and the erosion of the elite environment that made of universities an adjunct of narrowly based political orders, are other indications of increased fluidity and dispersion of political influence. This process also makes alienated elements among students or the urbanized poor harder to organize or to bring to bear directly on political processes.

The dispersion of power among several groups, some with an increased capacity to make their own demands on the political system, can be symbolized by the transition of several military forces from political "arbiters" to policymakers. In the past, officers tended to participate in politics on the call of others or to mediate conservatively among other contenders for power. Today, officers insist that military institutions as a whole be recognized as actors in their own right, capable of generating national initiatives. Yet at the same time, given the extreme diversity of political forces and the requirements of knowledge and technology underlying effective policy, neither the military nor any other group can govern for long alone.

One result seems likely to be a variety of different interrelationships linking contending interest groups. Exactly what form these
coalitions will take under differing political and economic circumstances remains an issue difficult to define satisfactorily. One thing seems clear: No simple distinction between "military" and "civilian" government seems likely to hold.

Another question relates to the long term capacity of governments and institutions to maintain popular confidence. The failures of the guerrilla movements and Cuba's limited economic growth and lack of national independence are contributing to a sense of caution even among radicals and thereby defusing some of the revolutionary voluntarism that was so predominant a characteristic of the hemispheric scene in the early sixties. How long will these sobering lessons be remembered if government initiatives currently under way fail to meet expectations?

Some Directions of Change

The institutional channeling of change is to some extent a guarantee of stability and of social control -- but it also contributes to increased experimentation on the part of governments. Latin America's governments are operating in a context of increased nationalism, of general diversification of linkages with foreign powers, and of an accentuation of diversity within the Latin American region as well as within the countries themselves. Most importantly, concern over national identity is challenging the more conventional interest in economic growth.

These developments are reflected in three foci of governmental activity. The first involves a growing effort to increase exports, particularly of nontraditional manufactures and semi-manufactures, as a means of increasing the availability of foreign exchange and thereby maintaining the pace of industrial growth. Set against this innovative attempt to relieve a growth bottleneck is the likelihood that continuing unemployment and concentrated poverty will lead to increased efforts at income redistribution, a policy goal that may frequently conflict with growth. Finally, governments are attempting to seek new arrangements in foreign economic relations, driving harder bargains in negotiations over trade and foreign investment, and seeking lower cost and politically more acceptable institutional arrangements. Not infrequently, state enterprises will seek to participate in these
arrangements, or to acquire technology and management independent of direct foreign control.

The prospects for these initiatives are mixed. Industrial efficiency is greater than commonly believed, and could contribute to a major expansion of nontraditional exports. But until Latin American economies show greater capacity to mobilize savings for capital formation (as Brazil has done in just the last few years), overall growth prospects must be described as modest. Nonetheless, of the three goals just mentioned, industrial growth through export promotion, income redistribution, and control over foreign involvements and influence, two are not growth goals in themselves. This suggests at least one important implication -- that rates of increase in GNP are not likely to be adequate indicators of the success of government economic policies. Latin American governments are to a significant extent going to measure their success by their capacity to achieve more equitable income distribution and greater control over their domestic economies.

Considerable uncertainty, and a need to clarify concepts and obtain improved data, prevent a clearer projection of general regional trends. Nationalism clearly can be a positive factor in many ways: it underlies the self-respect needed to participate in a more relaxed fashion in the world. It also has a democratic component of concern for the integration of marginal population elements into national life. On the other hand, nationalism can become a source of friction and of escalation of potential conflicts. The evolution of regional subgroupings and of the national security policies of the individual Latin American states are topics on which there has been little systematic research, despite the increasing regional weight of Brazil and of the leading Spanish-speaking republics, particularly Argentina, Peru, and Mexico, and the international repercussions of events in Cuba, Chile, and Panama.

II. SOME IMPLICATIONS FOR POLICY

This project's major focus has been on Latin America, not the United States. In particular, the study was not designed to develop the policy implications of the trends we identified. Without a detailed
analysis of U.S. interests and policy instruments, furthermore, it is difficult to prescribe meaningful changes in U.S. policy.

Several of the Latin American trends discussed above, however, decisively condition the environment of U.S. policy. Among these, the following seem most worthy of emphasis:

--- Latin America's social and economic inequalities will continue and will occasionally provide fuel for political unrest, but will not prevent institutional continuity.

--- Governments and elites in Latin America will be less subject to external manipulation than in the past.

