MEMORANDUM

Confidential

December 5, 1946.

To: The Ambassador
    Mr. Tewksbury

From: Mr. Apodaca

With reference to your request of a few days ago for our views on the Argentine Government's operations and their significance, the situation as I see it may be summarized briefly as follows:

The major goals toward which the economic and social life of Argentina is directed (as determined by concrete measures taken to date by the government, the proposed projects reflected in pending legislation, the pronouncements of high government officials, and observations made to the writer by government economists here) include the following:

1. Improvement of standard of living of labor, through higher wages, shorter work week, better working conditions, retirement pensions, and social security benefits.

2. Improvement of working and living conditions for agricultural workers and tenant farmers. This is to be attained by means of higher farm wages, the granting of agricultural credit to tenant farmers to facilitate land ownership, utilization of uncultivated lands, soil conservation and irrigation service.

3. Protection of low-income groups against rising living costs, through maintenance of fixed prices for essential items even at the cost of subsidies, and enforcement of maximum price legislation.

4. Development of national industry and the protection of existing industries, with emphasis on diversifying agricultural, mineral and manufacturing activities.

5. Promotion
5. Promotion of Argentine ownership and control of industry, through nationalization of public utilities where necessary; employment of mixed-companies for joint government, private and employee ownership and control; the provision of particular incentives for attainment of Argentine ownership and control.

6. Development of the nation's power and hydro-electric resources.

7. Reduction of the nation's foreign debt.

8. Protection of agricultural producers' income by establishing remunerative official prices to producers for specified products and disposing of such products at higher official export prices, while the domestic consumers' prices are kept down.

The government's determination to move rapidly toward these goals has been impressively demonstrated in the past eight months. Wages have risen substantially in nearly all fields of activity including agriculture, largely through government sponsored legislation and support. Labor's bargaining position has improved. Retirement and social security benefits have been provided which did not exist before. Both employment and workers' earnings rose materially in recent months, although the real wages of labor may have actually fallen as a result of the rising cost of living.

The financial machinery of the government has been geared for encouragement and development of national industry and related functions, through the nationalization of the Central Bank, followed by establishment of government control over the nation's banking system and government control of foreign exchange as well as by designation of certain banks to handle credit for specified lines of economic activity. For the three-fold purpose of expediting foreign purchases needed by the government, regulating exports and imports in certain lines, and administering the official prices for local purchases and exports established for specified products, the Argentine Trade Promotion Institute was created and its new operations were initiated. The government undertook the repatriation of its foreign indebtedness, nationalized certain public utility services, adopted the semi-official or mixed-company device and legalized it for the formation of companies.
companies with partial government and employee ownership and control as a means of promoting industrialization and stimulating Argentine ownership and control. These are but a few of the major steps taken by the government in recent months that disclose the speed of the government's action in attempting to implement its vast program.

What fundamental considerations motivate the economic goals set and the efforts to attain them? In answering this question, I am reminded of a remark made to me nine months ago by an important Argentine official. He said that "Argentina reached the crossroads a few years ago and now the hour of decision is at hand". By this he meant that even before the war the feeling was growing in government and private circles that in view of the nation's vast resources Argentina should cease to depend essentially on agriculture and on agricultural exports, should free herself from foreign economic control and encourage industrial production. That conviction prevails today in and out of government circles perhaps to a greater extent than ever before. It has been accentuated by the difficulties experienced by Argentina during the war and immediate post-war period in obtaining necessary supplies, with which the United States has been unfavorably associated.

Another fundamental consideration that has supported the growing conviction that Argentina should diversify her industry and to the extent possible increase her economic independence stems from the social and economic maladjustments that have long plagued the nation. Maldistribution of wealth, poverty, exploitation of agricultural and industrial labor and related evils have long combined to create social and educational conditions that mitigate against democratic government. Too much indifference in this connection had characterized the policy of previous administrations. Indifference in facing such problems was also apparent in the platform of the party that met defeat in the recent Argentine elections. In fact, the attitude of the opposition party in the recent election was characterized by opposition to the economic features of Peron's platform. That opposition was backed by industrial and commercial classes, wealthy landowners and the conservative press. In the Argentine mind the United States was associated with the opposition, while England stood on the sidelines and adopted the characteristic long-range view. Such opposition could hardly be expected to satisfy the yearnings...
yearnings of the laboring classes whose imagination had been fired by the promises of realistic politicians.

