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THE POLITICAL IDEOLOGY OF POLITICAL ECONOMY:  
DILEMMAS IN LATIN AMERICAN - UNITED STATES  
RELATIONS

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THE POLITICAL IDEOLOGY OF POLITICAL ECONOMY:

DILEMMAS IN LATIN AMERICAN - UNITED STATES RELATIONS

The burgeoning literature on overseas economic development holds to the classical picture of economic evolution as an autonomous system of growth. A prejudice favoring Adam Smith still supersedes the pragmatic acceptance of John Maynard Keynes. This paper will not dwell on those numerous places where theorists on economic development ought to permit some role for government and planning for the growth of underdeveloped nations. Rather, it will point up some assumptions that United States policy exhibits in treating the problem of economic growth in underdeveloped countries, assumptions that show a penchant for treating policy formulation in underdeveloped areas as a form of therapy for sick, immature, or retarded colonies, incapable of being trusted to grow freely.

1. The Metaphysical Bottleneck

The problem for the majority of development theorists is to find out why some model or other of stages and phases has not occurred, and to provide these moribund or recalcitrant communities with the tools for "takeoff". In the process they have refined the intellectual sport of searching for missing variables. The search often fatalistically locates a bottleneck. Policy predilections follow which place a strong emphasis on removing a bottleneck to unleash what then becomes automatic growth. The current competition among economic theorists thus reduces itself to isolating strategic missing links

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For a sampling of theories see: A. N. Agarwala and S. P. Singh (eds.), The Economics of Underdevelopment. New York: Oxford University Press, 1963; Benjamin Higgins, Economic Development. New York: W. W. Norton and Co., Inc., 1959; and Charles P. Kindleberger, Economic Development. New York: The McGraw-Hill Book Co., Inc., 1958.

or a complex of obstructions which, when resolved, will release underdeveloped countries from stagnation and send them into a takeoff state leading to self-sustaining growth.

Guidelines suggested include such diverse notions as increased capital inputs for existent economic infrastructures; capitalization of agriculture and agricultural cooperatives; the extension of marketing facilities; increased agricultural credit; labor intensity technology for the industrial sector; the broadening of the economic middle sector; the development of the ethos of an industrial entrepreneurship; and connected to this, the injection of achievement motivation among broad strata of the population. To vitalize the developmental process, support of marginal groups with supposed predispositions toward economic development is solicited. But whether such middle sectors can or will support reform in the areas of fiscal, administrative, and tax structures is more assumed than demonstrated. For since the rate of inflation is more certain than the rate of profit, risk capital often "flees" into the waiting arms of enterprises in the cosmopolitan centers.

The defining characteristic of latter day laissezfaire thinking is that once the correct devices are set in motion in any underdeveloped nation, rapid development must follow. The influence of classical economic theory is therefore not quite tucked away under talk of planning or mobilization and is far from being confined to academic environments; on the contrary, it is rapidly becoming the leading informing principle of United States foreign aid programs, and in Latin America particularly expressed through the International Monetary Fund.

Economists writing in the area of Latin American studies often argue the case that the United States should aid underdeveloped nations, seek maximum yields on capital inputs and plow back the difference between that capacity and the resources of the country involved. Capital reinvestment could in its proper framework then do the job of economic development. These economists maintain that political and military factors, which are

oftentimes involved in foreign aid programs, obscure this pure theory of economic value.

## 2. The Depoliticalization of Foreign Aid

Increasingly, some of the most powerful admonitions for the depoliticalization of foreign aid programs comes not from the ideological enemies of colonialism but from economic analysts, the custodians of the international financial largess. Economists, in contrast to the political scientists, believe that aid for development should be apolitical, because for them economic growth takes place independently of the political arena.<sup>2</sup>

Underlying the excessive propensity to separate economic from political development are two factors: a predisposition to idealistic interpretation of how change is brought about and institutionalized; and a belief that expertise is best served when separated from politics. Perhaps the two most graphic reflections of this frame of reference are David McClelland and Seymour Martin Lipset. Achievement motivation is endowed with powers of self perpetuation, rising by degrees to form an architectonic of values that descend finally upon human agents who are thus rendered participants in development. These implications are chiefly characteristic of McClelland and are further well illustrated by Lipset. The latter sees the notion of achievement as related to marginality, which in turn is linked to a creative form of elite behavior. This nonpolitical discharge of social energy also enhances development by centering on creative elites who can proceed to the manipulation or utilization of masses.<sup>3</sup> What is actually implied is how deviance issues into entrepreneurial behavior; while what is excluded from consideration is how deviance may just as readily stimulate revolutionary behavior.

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It should be indicated that this does not imply a view of the exact relationship between economic development and political structures. Recent evidence indicates that this connection may be more remote than formerly supposed. See Irma Adelman and Cynthia Taft Morris, Society, Politics, and Economic Development: A Quantitative Approach. Baltimore: The Johns Hopkins Press, 1967. But policy economists often take their stand on principle, not evidence.