--- Most Latin American governments are likely to seek to maximize their national potentials through policies conducive to greater industrialization.

--- The emphasis on industrialization will increasingly make the theme of trade, not aid, a central issue in inter-American relations.

--- The call for improved terms of trade and economic relations will be supported institutionally by Latin America's own development and consequent desire for lessened dependence, and internationally by competition among the major industrial powers, whose activities provide Latin America with more varied options — politically as well as economically — than in the past.

Taken as a whole, these trends derive essentially from Latin America's continuing growth, and have considerable positive potential. How the United States responds to them may affect developments, even decisively in some cases, but cannot alter their presence. In addition, of course, U.S. policies will depend not merely on these trends and on the relative weights assigned to specific U.S. interests in Latin America itself, but on the evolution of U.S. domestic policies and foreign relations as a whole.

The remainder of this conclusion, therefore, considers some important aspects of change in the United States, presents a few general policy considerations, and concludes with some specific recommendations on exchange programs, which have considerable potential for one area that stands out as a virtual prerequisite to the hammering out of
successive future policy: improved understanding and communication between Latin America and the United States.

Change in the United States

The United States is currently traversing a period of profound intellectual and moral uncertainty, internally and internationally. The Vietnam War and concern over domestic priorities have fostered divisions that frequently remain beyond the capacity of U.S. leaders or political parties to articulate constructively. Lack of consensus in turn makes policy difficult to define or defend. Domestic support for the détente in the Cold War is matched by uncertainty over the basis and nature of emerging patterns of world politics and economies.

Despite the Alliance for Progress, U.S. commitment to the development of foreign countries in general has also weakened since the 1950s. To take just one dimension, now that the advent of nuclear parity and the evolution of relations with the Soviet Union have altered the strategic perceptions of a generation ago, Latin America seems less important as a reservoir of industrial capacity and raw materials for reconstruction after a potential world war. In the longer run, however, Latin America's growing industrialization and dwindling world reserves of natural resources seem likely to lead to a reassertion of the importance of Latin American trade and raw materials to the United States. By then, however, economic relations including access to raw materials may already have been largely determined by the ground rules now emerging as Latin American countries seek to assert control over their resources before they are depleted. This is but one reason for following with care developments in countries, like Peru, now taking the lead in exploring new forms of economic organization and cooperation.

The problem of expropriation exemplifies this dilemma and thereby underscores the necessity of clarifying U.S. interests. The presumption, to use President Nixon's words, that an expropriating country will receive no new bilateral economic benefits until appropriate compensation has been provided, "unless major factors affecting our interests require us to do otherwise" requires that U.S. interests be defined concretely. Such definition is hindered by the uncertain setting
of American politics and is further complicated because specific interests, even within the same category, frequently enter into conflict, and are constantly evolving.

Other economic issues also promise to have major policy implications. As Latin American governments move to promote industrial exports, the numerous trade restrictions of the developed countries will come to the fore. The prospects are not clear. Recent attempts to reduce trade barriers have not been successful. To be pessimistic, rising economic nationalism in the United States as well as in Latin America may even lead to the imposition of new restrictions on Latin America's exports to the United States.

These economic problems will require a constructive political environment for their resolution. Latin American governments, we have seen, are increasingly statist in their approach to economic problems. U.S. policy must consider these Latin American political and institutional factors as well as U.S. interests. To take but one example, the growing concern over the environment characteristic of the current decade could facilitate joint development and application of anti-pollution technology and resource utilization patterns on a cooperative basis with Latin America before it repeats our worst mistakes. But U.S. industry cannot normally afford to share its experience with the third world on concessional terms. In this, as in other areas, there is a fundamental role for the U.S. government in promoting, first dialogue and awareness, then policies to maximize common interests.

**Communication Difficulties**

The best means to ensure the ability to identify the interests we are most likely to share with Latin America (and thereby also to maximize our capacity to defend those interests over which we may enter into conflict) is a continuing dialogue with the Latin American countries.

From this viewpoint, one of the most dangerous heritages of the seventies may well be the lack of dialogue of the sixties. Vietnam and Cuba have not only affected direct dialogue between Americans and Latin Americans but have also damaged the links of the U.S. government to potential interpreters in the U.S. intellectual community, and weakened both through a process of mutual alienation. In addition,
the resistance, frequently but not always polarized along ideological lines, of many U.S. liberals and Latin American nationalists to what they consider an overweening American presence and a naïve desire to impose American solutions — which would be a somewhat unfair but not altogether inaccurate rendering of one aspect of the Alliance for Progress — has hindered a search for alternative patterns of relations. And there has been a time-lag — in the U.S. public as well as in Latin America — in perceiving the U.S. government's increased awareness of this issue.