The traditional Argentine pride is considered to be another important factor in Argentina's longing for economic strength. It is often stated that without economic strength which comes in part from industrial diversification, it is impossible to assume the role in world affairs which the Argentine notion of sovereignty and respect demands. Argentine sensitiveness has also been a factor in forming the desire for economic independence. It has been a characteristic of the Argentine to react forcefully against the slightest semblance of foreign interference, and this trait has been exploited effectively by politicians who are now in power.

Thus Argentina's determination to attain greater economic independence through diversification of industry and related measures is not a spontaneous development. It is not solely a product of the Peron Administration. Rather, it appears to be a product or state of mind that has been formed in the crucible of Argentine heritage and Argentine economic history, spiced with ingredients stemming from the nation's unfavorable experiences in her relations with foreign countries during the war and the pre-election period. The timing of the all-out effort can probably be attributed to the present administration. Argentine economists whose ideas are believed to be important in shaping the government's economic policy state that now--before the rest of the world recovers from the shock of war—is the propitious time to achieve the desired economic goals. The speed with which the government has moved in that direction in the past eight months clearly indicates force of that conviction. There seems to be no turning back in the foreseeable future.

Viewed dispassionately and in the light of the circumstances described above, there can be little if any argument with the economic and social goals of the Argentine. There is also much to be said for the timing of the program. Such apprehension and serious concern as an objective evaluation discloses is founded not on the economic goals per se or the convictions that support them, but on such matters as:

1. Some of the methods selected to attain the objectives.

2. The character of several of the high officials charged with devising the machinery and administering the operating agencies.

3. The
3. The apparent inability of the President to cope with the tremendous task of supervising and controlling the actions of his immediate subordinates, to make sure that the best interests of the nation are served.

4. The appalling deficiency in the number of highly trained and experienced specialists and technicians necessary to carry out such a vast program as the government has undertaken.

5. The apparent failure to coordinate the measures taken under the program in order to keep the effects of some from nullifying the gains achieved by others.

Evidence already available indicates that on all these points the program of the government is extremely vulnerable.

While the attainment of the government's objectives specified would seem to be entirely compatible with the maintenance of free enterprise, private initiative and the principles of capitalism in general, some of the officials charged with directing the government's program apparently do not seem to think so. Hardly a measure has been taken in implementing the government's program that does not restrict in one way or another the freedom of private enterprise. This has been particularly conspicuous in the field of international trade, as well as in certain aspects of finance. Perhaps no phase of government operations has been more justifiably criticized in this connection than the recently created Argentine Institute for Trade Promotion which is developing rapidly into a government commercial monopoly that is amassing enormous profits derived from commercial operations previously performed by private enterprise. The Institute also has the role of administering commercial agreements negotiated by the Argentine with other countries, which agreements are more and more marked by bilateral trade considerations that appear to be preferred to the multilateral principles fostered by the United States and other nations.

In other fields of enterprise such as air and ocean transportation, public utility enterprises, and related activities, the government appears to be favoring governmental ownership and operation in the realization of its objectives rather than private enterprise. Perhaps in some
cases the choice is not entirely unwise and in fairness to the government it must be said that transfers from private to government ownership have not been forced nor arbitrary and have provided reasonable compensation to former owners. But it is on fundamental principles of operation that the government's choice appears to be weak, for it would seem that the government could avoid criticism of itself as well as suspicion and could probably enlist more general support for its program both at home and abroad if it followed the principle of giving private enterprise a chance until such time as it proved incapable of satisfactory performance.