The conventional assumption here is that if a nation can be induced to alter its values, social development will flow simply from rechanneling traditional values into modern values. Indeed, the very existence of a political apparatus is something of an encumbrance for economic development. There is present a strong tendency to cling to a concept of achievement as something which pervades a social fabric outside political machinery. Instead of approaching "achievement" as a stimulant to or an outcome of political mobilization, it is used as a psychological expression of anti-politique.<sup>4</sup>

Latin American economists, for their part, have also sought after an explanation for continental economic plight which would distinguish economic from political remedies. This is characteristic of Raul Prebisch, and it defines much of the work of CEPAL and various United Nations commissions.<sup>5</sup> Thus, while the demands of Latin American economists are often more radical than those of their North American counterparts, the theoretical assumptions that they operate with are quite similar. Indeed, certain notions of how finished industrial goods show a marked propensity to increase more rapidly than farm goods was actually borrowed from certain populist economic thinking current at an earlier

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Two forceful statements of the view that values and motives determine the rate of economic and social development are David McClelland, The Achieving Society. New York: Van Nostrand, 1961; in this connection also see McClelland's explicit defense of this "idealist" view in "Motivational Patterns in Southeast Asia with Special Reference to the Chinese Case," Journal of Social Issues, Vol. 19, No. 1 (January 1963); and Seymour Martin Lipset, "Values, Education and Entrepreneurship," in Elites in Latin America. New York: Oxford University Press, 1967, pp. 3-60. For a critique of the psychologistic interpretations of development, see Andrew Gunder Frank, "Sociology of Development and Underdevelopment of Sociology," Catalyst (Summer, 1967), Whole No. 3, pp. 20-73.

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On the relationship between "achievement" and the role of violence, see Merle Kling, "Violence and Politics in Latin America." Mimeographed.

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For discussions of neo-imperialism, see Hamza Alavi, "Imperialism, Old and New," in Ralph Miliband and John Saville (eds.), The Socialist Register: 1964. New York: The Monthly Review Press, 1964, pp. 124-126; Paul Baran, The Political Economy of Growth. New York: The Monthly Review Press, 1957; and Bernard Semmel, "On the Economics of 'Imperialism,'" in Bert F. Hoselitz (ed.), Economics and the Idea of Mankind. New York: Columbia University Press, 1964, pp.192-232. For special application to Latin America, see Fredrick Clairmonte, Liberalismo, Economico y Sub-desarrollo. Bogota: Ediciones Tercer

stage of United States history.

### 3. The Transition from Capitalism to Feudalism

Anti-politicalization of economic theory has had a side effect justification of neo-colonialism. The neocolonial phenomenon has shown four features: (1) The dominance of United States private capital in the investment sector of the developing Latin American economics; (2) The exploitive character of this domination; (3) The bartering of goods rather than the capitalization of the trade mechanism, i.e., the exchange of inexpensive raw materials for costly manufactured produces; (4) The consistent effort of the United States to prevent domestic economy autonomy within the Latin American orbit. The presence of these and other factors (such as U.S. voting against the "Conference of the 77" at Geneva, 1963) indicate that economic rallying and value reorientation can only accompany rather than replace decisions about national development and autonomy.

The magnitude of United States participation in external financing is significant. It is the prime investor. For the period between 1955 and 1961, the Economic Commission for Latin America (ECLA) has calculated that for Argentina, Bolivia, Chile, Paraguay, and Uruguay taken as a group, net external financing comprised 12.2 per cent of gross domestic investment. For Central America, Cuba, and the Dominican Republic taken as a group in the same period, this percentage reached 17.6 per cent. In Brazil it reached 18 per cent.

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Mundo, 1963 pp. 247-350; and John Powelson, Latin America: Today's Economic and Social Revolution. New York: McGraw-Hill Book Co., Inc., 1964, pp. 1-10.

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Figures based on ECLA, The Economic Development of Latin America in the Postwar Period. New York: United Nations Publication (E/CN.12/659/Rev.1), 1964, pp. 35-36

The data fluctuate from period to period, but these figures give some indication of how important the external sector can be in the formation of capital in Latin America.

The preponderant influence of foreign private capital in Latin America comes about as a result of its selective investment strategy. These investments amounted to \$5,765,000,000 for the period between 1951 and 1962. Most of the terminal use of this capital flow was determined by a relatively small number of United States firms. Such businesses performed an inordinately large role in determining the overall investment pattern that was finally recorded during this most critical post World War Two period in Latin American-United States relationships.<sup>7</sup>

The composition of direct United States public capital investment during this period had the particularly important function of reinforcing patterns of oligopolistic participation. 33 per cent was in the petroleum sector; 31 per cent in the manufacturing sector; and 12 per cent in the mining sector. The ECLA Report pointed out that "the heavy expenditure in the extractive activities reflected the spectacular growth in international demand and prices of primary materials so pronounced in international markets for more than a decade after 1946. In the case of manufacturing the rationale involved a desire to benefit from the growth of domestic demand in countries where population and per capita income levels were rising rapidly after the war, and where preferential tariff treatment was often accorded to the industrial sector."<sup>8</sup> In other words, during the period between 1951 and 1962 United States investment was heavily concentrated in those sectors strategic to the private investor. Hence, it had a more pervasive influence in hemispheric

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ECLA, External Financing in Latin America. New York: United Nations Publications (E/CN.12/649/Rev.1), 1965, p. 218. In 1950, about 300 firms owned 91 per cent of all United States' direct investments in Latin America, exclusive of shipping and export-import firms.