For these and other reasons, despite our incredible technological progress, communications between the developing Latin American institutions and the United States as a whole tend to be poor. Latin America's growing development, the rise of nationalism, the increased diversity of Latin America's foreign links, and the uncertainty of the exact ways in which we ourselves should define our interests there, all suggest a need to develop what President Nixon has called a more mature relationship. But they also create a prior requirement for exchange of views to identify the forms this relationship should take as it is divested of the tutelary dimensions of prior policy.

The transition of Argentina and Brazil from being aid recipients to the status of aid givers illustrates some interesting problems in communication. To some extent, Argentina and Brazil, by participating in U.S. aid programs, were thereby engaged in a dialogue with the U.S. government. This dialogue — always somewhat conflicted — may be significantly affected by the termination of the aid relationship. In these countries, as also in Mexico which has avoided many bilateral relationships, and in other Latin American countries as they too become increasingly industrialized, there will be a need for the maintenance of communication in matters of common interest including technology and economic policies generally.

While many Latin Americans worry about the danger of U.S. "penetration," most still seek U.S. understanding and would favor strengthened professional relationships and communications among U.S. and Latin American national institutions, both public and private. Simultaneously, however, past and current controversies have frequently contributed — on
both sides -- to diminished interaction and to what in the United States has been called a "low profile" policy. To the extent that the low profile is understood as the abandonment of attempts to impose U.S. solutions on Latin American problems and to lay the basis for a more mature relationship, such a policy guideline is clearly desirable. To the extent, however, that it paralyzes individual initiative and contributes to a decline in the interaction necessary for understanding, it is just as clearly undesirable. To some extent, we may be faced with a practical contradiction between the goals of nonintervention and cooperation: If North Americans can only cooperate in an overbearing and counterproductive fashion, then it may be preferable not to try. But this view is probably an overreaction to criticism and to mistakes of the past. If the Western Hemisphere is to have a future conducive to the common interests of its countries, that future must be built, and the building of anything worthwhile inevitably entails a certain amount of friction.

In many ways, therefore, the central intellectual challenge of the 1970s for the United States in Latin America may well be the development of relationships outside of the traditional assistance framework, that will enable a continuing rediscovery of the interests shared by the United States and Latin America. Such channels are vital precisely because both the United States and Latin America are in flux, so that a new policy consensus, when it is finally forged, will reflect the improved consciousness of mutual interests necessary to give it some stability.
Appendix to the Conclusion

THE ROLE OF GOVERNMENTAL EXCHANGE PROGRAMS

Past Performance and Present Requirements

Past U.S. government programs have contributed significantly to the changes in Latin America described earlier. The Alliance for Progress framework contributed fundamentally to the ideological ferment that led to the emergence of new development priorities within Latin American political elites, and some U.S. programs, at least, played important roles in the process of institutional development. But U.S. programs have also failed to keep up.

—— AID is declining just when the generation of new technocrats trained under the Alliance have begun to move into government institutions and make their weight felt.

—— U.S. cultural exchange programs have become increasingly marginal in their contribution, as political controversy and the relatively poor quality of many individual grantees have limited their involvement in sensitive areas and institutions.

—— Our military training has been more institutionally linked than other types of assistance, but it continues to focus heavily on technical subjects that Latin American countries are increasingly able to handle on their own.

Instead of adapting programs to the increased sophistication of Latin American institutions and public life, the tendency has been to look for ways to preserve established programs and procedures. Even in the Fulbright program, provincial universities and uncontroversial subject matter have been the rule rather than the exceptions. As a result, all too frequently there is little or no direct contact between the decisionmaking centers and key social communicators of Latin America and of the United States.

From a Latin American viewpoint, U.S. programs are frequently not serving contemporary needs. Greater local capacity is but one source of the frequently encountered Latin American desire for improved coordination of foreign training. Shortages of foreign currency
also require that persons traveling abroad have experiences that do not duplicate what is available locally and that offer some likelihood of contributing to current or future development needs.