It does not seem to be within the comprehension of such high officials as Jose Figuerola, Miguel Miranda, and Rolando Lagomarsino to give private enterprise the benefit of the doubt. Still these men are "the brains behind the throne" on matters of national planning and the execution of the plans. The first of them, as Presidential Technical Secretary, is apparently charged with the important task of drafting the plans designed to attain the government's economic and social objectives, establishing the schedules, selecting the methods of operation, supervising the over-all coordination, and measuring the accomplishments. While his economic notions are somewhat of a mystery, it seems clear that he is no great supporter of private enterprise and capitalism. In the operating field as President of the Central Bank, to which a growing number of quasi-governmental instrumentalities are attached, Sr. Miguel Miranda is the most powerful official under the President. Miranda defies classification since he does not appear to be an intellectual or even an educated man, and is more likely to be concerned with particular operations than with altruistic service designed to achieve broad objectives conducive to the nation's welfare. Secretary of Commerce Lagomarsino would appear to suffer from the same type of psychosis.

It is difficult to say to what extent such men as Miranda and Lagomarsino succeed in confusing and befuddling the President in order to serve their own ends. Suspicion in this connection is not entirely unfounded. On several occasions the President has endeavored to explain the manner in which he expects to finance the vast and growing government program, particularly the five-year plan. Each time he has offered a different and conflicting explanation, and as yet the issue remains in the dark. Equally sterile and confusing have been the President's attempts to clarify certain operations conducted by the Trade Promotion Institute and by
the Department of Industry and Commerce concerned in particular with export permits, prices, and commodity situations. Such performances reveal the widest sort of a gap between the President's information and the actual situation as known to business circles and the people in general who deal with the specified agencies.

The lack of effective coordination between the operations of the various agencies of the government and the application of the various measures is apparent in many respects. By virtue of the expenditures involved and of the demand created for certain types of products in short supply, some measures are adding impetus to the already inflationary spiral in Argentina and thus defeating the government's sincere efforts to keep down the cost of living. Arbitrary increases in wages and related compensation to labor without a corresponding increase in productivity or in inverse ratio to productivity, as has been done with some types of labor, can only be conducive to increased unit cost of the products turned out and thus to increased prices and rising living costs. Numerous examples could be cited of inconsistencies which reveal a lack of coordination or a failure to think through the specific details of the various phases of the program.

It appears, therefore, that the success of the government's program depends on whether or not the organization and operational flaws specified above are eliminated. It is not likely that they can be eliminated through the efforts of the Argentine Government alone. Recognizing its shortcomings, particularly with respect to capable administrative and technical personnel, the government has already expressed an interest on various occasions in obtaining the services of specialists and technicians from foreign countries, including the United States. There are many reasons why we should welcome such expressions from the Argentine Government and endeavor to do everything possible to assist. Among such reasons are:

1. If we do not respond, other countries will do so.

2. Such assistance affords us an opportunity to introduce our own operational methods and machinery.
3. Such assistance provides an opportunity for our government to improve its relations with Argentina and the Argentine people, which are strained as a result of our own inconsistent and unrealistic policy of the recent war period and the period preceding the inauguration of the Peron Administration.

4. Such assistance would provide an opportunity to modify or possibly change the course of certain government measures which now militate against free enterprise and sound principles of international trade, particularly if the specialists made available were to collaborate with the more important Argentine officials.

5. Such assistance would help to remove from the Argentine mind the distrust and suspicion of Americans and would convince them that we are genuinely interested in the sound economic progress of Argentina.

6. Such assistance would aid in facilitating other forms of collaboration that presumably it is intended to maintain and expand between the United States and Argentina.

Nothing is to be gained by standing by and criticising every action of a government that we officially recognize and which has been accepted as a member of the United Nations. A passive and critical attitude will not change the well-defined and highly justifiable economic and social goals of the Argentine or the underlying convictions related to them, formed through the years and accentuated by recent developments. Unless we are prepared to take measures of the most drastic sort against Argentina, it would seem to be the better part of wisdom to collaborate with dignity in the economic sphere in the hope that by so doing we can regain lost prestige, ameliorate the damage that may result from the application of unsound principles of operation in implementing the government's program, and elicit greater cooperation from the Argentine government on matters that are of concern to the United States and the Western Hemisphere.