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Ibid., pp. 214-218.

economic affairs than even the overall absolute figures might suggest. Investment in agriculture, social services, or in other parts of the economic infrastructure were negligible. Neither was the investment for heavy goods exports particularly significant except in those cases where it was part of a complex cost accounting strategy of the international financing situation.

There are characteristics of United States direct investment in Latin America which make clear the strategic importance of that investment over and above the purely monetary advantages.

First, the size, experience, and financial-technological sophistication of large United States corporations in Latin America often make them the leading sector in Latin American countries, determining the structure and the direction of investment patterns. Indigenous entrepreneurs were often simply unable to take such initiative. This is especially the case with regard to new research and technological innovation. Industrial societies, and can only be imported at a price.

Second, United States foreign assistance was regionally differentiated to a very large degree. Venezuela, Brazil, to a lesser extent Argentina and Chile, have been the major recipients of foreign aid. Such assistance was also distributed unevenly among various sectors within each of these countries. In this way, the flow of United States public capital intensified already accelerated patterns of interregional and international income and inequality. Foreign imperialism stimulated patterns of internal imperialism, by building up an urban complex, the business class of which could reduce the countryside to one-crop cash production and utter political and economic dependency, with each Latin American nation.

Third, concentration of United States direct investment in the areas of extractive goods for export, such as petroleum and mining, lent itself to a situation where profits could be gained directly from income realized on these imports. No new capital or labor investments are necessary in the extractive fields. This in combination

with the fact that manufacturing investment was concentrated in those countries where concessions were more or less easily obtained from pliable local governments meant that large United States corporative enterprise was able to minimize restrictions on its ability to garner profits abroad.<sup>9</sup>

Fourth, weighing United States influence in Latin America entails the relative participation of this investment in the total foreign investment picture. In order to blunt the argument that neo-colonialism exists in Latin America, it is fashionable to point out that the total United States investment in Latin America lags behind the array of investment in Western Europe and Canada. In theory these areas of Western Europe and Canada are far more subject to United States penetration than is Latin America, and therefore by extension, the United States holdings in Latin America, even if they are relatively important to the Latin Americans, are relatively unimportant to the United States. American investment patterns are said not to require a theory of imperialism, since then one would have to argue that the United States colonizes Western Europe as well.<sup>10</sup>

While the factual content of this assertion is correct, the conclusions drawn are misleading. The value of United States holdings in Latin America in 1962 amounted to \$8,472 millions, or almost one fourth of the United States total of \$37,145 millions in direct foreign investment. This is a sizable regional investment proportion by any standards. Moreover, Latin American investment is located in an unstable region politically as well as economically, where the relation between United States power and the freedom of action it enjoys in the region, and the fact that local power is bound by an absence of economic freedom to compete in the marketplace, these stand in marked contrast to the

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Ibid., p. 218; and U.S. Department of Commerce, Office of Business Economics, Survey of Current Business (August, 1963).

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For a vigorous argument along these lines, see Harry G. Johnson, "The Ideology of Economic Policy in the New States," in Economic Nationalism in Old and New States, ed. by H.G. Johnson. Chicago: The University of Chicago Press, pp. 124-141

relationships between the United States and Western Europe, where investment has not reduced Europeans to dependency. For that matter, economic penetration has not led Canada into a dependency relation to the United States.

In other words, the political variable, of degrees of national autonomy, independence in political decision-making, and allocation of resources, far from being remote, is all the more significant. This is so because there is a difference between economic investment in a politically self directed nation and in one where economic penetration becomes a means of inducing political dependency, political decision-making increasingly oriented toward preserving and enhancing the influence of the foreign investors. Thus, U. S. investment in Great Britain is a relatively nonpolitical act. U.S. investment in Chile is not. The chief difference is, as stated, that in the former case, the conditions of the investment are determined by the receiving nation, whereas in the latter case, the political structure forms around protection of the investor nation, where its interests replace indigenous interests as primary. Further economic development, then, in our latter case involves political nationalism and political reorientation, even if an economic cost need be paid at first.

When one compares the amount of United States investment in Latin America and that in the rest of the underdeveloped areas, the strategic importance of Latin America for United States private enterprise becomes clear, and the relationship between this importance and factors of international power differentials also becomes manifest. One of the main architects of Latin American policy for the United States has put the matter bluntly and correctly: "In the area of economic relations, the United States, of course, has a choice. Latin America does not."<sup>11</sup>

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Adolf Berle, Latin America-Diplomacy and Reality, New York: Harper & Row, published for the Council on Foreign Relations, 1962, p. 7.

Fifth, we might extend and reiterate a point touched on. The ECLA Report omits the fact that the centrality of U. S. investment in Latin America allows for the United States to have a political role in each of the Latin American nations that it could not possibly acquire in other areas of the world--even given an equivalent amount of investment. The very absence of local forms of legitimacy, and the deprivation of huge portion of the population from political participation, allows for the legitimation of an outside source and authority, namely, United States entrepreneurial interests. Therefore, the concept of a primarily economic solution to the Latin American problem tends to drastically underestimate the degree to which investment becomes politically determined.

Sixth the functional psychology of different North American entrepreneurial interests operating in Latin America have to be brought into account since the "investment climate" is fundamental. The following extract from a report presented by Sheldon Schreiber for the joint Congressional subcommittee on Inter-American Economic Relations is most instructive in this connection. The references are specifically to Central America, since the Report was based largely on interviews with United States businessmen in that area. However, by extension it serves as a barometer of current United States attitudes toward the political structures of the hemisphere.

