

Stage Money for El Gaucho

By P. B. LOUIS

The countries of Latin America are suffering currently from a critical shortage of free foreign exchange. Because of this situation their own economic difficulties are becoming considerably increased, and they find themselves more and more dependent for markets upon the dictator nations. At the same time, our own "good neighbor" policy is running into snags, and if the progress of events follows the same course in the future as in the past, it must mean eventually more unemployment in the United States, higher taxes, and misgovernment on a Broddingnagian scale.

In order to understand fully what has been happening to our Southern neighbors, we may well review the elements of international trade. Suppose Jones in the United States sends goods to Bull in England. Bull may offer in payment either dollars or pounds. The pounds are handier for Bull, but Jones is an American and cannot use English money.

There are three ways out of the difficulty. If Bull has goods which Jones wants, he can send the goods in payment of the bill. On the books of the traders the transaction will appear in money terms, but actually it is simple barter.

Again, though Jones himself may not want Bull's goods, there may be another American, Smith, who does. In such a case Bull ships the goods to Smith. Smith now owes Bull, and Bull owes Jones. Smith pays Jones, and everybody is satisfied; the payment is made in dollars, and Bull has solved two problems—that of paying one bill in dollars and that of collecting a second bill in pounds.

Finally, if there is no Smith available and if Jones does not want to swap goods for goods, Bull can offer to deposit pounds to Jones' account in a British bank. Jones can then write sterling checks and with them pay bills which he may owe in England. Or he may find somebody else who, for some reason, wants a Brit-

ish bank account; in such a case Jones sells his pounds and retires from the transaction content. This third procedure is the usual one.

Now, suppose Jones is also trading with El Gaucho in Argentina. Jones may offer El Gaucho dollars, or he may offer Argentine pesos if he has them or can get them. But it may be that El Gaucho is buying in the British market. In such a case he may be very willing to take Jones' British bank account. Jones takes Gaucho's goods, makes over his English credits, and, as before, retires content.

Here we have in its simplest form the triangle of trade — American goods from New York to London; British goods from London to Buenos Aires; Argentine goods from Buenos Aires to New York. The matter of payment becomes a mere bookkeeping transaction, in which dollars, pounds and pesos figure only as numbers in a ledger.

In practice, the triangle of trade is really an intricate latticework, in which foreign currencies are bought and sold in the marketplace. Unrestricted trading in foreign exchange is the essence of the market process. A man can send goods to any country and obtain payment, not necessarily in the money of that country, but in any kind of money he wants, so that in return he may buy goods in whatever market he prefers.

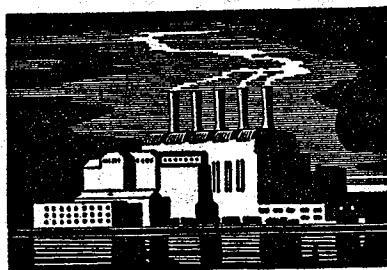
Now, suppose Bull buys goods from Jones and offers pounds in payment, subject to the condition that those pounds are not convertible into foreign (non-sterling) exchange. Jones now has pounds to his credit in London, which he can use to buy British

manufactures. But if Jones wants, not British textiles, but Brazilian coffee, he is stuck. He cannot sell his London bank account for a draft on Rio unless he can find a Brazilian importer who wants British goods, in other words unless he is willing to become a salesman for Britain. He has foreign exchange of sorts but it is not free exchange; he is not free to spend it where he likes. His London account consists of blocked sterling.

We have in the United States a practice which corresponds closely to the blocked currency schemes. In general, if I work for an employer, I am entitled to my wages in the form of money. My money is my own, and I can spend it where I please. I do not allow people to dictate to me what store I shall patronize, except in the case of a gratuity such as a cigar coupon.

But there are places in the United States where an employee has no freedom of choice in spending his money; these are the places where the "company store" and the "company house" dominate the local market. Harmless in themselves, the company store and house become unmitigated evils when, as so often happens, the power of the company is exerted to exclude the competition of independent storekeepers and builders. In such cases the employees may indeed be paid money wages, but the effect is as if they were paid in company scrip, because the money can be spent in only one place.

South America finds herself today swamped with company scrip and painfully short of real money. It all started years ago, when most of South America was a wilderness. Capital was needed to develop her resources, and floods of it came; much of it from England. Now, this foreign capital did not originally bring with it political domination; exporting countries still retained the freedom to make their purchases from whatever country they pleased.



