NEEDS FOR CAPITAL IN LATIN AMERICA: A SYMPOSIUM

Introduction

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For a period of years prior to 1912–13 the east coast of South America was liberally financed by England, France, Belgium and Germany, with some contributions of capital from other countries. There is a question, indeed, as to whether this European financing was not over-liberal. There are numerous instances in Brazil and Argentina of costly public buildings, beautiful parkways and avenues, railroad lines extending into undeveloped country, and other memorials of the expenditure of capital far beyond the commercial needs of the territory. Commercial and financial rivalry between the European nations placed the borrowing countries during these years in an especially advantageous position. The tightening financial market of 1912–14 reduced the free outflow of European capital; and the outbreak of the war suddenly cut it off altogether.

The results were naturally unpleasant. Brazil was unable to maintain her stock of gold and Brazilian currency became inconvertible and unstable. The Brazil railways, as well as other important enterprises, found the burden of paying interest (due in gold) with a depreciated currency more than could be sustained and went into bankruptcy. In Argentina and Uruguay there was a serious panic.

Other sections of South and Central America have not been so much favored by investments of European capital. For this very reason, they suffered less of a shock at the outbreak of the European war. However, the foreign commerce of practically all of them has been more or less dislocated; consequently, governmental revenues have been greatly reduced and the exchange values of their currencies have fallen. This has not been the universal experience, but it is typical of the situation in most of these countries.

Throughout South and Central America, merchants, bankers, organizers of transportation and other enterprises and governmental officials have all alike turned hopefully to the United States as a possible source of capital to tide over the difficulties occasioned by the war. Nor have they looked wholly in vain. The governments of Argentina, Uruguay and Chile have secured substantial loans. Some large mining and other developmental enterprises have been in whole or in part financed. Yet, on the whole, the result has been disappointing and there have even been traces of some bitterness of feeling against the bankers and investors of this country.

There is probably little sound reason for this feeling. Apart from the undeniable ignorance and indifference of American investors in relation to foreign securities, the European cataclysm has brought with it uncertainties in all lines of business and has made investors more than usually chary of committing themselves through the purchase of long-period obligations. It has seemed to the writer, at times, that in some of the more isolated countries the wide-reaching influence of the war on financial affairs is not fully appreciated. It is not reasonable to expect that capital will flow from this country into South and Central American countries except under one of two conditions: either the investment must be for a short period and secured beyond all probable question; or some exceptional inducement must be offered.

The chief capital requirements of South and Central American countries may be grouped under these heads:

1. Loans to governments to enable them to meet current expenses;
2. Loans to municipalities to be expended on port improvements, the provision of public utilities, paving, and the like;
3. Loans to railroads and other transportation companies;
4. Share investments in banking and loan companies;
5. Share investments in mining companies;
6. Share investments in agricultural and pastoral enterprises.

The tendency in general, it may safely be said, has been to carry public improvements about as far as the population and resources of each country justify. It is doubtful whether governmental loans can be obtained or—in an economic sense—are really needed, except to tide over the emergency created by the war; in that event they should obviously be short-time and well-secured. It is doubtful, also, whether there are many railroad enterprises projected which can be expected to show profit in the near future.

On the other hand, there are probably many opportunities for highly profitable speculative investments in mines, lands, cattle, financing concerns, and the like. The difficulty here lies in the fact that such investments require close personal attention; no sensible investor will put his money into them unless he is thoroughly convinced by his own investigation of the soundness of the project and of the efficient character of the management. Inasmuch as very few Americans, relatively, are willing to live abroad, there is comparatively little scope in this country for promoting enterprises of this nature. This attitude may in the course of time change, and the American market may in this respect come to resemble more closely the English market; but that remains to be seen.

It would seem from this foregoing review that there is very little chance of American investment on a large scale in South and Central American countries. However, there is another possibility to be considered. In many cases the pioneer risk has already been taken by European investors and enterprises have now reached the stage where they may be regarded as dependable profit-makers. At the same time, the depreciation of security values in European markets makes it possible to obtain shares and debentures of these enterprises at attractive prices. Practically all the securities of South American national governments, muncipalities, railroads, land mortgage companies, and the like, which are traded in on the London exchange, may be had today at prices far below those prevailing in normal times. This would seem to open the most natural and safest method of investing American capital in the enterprises of our southern neighbors.

This method, however, has not been utilized as largely as was expected by some observers a few months ago. Argentine rails have been advertised, it is true, in the New York market, and it is reported that there has been a considerable volume of transactions, but other South American securities (apart from the Argentine governmental loans floated in this country) are as yet little better known in this country than they were three years ago. There may be a number of causes for the unwillingness of the American investor to place his money in foreign securities, but the basic cause is undoubtedly the simple fact that these securities are not yet offered at prices which make them truly attractive. Judged by European standards of safety and income which prevailed before the war, many of them are genuine bargains; judged by American standards, they are no more attractive than hundreds of well-known domestic securities.

If the war continues, it may well be that financial necessity will drive the prices of these South American securities in the London market down to a level that will make them readily transferable to American investors. If this condition is not reached during the war, it may be reached during the period of rebuilding and scarcity of capital which may be expected to follow the war. There may also be financial reorganizations of South American enterprises which will create attractive opportunities for investment. In the meantime, in the absence of exceptionally good offers, it is to be presumed that American capital will, for the most part, be profitably employed at home until the financial bargain day for international securities arrives.

This brief paper has necessarily dealt only with the most general features of the situation. The specific opportunities offered in each of the Latin-American countries will be more fully presented in the pages following. It should be borne in mind that many of the specific opportunities may be unusually promising and may attract capital, even though there is no strong tendency toward American investment south of our own border. In Cuba, for example, the conditions are much more favorable, and are also much better known in this country, than are the conditions in most other Latin-American countries.

Making these reservations, our general conclusion must be:

1. There is little probability of investment of fresh capital from this country in South American countries on a large scale in the immediate future;
2. The time does not seem to be ripe for our purchase on a large scale of South and Central American securities now held in Europe.

Both these conclusions are subject to modification as the general financial situation changes; possibly in a year from now both of them may require complete revision.