To these businessmen political stability and not democracy, I suspect, is the important criterion. The U. S. investor is not concerned with abstract political theory. Any government approximating, or to the Right, of our own political system, is acceptable. The impressive record of thirty-five years of political and economic stability in Nicaragua under the Somoza family proves a definite asset to its industrial promoters. In the last year Guatemala has experienced a slowdown in the number of investments it is attracting relative to the other Central American common market partners, and much of this decline is attributable to widely publicized governmental instability and Castro-like guerrilla activity. The majority of United States businessmen in the area believe that the region is now entering a more mature era in this respect. One representative firm believes that "gradual evolution is taking place principally because of the tremendous concentration and increasing importance which the economic sphere has really taken in terms of the total scheme of things." It has recently been said that businessmen in Central America will no longer put up with

wild political gyrations. There is no question that the economic and business element is beginning to exert more of a stabilizing influence on the political and social life of Central America. 12

The position of the overseas entrepreneur is usually more potent than voicings of State Department developmentalists. The financial climate desired by the overseas investor considerably within his power to create. The overseas investor is not simply a cog in a vast machine, but in fact provides a lever, usually a considerably larger lever than he might be within his own advanced society. Not only does the overseas entrepreneur command and manipulate wealth and the means to get wealth, but this wealth is far less challenged or subject to economic counterweights in Latin America. The power of large oligopolistic combines is thus far less subject to market correction through competition than it would be in the United States proper.

Seventh, it should occasion little surprise that United States corporations seek maximum control over their overseas investment portfolios. This involves freedom from local government control in Latin America. Clearly, these are the same goals that are desired, but less well achieved, within the United States. Given normal business impulses, we should not be surprised that the same firms and individual entrepreneurs do not order their investment priorities according to an international long run welfare ideology but rather in terms of short run profitability. The argument for the dominance of United States capital within Latin American economies as a pillar of neo-colonialism rests on the recognition that United States business and its overseas executives work out their economic goals according to norms of their own making. For they operate in a structural setting in which no significant system of countervailing power exists prior to their presence. Where indigenous development is consciously sought, the power quotient of opposing agents rises enormously. But the sense of responsibility on the part of overseas investors does

not show any corresponding increase.

Moreover, a new ploy involved in overseas investment procedures is the bypassing of local capital. This can be done through appeal to the "modernizing military." Investment poured into military channels simultaneously holds down the level of U.S. government financial investment to underdeveloped areas in Latin America, while avoiding the possibility that a local or national bourgeoisie will become countervailing agents, openly challenging United States corporate investment. This latest application of the broadly political approach to overseas economic development is by extension also a non-economic approach, since it rests on funneling support directly to a military network within the nation, which in turn seeks to stabilize a regime from external imperial sources.

#### 4. A Latin American Trial Balance Sheet

The mere presence of a significant amount of capital investment in Latin America does not in itself prove, however, that the use of investment is more to the interest of the United States than it is to the interests of Latin America. More telling are statistics on net balances of United States capital investment transactions in Latin America during recent years. These are hardly encouraging from the Latin American point of view. According to the ECLA study on external financing in Latin America, net capital flows, including both direct investments and portfolio transactions to Latin America, for the 1951-1963 period, amounted to 6.9 billion dollars. The net income transfers from Latin America to the United States--which represents 95 per cent in the form of interest and dividends paid to private United States firms and individuals--total 11.9 billions. This leaves a net balance of nearly 5 billion dollars flowing into the United States.<sup>13</sup> For this extended period the direct effect of United States investment on Latin America's balance of payments, one of the area's most crucial developmental problems, is decidedly negative for Latin America.

The efforts of this imbalance between export and import was mitigated by a surplus on the public or foreign aid side of the capital flow ledger in favor of Latin America,

but this surplus amounted to only 3.3 billion dollars. This still left a residue and net balance of 1.7 billion dollars in favor of the United States. <sup>13</sup> In other words, it had the effect of increasing rather than decreasing the debt of the nations of Latin America. Further, government funds which were used to mitigate this debit surplus in Latin America oftentimes were not in the form of direct cash expenditure or cash flow but in the form of credit memoranda entitling the Latin American nations to buy further from U.S. corporate enterprises. Thus, while the government funds mitigated the effects of the negative balance of payments, they also accentuated the powerful position of U.S. corporate life in the area.

It could be argued that the indirect benefits of United States private and public investment outweigh its negative consequences on Latin American balance of payments. One way of evaluating these indirect effects is to determine the trend in the relative portion of Latin American export earnings from the United States that has to be utilized for income remittances and service payments on public and private debts in the United States. In other words, is Latin America progressively paying more or less for the use of United States capital in relation to what it earns through its exports to the United States, its principal partner in world exchange and world trade? ECLA studies reveal that by 1963 Latin America was using one dollar in four earned by export sales to the United States for investment income remittances and capital repayment, i.e., public and private debt service. Moreover, the trend in this ratio has steadily increased since 1951.