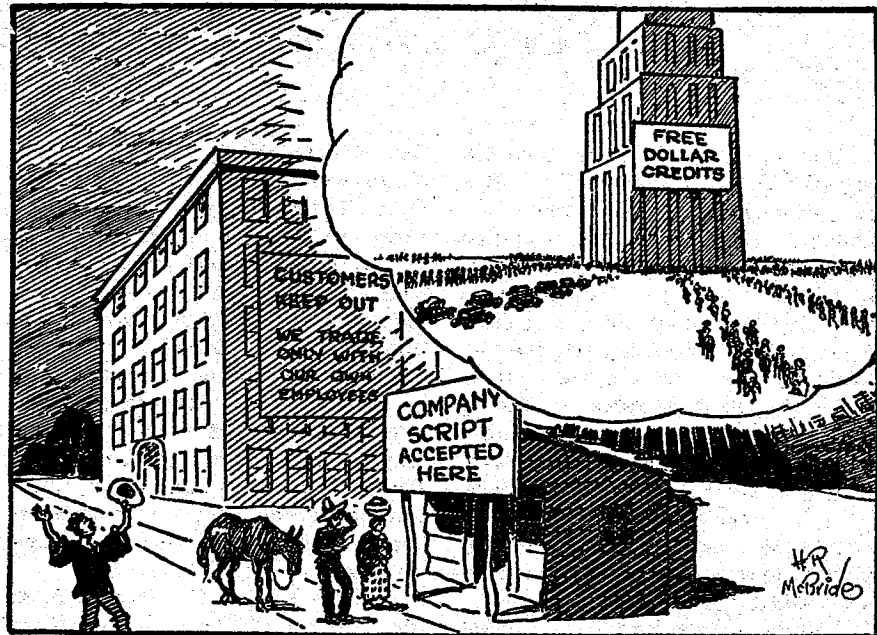
The development of South America would have been much slower without the assistance of these foreign loans.

But long before 1929 social and political upheavals threatened the economic stability of one Latin American country after another, due in large measure to the propaganda of Soviet Russia. Rumblings were heard against domination by foreign investors. When the depression of 1929 followed South America was hard put to it, not only to service her foreign investments, but to pay for her imports. Foreign investors sought to protect themselves. In the United States they seemed to have no recourse against the repeated defaults. English investors, however, found a way out of the difficulty.

England had a so-called "unfavorable" trade balance; she was the greatest importing nation in the world. Her purchases of Latin American products were far in excess of her sales to those countries. This trade balance became the means by which English investors insured themselves against loss. In effect, England said to Latin America, "Before we pay your bill you must first service the debts you owe us." In other words, part of the merchandise sold by Latin America to England went to pay interest and rent to British capitalists and landlords. Only after these deduction was the balance made available to South America in the form of free sterling.

This policy was embodied in the Roca-Runciman agreement of 1933. It served primarily to protect English investors; but it also set a precedent for other countries. Germany began to withhold payments due on excess imports. She used these withheld payments to force other countries to buy German goods. The leaders of English destiny, feeling satisfied that they had protected their own interest, did not seem to mind. What was far more serious and even tragic was that they failed to realize that this coupon trading made it possible for impoverished Germany to secure raw materials from other countries with only stage money to pay for them.

Immediately the question arises:



Why should South America accept cigar coupons and stage money? The answer is simple: she couldn't get anything better. She had large surpluses of goods—coffee, meat, copper, wool—and had to sell them where she could, and for what she could get. Uncle Sam would take some of the coffee, not all of it; he erected tariff barriers against most of her other products, wouldn't allow them in his markets. England and Germany, on the other hand, would accept considerable quantities of her goods. Coupons were not the best thing, but they were better than nothing. She took the coupons.

Before 1933 lack of funds was the principal impediment to German industrial and military expansions, because without funds Germany could not possibly obtain the great stores of resources she needed. Even though the German people were willing to sacrifice all of their liberties, and work hard to the point of enslavement, living just on the margin of starvation, they could have accomplished nothing if this means of obtaining raw materials from beyond had not been dumped into their lap.

Not only did Germany copy the blocked currency technique; she improved upon it by allowing blocked-mark credits to be used only for a limited type of German goods. For

such goods as Germany had always sold to Latin America, that is, for such monopoly products as certain dyes and chemicals, Germany insisted upon being paid, not with the blocked marks of which South America had ample stores, but only with dollars or sterling. In other words, she paid in coupons, but when she collected demanded money.

This last touch counteracted almost entirely any benefit which might have accrued to the United States through the reciprocal trade program. Because of this program we were able to buy more goods from the treaty countries, which meant more dollars for them. Ordinarily El Gaucho would have spent these dollars for American radios and refrigerators. Instead, he was compelled to render up these extra dollars to Hitler, who spent them, not for American manufactured articles, but for American raw materials. Italy, of course, was quick to imitate the example of her axis partner.