Some Suggestions for the Future

Viewed most broadly, of course, exchanges can affect a whole range of public and private relationships. The U.S. government cannot monopolize international communications, and frequently should only facilitate contacts among equivalent institutions and professionals in the United States and abroad. Indeed, most of the comments that follow apply primarily to public support for private or quasi-private activities, a traditional focus of information and cultural exchange programs. But consideration should also be given to improved government-to-government communications just below the highest policy levels, including regular exchanges of personnel and occasional conferences among U.S. and Latin American public officials concerned with foreign policy, national security, and development planning. Conversations on long-term policy directions and international problems have long been a standard dimension of alliance relationships in the Atlantic community, and could, if extended to Latin America, help overcome some of the uncertainty and frustrations associated with the accumulation of immediate problems and lack of recognition.

In view of these considerations, U.S. exchange programs with Latin America should be reoriented along the following lines:

— Exchanges should emphasize institutions. U.S. fears of loss of "control" and of Latin American nepotism have delayed recognition of the need to give leading Latin American institutions a major voice in the selection of programs and individuals. Quality people are still a key to successful exchanges, but the utilization of exchangees' knowledge and their reentry into their own societies will be greatly facilitated if they have viable connections with important institutions.

— Exchanges, even short-term visits, should emphasize professional content, and should support the development of skills and dialogue among persons faced with similar problems, both North and
South. State Department Visitor Program grants, for example, could be used to follow up technical training previously made available through AID under the Alliance for Progress. The Government Affairs Institute (GAI) now too often develops programs for short-term visitors without regard to the professional competence available in the United States in Latin American study centers and in professional organizations.

Exchanges should include a mix of junior professionals, who would be exchanged on a long-term basis, supplemented by high-quality senior personnel, who would engage in more specific short-term projects. As things now stand, the best junior and senior people are both frequently missed, the young because they are difficult to identify and frequently do not come forward because they do not believe they have the required "status," while those who are well established sometimes find it difficult to commit themselves for extended periods of time.

U.S. government exchange programs should be used to educate North Americans about the profound changes taking place in Latin American life, as well as Latin Americans about the United States. Improved bilateralism would lead to greater Latin American contributions, including the sharing of administrative responsibilities that would help ensure mutuality of interests.

These recommendations are neither new nor particularly earth-shaking. To some extent they reflect changes now taking place as more adventurous policymakers and administrators take advantage of opportunities on a country-by-country basis.* To implement these principles more generally and transform them into operating realities, however, will require a number of prerequisites. The following stand out:

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*To a large extent, they also reflect the evolution of private programs, such as the Social Science Research Council's Foreign Area Fellowship Program, which has recently sought to emphasize collaborative research and institutional commitment. See Bryce Wood, "Scholarly Exchanges Between Latin America and the United States," in Douglas A. Chalmers, ed., Changing Latin America, Proceedings of the Academy of Political Science, Columbia University, Vol. 30, No. 4, 1972, pp. 123-140.
-- Cultural programs are already receiving a higher priority as the decline in both AID and military assistance gives cultural exchanges greater relative weight in U.S. activities. This change, however, should be made explicit to underscore their potential for improving understanding of Latin America even within the U.S. government, as well as for hemispheric communications in general.

-- Cultural affairs officers should have some professional qualifications in development problems. More importantly, they should be encouraged to act as facilitators of communications between professionals on both sides. To be effective, this approach may require that the U.S. Foreign Service become more actively involved — as an interpreter between cultures — than traditional concepts of diplomacy have hitherto encouraged.

-- Improved identification of both Latin American and U.S. institutions and potential communicators is a primary requirement. Past Fulbright grantees or Short-Term American Grantees (STAGS) provide a possible source of information and personnel, as do the experiences of the Eisenhower Exchange Fellowship Program and of the International Executive Service Corps.

-- Cultural exchange activities can achieve their full potential only if they are politically nonpartisan. By promoting U.S. identification with the processes of change and development, exchanges can contribute to the key political goal of a constructive environment for U.S.-Latin American relations. But they can do this only if they reflect Latin American as well as U.S. interests, and particularly if they are not tied to immediate U.S. goals in what would appear outside the government as a new "control mechanism." If this political paradox goes unrecognized and exchanges are subordinated to short-term unilateral interests, they will not gain acceptance either North or South in the intellectual and professional communities so important to the perspectives of future leaders.

The basic prescription, therefore, is that exchanges not be linked to propaganda, make full use of both governmental and independent professionals, and focus on assisting Latin America's institutional development to the extent our great but limited capabilities allow.