The ratio of Latin American obligations to the United States for investment earnings and capital servicing through export earnings in the United States between 1951 and 1963 are as follows: 1951 (17.8%); 1952 (16.2%); 1953 (16.1%); 1954 (17.9%); 1955 (22.2%); 1956 (22.2%); 1957 (24.0%); 1958 (19.6%); 1959 (20.4%); 1960 (22.6%); 1961 (26.3%); 1962 (27.4%); and 1963 (27.1%). Any discussions of net balances on United States capital transactions in Latin America cannot overlook the fact that the relationship between the United

States corporate interests and the weak Latin American governments favor the overseas corporate establishments within Latin American countries and provide many opportunities for paper inflation of the book value of investments and the paper deflation of the profit remittances abroad.

The existence of statistical manipulation does not lead to an expected overevaluation of United States investment holding in Latin America, since there is also a downward manipulation for tax purposes, i.e., the undervaluing of both book value and profits. But when they actually underestimate the difference between United States earnings on its capital inputs in Latin America and the magnitude of these inputs. A final argument respecting the exploitive character of United States capital flow in Latin America has to do with the qualitative composition of this flow and the peculiarly backward linkages it produces within the Latin American economies. Those that seek to defend United States economic interests in the Latin American area usually prefer not to discuss the qualitative aspects of capital flow, but rather tend to take a kind of superficial list of benefits that might accrue to Latin American nations because of the presence of foreign capital.

From the perspective of the United States Department of State, the importance of North American investment in Latin America is reduced to the following terms: first, Latin American governments receive 15 per cent of all revenues from United States companies; second, profit remittances by United States companies are only about one-half as large as their tax payments to Latin American governments; third, about 75 per cent of the gross revenue of United States companies is paid out to large Latin American factor resources, a type of calculation susceptible to a great variety of statistical manipulation in terms of the data that are put in; fourth, United States companies are held to provide jobs for over 600,000 Latin Americans and fifth, United States companies have contributed as much as one billion dollars annually to the Latin American economies.<sup>14</sup>

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<sup>14</sup> U. S. Department of State, Our Southern Partners, Publication 7404, Washington, D.C.: Government Printing Office, 1962, p. 47, cited in J. Lloyd Mecham, A Survey of United States-Latin American Relations. Boston: Houghton Mifflin Co., 1965, pp. 191-192.

Leaving aside the factor that such figures mean virtually nothing without exact interpretation, they tend to obscure the fact that United States investment is concentrated first, in petroleum, which has minimal backward linkage to domestic economy (except in the form of taxes) since it is highly capital intensive, employs small cadres of labor, and has its biggest cost outlays in the importation of foreign machinery, equipment, and technical personnel; second, import substitution manufacturing, which is concentrated in the production of luxury items and consumer durables priced beyond the means of most Latin Americans who are therefore not helped by this form of overseas aid; third, mining, such as the copper industry of Chile or the tin industry of Bolivia, which employs only small units of labor and is oriented towards the raw material needs of the highly developed countries, also affords very little opportunity for any internal expansion of the monetary labor force.

The figures cited by the Department of State mean little without interpretation. They obscure the fact that United States investment therefore tends to intensify rather than alleviate income inequalities within the domestic economies of Latin America. Further, selective investment procedures also reinforce the tendencies of Latin American economies to maintain a single crop system in order to maximize dollar yields--and these two factors, in tandem, serve to imperialize national relations. The fact that the latter has been of far less strategic importance to the United States than the former has been to Latin America is another instance of why one must take into account concepts of social stratification and power differentials in analyzing the relationships at the economic level between the United States and Latin America. The view is very different once the qualitative aspect of overseas aid is taken into account. Not simply because one can alter one's perspective from a North American to a Latin American view, but rather because there are structural consequences of certain kinds of aid over and above the amounts of financing involved.

One would not have to explain the exploitive use of foreign capital in Latin America in terms of a frenzied drive for expansion on the part of a United States commercial

community, or in terms of some Machiavellian transformation that commercial interests undergo when they step on foreign soil. Acting as business firms do, endeavoring to maximize both profits and long run advantages within the economic and political environment in which they operate, powerful United States firms do not require any magical leverage in order to be exploitive in Latin America. Doing what comes naturally in an environment in which they have a monopoly of choice as well as a functional monopoly of capital is itself often sufficient to guarantee positive results for the overseas investor. <sup>15</sup>

#### The Transition from Old Colonialism to New Imperialism

Let us return to the problem of how the capitalist structures of Latin America are likely to transfer their goals from one of rising expectations to one of falling profits and eventual national fragmentation. Basic to this position is that the Latin American economies are not simply underdeveloped, but capitalist in character. They tend to be fragmented and lose out to the superior organization, research, and resource situation found in fully advanced capitalist nations. Latin American states are not feudal economies tending to become more capitalistic over time. The assumption furthermore is that the role of the foreign neo-colonial power is not simply to further the stagnation process but at the same time even to reverse historical tendencies exhibited in the European economies between the sixteenth and nineteenth centuries, a process underwritten by the very nature of the qualitative aid programs stimulated by the United States.