England still failed to take cognizance of the tremendous acceleration to German industry and armament which this method of exploiting weaker nations gave German totalitarianism. In their eagerness to protect their investments, the British overlooked the tremendous advantage which their scheme gave

to their potential enemy. England could have crippled Nazi militarism by abandoning block-currency trading and reverting to her traditional freedom of trade, under which all the nations of the earth gladly sent their goods to her. If she had offered free sterling in exchange, the pressure upon Latin America to accept coupons would have been much less and might have been successfully opposed. If both the United States and England had opened their markets to South America, totalitarianism would have died for lack of war materials to feed upon.

With the start of the present war, Germany and Italy were eliminated from trade in Latin America. England, however, continues to expand and intensify those methods of purchase by which she offers only company scrip in payment for El Gaucho's products. As a result, El Gaucho becomes poorer and poorer. He has plenty of coupons, but less real money which he can spend where he likes. Because of the volume of British purchases, he is becoming more dependent upon the British market. In the meantime, his surpluses increase like the guinea pigs in the fable, and his eagerness to dispose of them drives him still further into the economic quagmire.

Never behindhand, Japan too has adopted the blocked-currency method of trading with South America. With Japan so serious a menace to British interests in the Far East, Britain's continued adherence to coupon trading assumes the stature of a colossal blunder. But for the ability to acquire resources and exchange by offering blocked yen, Japan, poor and exhausted from the China war, would have been unable to replenish her losses, as she now does, by acquiring for a pittance the resources of other countries. In other words, England is permitting the building up of a menace to her empire in the East, just as she permitted and even encouraged the building up of her chief rival in Europe.

Latin America faces the gloomy prospect of becoming an economic and political victim of both England and Japan, and being bled white between the two. Is it to the best in-

terests of the English people to keep permanently impoverished the people of Latin America? Are the English people really fighting for freedom and democratic ideals, or are they fighting merely to maintain the power of special interests within their own borders—interests which are striving to maintain their power by keeping the people of Latin America, as well as their own, in permanent poverty and abasement?

In all this process, of course, the United States has been a partner. It has not wielded the dagger, but it has held the candle. Latin America's primary need is for markets. Uncle Sam has closed his gates. This has left El Gaucho at the mercy of the rest of the world—left him under the compulsion of poverty, forced to accept the terms of economic Snylocks, to submit to the depredations of commercial vampires. Such hope for the future as we can find in the dismal outlook shines dimly through the pall of American protectionism.

The good-neighbor policy promised much, but sooner or later Latin America must realize that it has been a ghastly sham. It would be unfair to lay all the blame for this at the door of the Administration in Washington; it is not through them, but rather through short-sighted and provincial legislators, that protectionism works. But while El Gaucho suffers, Uncle Sam suffers likewise. He too loses in the foreign market. The commercial war which British coupon trading is waging in South America is directed principally against him. The economic shackles which Britain seeks to bend around the ankles of El Gaucho must inevitably enclose the limbs of Uncle Sam as well, and eventually those of John Bull himself.

We can break the deadlock. We can open our gates to Latin American exporters and provide them with ample free dollar credits. With these

honest dollars available, they will do what we would do—scornfully reject the cigar coupons. If El Gaucho were as big as we are, he might be able to force such a policy upon us. As it is, the responsibility is ours, the opportunity also. Between North and South America, there are potentialities for mutually profitable trade which have as yet been scarcely dreamed of. No hollow pretense at good neighborliness will realize them. But a true good neighborliness, which will serve them and ourselves as well, can break the deadlock and rescue El Gaucho from the domination of the cigar coupon.

“That Agrarian Philosophy”

In a paper read at the Ecological Section of the meeting of the American Association for the Advancement of Science, December 27, 1940, Bruce L. Melvin of the Works Projects Administration said in part:

“... Cities hold a direct spatial relation to the land upon which they are built, and a direct economic relation to the hinterland from which they draw their men, women and raw resources. With respect to the first of these, the relation of the population of a city to the land on which the city is built, Henry George made the following poignant statement many years ago: ‘Wherever you find land relatively low will you not find wages relatively high? And wherever land is high will you not find wages low? As land increases in value, poverty deepens and pauperism appears.’

“The accuracy of this generalization can undoubtedly be proved by recourse to the history of most any city in the United States. . .

“Perhaps Henry George was correct in insisting that many of the maladjustments in the cities, such as slums, poor housing, crime, poor health, etc., are a direct result of a wrong relation to the land. After all the cities have grown through the exploitation of land values; land in the city is considered only a commodity to be manipulated for profit. . .”

This paper appears in full in the April, 1941 issue of “School Science and Mathematics.”