Modernization is in fact a new aspect to colonialism. This aspect cannot be reduced to a traditional imperialist frame of reference. The principal aim of neo-colonialism in an age of modernization is not the export of capital as a means of exploiting cheap labor overseas; it is rather that of concentrating investment at home to expand production in the metropolitan country and of seeking to dominate the overseas markets on which it establishes a trade monopoly by a variety of means. Investment itself becomes a key

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See Otto Feinstein, "A Changing Latin America and U.S. Foreign Policy," in Two Worlds of Change, edited by Otto Feinstein. New York: Anchor-Doubleday, 1964, pp. 375-420.

instrument which is employed in pursuance of this goal. Bluntly put, colonialism and imperialism are no longer complementary but rather distinct from each other. The colonial era required the buildup of a cosmopolitan center in the underdeveloped area because it involved the physical presence of foreign administration. The new imperialism requires only the export of capital to monopolize labor while expanding production in the metropolitan center by importing raw materials. Colonialism can be resolved by various national liberation movements. This very resolution may not settle the issue of dependency and imperialist control. It may in fact merely allow the dominating nation to rationalize effective means of control from abroad and obliterate the need for physical presence.

Where the United States has had an inherited political leverage, it has not been above exercising frank control of market mechanisms in Latin America to the advantage of the interests of its own commercial groups and with the effect of retarding industrial development of the importing country. A clearcut example of this process was the reciprocity trade agreement with Cuba that existed between 1934 and 1959, that is, until the Cuban Revolution. Under that agreement, Cuban import duties were lowered on many United States items. It was stipulated that duties were not to be raised on a longer list of items; strict limitations were put on the application of internal taxes on goods originating in the United States, and exchange control by the Cuban government was hence prohibited. Cheap United States goods flowed into Cuba under this shield, and almost all possibility of import-substitution industrialization in Cuba was ruled out. While reaping the benefits, however, of a protective sugar market in the United States, Cuba nevertheless became an economic satellite in the very process of trading off its sugar production for imported finished goods. The barter arrangement, then, had a built-in de-stabilizer. The Cuban sugar economy was protected only insofar as an import-substitution industrialization model was inhibited.

The "feudalization" of trade devices was more indirect elsewhere in Latin America. Its main elements were as follows:

First, the wedding of the Latin American raw materials export sector to markets in

the United States. These exports coming from countries which are essentially single-crop economies were characteristically inelastic both in their price system and income distribution. Their production and price control have also been led internationally by cartels such as the petroleum industry.

Second, dependence of the Latin American economy on the United States for manufactured and capital goods has served to rigidify these inelasticities because price variabilities of these basic products are significantly greater than they are in the raw material sector.

Third, product deterioration in the terms of trade with respect to Latin America are now characteristic. This has meant that when a Latin American nation has entered into a rapid stage of developmental takeoff, it meets the barrier of balance of payments deficits. This was the case in Argentina during the thirties, and is presently very much the case with Mexico. Import-substitution industrialization as an economic device, then, has not been sufficient to overcome this problem. For after a certain stage this kind of substitution process develops its own import gap.<sup>16</sup>

Fourth, where United States capital dominates the industrial sector, this capital is not utilized to stimulate competition within the United States corporate structure. These investments help supply restricted domestic markets and create international imbalances by tariff and import restriction barriers; or they may contribute to advantageous international division of industry only within the internal structure of corporate life. In any case, they do not threaten the industrial hegemony of the United States in the Western Hemisphere.

6. The Political Sources of the New Imperialism

Socialist critics of the new imperialism in Latin America tend to assume that the chief reasons for United States economic penetration is to ward off the formation of socialist governments as well as its general belligerence toward revolutionary change. The reasoning underlying this view is roughly this:

First, sustained economic development is only possible in Latin America through the procurement of economic and political autonomy. Revolution and the socialist reorganization of Latin American societies are the only means to achieve this autonomy.

Second, revolution and socialism are perceived as threats to United States interests in Latin America, not only because nationalization of industry and mining sectors is likely, but also because the U.S. will have to do without a source of cheap and vital raw materials.

Third, since United States policy is ultimately subservient to its own internal commercial interests and the international corporations and cartels, it must maintain the status quo in Latin America, even to the point of using armed intervention.

But this view is oversimplified. It is true that the United States government is subject to pressure from vested interests. Its official reaction to nationalization schemes in the petroleum industry of Bolivia, Mexico, Brazil, Argentina, and Cuba may give credence to this view. This, in addition to its reaction to the confiscation of United States agricultural interests in Guatemala, strengthens this interpretation. Similarly, after Guatemala in 1954, it can hardly be argued that the United States does not exhibit hostility to the establishment of an expropriational regime in any of the Latin American republics. The connection, however, between the protection of specific American interests and anti-revolutionary politics is often ambiguous. Ideological factors possess a degree of autonomy. Devotion to free enterprise is not always the same as devotion to a particular American industry abroad or to a particular foreign policy pronouncement. The United States was opposed to nationalization of the tin mines in Bolivia in 1952 not because they represented specific economic interests within the United States. The mines were (at least formally) primarily owned by Bolivian capitalists. It was more likely the case that opposition derived from the fact that for the United States nationalization per se is an

evil to be prevented if possible. The notion of expropriation as a response to profit-taking never penetrated United States relations with Latin America. The same can be said concerning the oil nationalization program in Mexico in the late 1930s. U.S. interests in the area were relatively minor. But ferocious American opposition to oil nationalization in Mexico nearly occasioned a severe rupture between the two nations, which only the crisis of World War Two averted.

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A serious flaw in conventional Marxian critiques of imperialist policy toward Latin America is that they project the time span of United States penetration so far back, so rooted in American economic development, that the short run features of Latin American political dependency, the recentness of the phenomenon, are obscured. For example, the intensification of trade imbalances took place after World War Two. The war epoch was notable for the wide degree of latitude in Latin American economic trade policies, not to mention the high degree of profitability involved in extractive and farm products. Only after the conclusion of the War, only as a result of a recently crystallized American political hegemony in the area (and such hegemony did not exist in the pre-World War Two period to nearly the same degree, given the fierce competition engaged in by Germany, England, and other European powers) can features held as characteristic by Marxist critics be seen as genuinely present. Here is an example of how noneconomic factors produced a drastic transformation in the economic relations of the region.

Moreover, the conservative drift of U.S. feeling in the post-War period, coupled with increased power and prestige of the military, must be contended with as a factor in ideological blend. This too is not merely a policy outcome from the pressures of a given economic class or interest. Consider, for example, President Eisenhower's report on the prelude to the Guatemalan invasion. It is illustrative of how the internal American ideologically conservative impetus created the basis for the action taken. The President

apparently acted in Guatemala on the basis of a report by John E. Peurifoy, who submitted the following description of his conversation with President Jacobo Arbenz, less than a month after he had arrived in Guatemala as Ambassador.

In a six hour conversation he listened while I counted off the leading Communists in his regime, but he gave no ground; many notorious Reds he denied to be Communists; if they were they were not dangerous; if dangerous, he would control them; if not controllable, he would round them up. He said in any case, all our difficulties were due to the malpractices of American business. The trips of Communists to Russia were not to get training and instruction, he said, but merely to study Marxism just in the same way as other Guatemalans may come to the United States to study economics. Meanwhile, they would continue to enjoy the full advantages accorded all Guatemalans, as they were valuable allies to him in the fight for social reform. It seemed to me that the man thought like a Communist and talked like a Communist, and if not actually one, would do until one came along. I so reported to Secretary Dulles, who informed the President; and I expressed to them the view that unless the Communist influence in Guatemala were counteracted, Guatemala would within six months fall completely under Communist control. 18

In this instance the basic triggering mechanism was not economic, but rather the ideological commitment that had gained such a foothold in the United States so as to restructure its activities in Latin America in terms of control and coercion.

The combination of militarization and conservatism, indeed, is best shown in the counterinsurgency program that became such a feature of the present decade. Defense Secretary McNamara, in discussing counterinsurgency before the Senate Foreign Relations Committee, pointed out that the military program of and for Latin America did not dissolve with the end of Soviet expansionism, but merely shifted gears. "Until about 1960, military assistance programs through Latin America were oriented towards a hemispheric defense. After it became clear that there was no threat of significant overt external aggression against Latin America, emphasis shifted to internal security capabilities for use against Communist-inspired subversion or overt aggression and to civic action projects designed to

promote stability and strengthen national economies."<sup>19</sup> The general easing of internal strains within the United States in the early 1960s did not lead to a relaxation of its hemispheric grip, because the Cuban Revolution was the key intervening variable. This had as a counterpart a civic action and internal militarization approach to the question of hemispheric solidarity, and away from strictly economic intervention.

Theories of neo-imperialism attempting to identify political outcomes by means of an economic determinist model, suffer from a kind of "softness," despite claims for "hard" analysis, out of their incapacity to face the character and autonomy of hard military factors.

The incompleteness of the vested interest explanation of United States power in Latin America is also evidenced by recent developments in United States-Latin American economic relations as well. For almost two decades Raul Prebisch and the economists of the Economic Commission for Latin America have tried to construct a strategy for economic development in Latin America which is built on accepted Keynesian principles of mixed economy planning, giving frank encouragement to capitalist industrial development as a spearhead of this strategy. This aspect of the Prebisch program is borrowed from nineteenth century American economic theory which held that the relationship between the industrial and the agricultural sectors of the economy were such that the impoverishment of the agricultural sector, in "financing" the industrial sector, would create a constant drainage effect if things were left in their natural state. Therefore, encouragement for the agricultural sector was not simply a matter of moral preference but a downright necessity for protecting the land sector of the economy. This idea received a wide hearing in the United States and in its latest version underscores the basic ECLA outlook.

ECLA has become an interest group for Latin American development. It has been

actively trying to foment policy decisions on the part of Latin American governments and international cooperative agencies in order to implement the Prebisch program. Yet despite the wide acceptance of Keynesian perspectives, and despite the deep roots in the early American economic experience that the Prebisch program shows, ECLA's policy recommendations have met with the strongest United States opposition (and this opposition has been documented on more than one occasion). Its promotion of commodity agreements to strengthen the Latin American balance of payments position and expand its import capacity for purposes of import-substitution industrialization have been and continue to be looked upon with suspicion by the United States. The fear of any truly capitalist solution in the Latin American sphere as one of potential economic competition may even have given so much recent import to military sponsored and conceived solutions.<sup>20</sup>

It can be argued that there are more radical implications in some of the stipulations of Punte del Este charter of the Alliance for Progress than anything which has been recommended by the ECLA Commission to the United Nations. Yet the Alliance for Progress was enthusiastically sponsored by the United States, despite the obvious incongruence with its economic policy at the United Nations. A closer examination of the charter of the Alliance, along with an examination of the various Prebisch policies, reveals significant differences. The Alliance had a reform thrust directed at the domestic structures of each of the Latin American nations. The ECLA orientation aims at a rationalization of the international economy. Despite the conservative language of ECLA in contrast to the more radical language of the Alliance, the ECLA argument is one for the overall autonomy of Latin America. The Alliance argument is contrary to autonomy, and aims at domestic reform of a United States led community of nations and at benevolent hegemony.

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For exposition of Prebisch's views, see Raul Prebisch, Towards a Dynamic Development Policy for Latin America. New York: United Nations Publication (E/Conf/12/680/1) 1963; and Prebisch, Towards a New Trade Policy, *op. cit.*; and for an analysis of the practical outcomes of the Prebisch framework, see Irving Horowitz, Three Worlds of Development: The Theory and Practice of International Stratification. New York: Oxford University Press, 1966, pp. 179-186.

## 7. Seven Survival Proposals

Let me briefly conclude the paper with a set of recommendations and goals attainable without involving a disruption in present international relationships.

(1) The most important need of the moment is for the United States to develop a capacity for distinguishing its national interests from the commercial interests within the American nation. The United States so often responds to threats of expropriation or harm on an assumption that what is in the interests of overseas United States business firms is necessarily consonant with American national purpose. This has been the characteristic situation throughout the twentieth century. American national policy needs to be further developed so that it does not mistake economic interests of a class for its better political interests.

(2) There must be developed a capacity of the U.S. to distinguish its preferences from what is possible in the Latin American structure, or further, to distinguish its own preferences from that of other people. Illusions about modernizing militarists in Latin American society, illusions that a middle class sector will somehow rise above its self-serving properties to become a democratic bulwark between wealth and poverty in Latin America, illusions that agricultural technology is somehow sufficient to encourage economic development without requiring transformation in the social bases of agricultural relations-- these are some of the illusions that need to be distinguished from Latin American reality.

(3) There must be a wide insistence that the United States develop an appreciation that its attitudes towards Bolivia and Mexico need to be as carefully differentiated as its attitudes toward Poland and England. Further, a whole range of social and political systems might be accommodated as acceptable to hemispheric peace and that it cannot raise its own image as a standard for what "ought to be" elsewhere.

(4) To minimize military influence and determination abroad in the twenty republics, the State Department will need to increase a former strength and prestige with respect to the Defense Department. This would entail a drastic minimization of the role of overseas

military missions, overseas paramilitary organizations, and a general decrease of Defense Department control of Latin American policy-making. Until a restoration in this balance is made, hemispheric problems can only be seriously compounded. The politics of economic aid often turns out to be anti-politics, a military definition of the situation. This creates a bizarre condition in which counterinsurgency precedes insurgency in time; and acts as a self-propelling, or self-destructive prophecy regarding hemispheric affairs.

(5) The United States must learn to appreciate the value of working and peasant classes in modernization. For a long time now there has been an unthinking commitment to the middle classes, without understanding their corruptions and failings as a mobilizing and integrating force. Such a commitment may have hardened with the rise of a Maoist position which places its own emphasis on the peasant and rural classes of Latin America. And given that the Soviet Union claims a longstanding priority to defend the rights of the proletariat and factory working class, the United States has allowed its prejudices to rigidify. It is possible, and the United States must learn to consider it possible, that the factory working class remains a viable instrument of mass democracy in the hemisphere, and the examples of Mexico and Chile should certainly provide encouragement along these lines.

(6) It is significant to appreciate that any revolution of rising expectations encouraged by the United States has as its minimal price a corresponding revolution in falling profits. There can be no mass change unless the United States is willing to absorb some part of the costs involved. This may mean higher prices for basic crops, such as sugar and coffee, and much different profit-sharing arrangements with respect to the different nations of Latin America. The costs can be absorbed domestically, by increased production and greater technological innovation, but it should be comprehended that it is unlikely that these alone will compensate for a falling off in the profit margins.

(7) The final proposal I should like to submit is that nations have the right not only to make revolutions. They also have the right to make re-revolutions. Considering that the United States has had one singularly successful revolution, it has tended to forget

the possibility that other revolutions may become atrophied or simply fail entirely. Therefore, the right of remarking revolution, in nations such as Mexico and Bolivia, or even those that had their revolutions much earlier, must be accepted. This right of re-revolution is perhaps hardest to accept. Those Latin American nations like Mexico and Cuba that have come to thrive off the Revolution Triumphant cannot accept even the possibility that further radical change may be in the offing; while the United States, which has come to reject the idea of unsponsored and unchaperoned Revolution, cannot accept even the present ground and stage of revolutionary upheavals. It might be that in Latin America a genuine model of stability would require a permanent circulation of elites and a steady responsiveness to mass sentiments by revolutionary rather than by parliamentary forms. If this possibility can be accepted, then stimulating the sorts of political systems which can reach an accommodation with the United States would be greatly enhanced.

Obviously these seven policy suggestions are not likely to be employed in the very near future. On the other hand, they do constitute what I believe to be a minimal set of demands for accepting and surviving social change in Latin America. They also constitute a brief for the vitalization of United States policy and surely, most social sectors in Latin America look carefully and with sympathy for exactly this sort of vitality.

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