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PCAAA 243
- - ISN 77984

87th Congress }
2d Session }

COMMITTEE PRINT

UNITED STATES-LATIN AMERICAN
RELATIONS

SOME OBSERVATIONS ON THE OPERATION
OF THE ALLIANCE FOR PROGRESS:
THE FIRST SIX MONTHS

A STUDY
PREPARED FOR THE
SUBCOMMITTEE ON
AMERICAN REPUBLICS AFFAIRS
OF THE
COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE



AUGUST 8, 1962

Printed for the use of the Committee on Foreign Relations

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1962

87209

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U.S. Senate. Committee on Foreign Relations.
Some observations on the operation of the
Alliance for Progress: the first six months.
Raymond F. Mikesell. Aug. 1962.
22 p.

Prepared for the Subcommittee on American
Republics Affairs.

OFF-SITE

I. Alliance for Progress. I. Mikesell, Raymond F.
II. Title.

LETTER OF TRANSMITTAL

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS.

HON. J. W. FULBRIGHT,
*Chairman, Committee on Foreign Relations,
U.S. Senate, Washington, D.C.*

DEAR SENATOR FULBRIGHT: You will recall that some months ago I told you that Prof. Raymond F. Mikesell, associate director of the Institute of International Studies and Overseas Administration, would make his services available to the committee, without compensation, to report his observations on visits to some of the American Republics. Professor Mikesell, as you will recall, prepared a study for the American Republics Affairs Subcommittee in 1960 entitled "Problems of Latin American Economic Development." That study was made pursuant to a contract between the committee and Professor Mikesell and was published as one of a series of studies on Latin America.

The report which I now send to you entitled "Some Observations on the Operation of the Alliance for Progress: The First Six Months," embodies Professor Mikesell's observations this past spring. I have found it extremely helpful in the work of my subcommittee and in broadening my understanding of the problems we face in promoting the Alliance for Progress. I recommend that the study be published as a committee print so that it may be available not only to members of my subcommittee, which is beginning hearings on the Alliance for Progress, but also to Members of the Senate and American citizens interested in this subject.

Sincerely yours,

WAYNE MORSE,
Chairman, Subcommittee on American Republics Affairs.

FOREWORD

UNIVERSITY OF OREGON,
Eugene, Oreg., May 15, 1962.

Hon. Senator WAYNE MORSE,
Chairman, Subcommittee on American Republics Affairs of the Committee on Foreign Relations, U.S. Senate, Washington, D.C.

DEAR SENATOR MORSE: I have the honor to transmit to you the enclosed report entitled "Some Observations on the Operation of the Alliance for Progress: The First Six Months." This report has been prepared at your request on the basis of a recent visit to Latin America, in the course of which I served as a consultant (without compensation) to the Subcommittee on American Republics Affairs of the Committee on Foreign Relations of the U.S. Senate.

During the period from February 26 to April 12, 1962, I visited the following Latin American countries: Colombia, Chile, Argentina, Brazil, Ecuador, and the Commonwealth of Puerto Rico; I also made brief stops in Panama, Peru, and Mexico. While the bulk of my time was devoted to giving lectures in Latin American universities under the sponsorship of the Department of State and to reviewing joint research and graduate student exchange programs which the University of Oregon has established with certain Latin American universities, I was able to devote considerable time to the review of economic conditions in the countries visited and of holding frank discussions with U.S. Embassy and AID officials, government officials of the Latin American governments, Latin American businessmen, and with economists associated with universities or with governments.

The enclosed report is not designed as a comprehensive and systematic review of economic conditions in Latin American countries nor of the operations of our external assistance programs under the Alliance for Progress. Rather it constitutes a number of observations and suggestions by a student of Latin American affairs which I hope may be of some assistance to you and to the members of your committee.

Sincerely yours,

RAYMOND F. MIKESELL.

*W. E. Miner Professor of Economics and Associate Director,
Institute of International Studies and Overseas Administration.*

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SOME OBSERVATIONS ON THE OPERATION OF THE ALLIANCE FOR PROGRESS: THE FIRST 6 MONTHS

Recent political and economic events in Latin America have raised doubts in the minds of many observers in the United States and throughout the Western Hemisphere regarding the success of the Alliance for Progress program, and the outlook for the achievement of the noble and bold objectives set forth in the Punta del Este Charter. It is the purpose of this report, based mainly on a short visit to the principal countries of South America during March and April 1962, to assess the prospects and the problems relating to the success of the program, and to advance a few tentative recommendations for U.S. policy.

Clearly it is premature to attempt to answer the question of whether the 10-year Alliance for Progress program has been a success or failure. Although the basic elements of the program have been evolved over a number of years and have been reflected in the Act of Bogota of October 11, 1960, the creation of the Inter-American Development Bank in 1960, the Inter-American Fund for Social Progress in 1961, the Latin American Free Trade Area Treaty of February 1960, and President Kennedy's Alliance for Progress message of March 1961, the full program to which the United States and 19 Latin American Republics committed themselves was inaugurated in August 1961, with the formulation of the Charter of Punta del Este. The commitments under this charter imply for most Latin American countries a sweeping economic and social revolution, and a program of this magnitude and complexity cannot be judged on the basis of performance and accomplishments over the first few months. It is possible, however, to discern from this initial experience and to put in clearer perspective some of the problems confronting the Latin American governments, the regional assistance and coordinating agencies, and the U.S. assistance machinery in implementing the provisions of the charter.

While much of the following discussion records serious obstacles and a criticism of policies largely inherited from the past, certain positive achievements should be noted at the outset. The Alliance for Progress program has generated widespread interest in, and concern for, economic and social reforms, and initial steps are being taken to achieve them. Legislation is being drafted, reform bills are being completed or have been enacted into law, long-range economic plans are being formulated, and serious efforts are being made to revise administrative procedures for more effective planning and for preparing and implementing projects. Except for the extreme left and a small group of reactionaries who still hope to halt the forces of social change, the vast majority of the leaders and of the articulate electorate appear to identify themselves with the fundamental aims of the program and "Alianza para el Progreso" has become a symbol and a basis for a

positive economic and social philosophy for the moderate members of a number of political and economic groups within the individual countries. In fact, there is considerable evidence from recent elections in Colombia, and from political events in several other Latin American countries, of the growth of the "center" at the expense of the extremes of both left and right, and the promotion of the goals of "Alianza para el Progreso" has provided a focus and cohesive force for these "center" or middle-of-the-road groups.

The remainder of this report will be divided into the following parts: (1) current economic and financial conditions; (2) economic and social reforms; (3) economic planning and development policies; (4) problems of the AID missions; (5) coordinating external assistance; and (6) private foreign investment.

1. CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Inadequate statistics and the fallacy of employing averages for measuring per capita incomes or rates of growth for countries characterized by marked differences in the performance of various economic sectors and regions make difficult or meaningless generalizations with respect to rates of economic progress in individual countries. Even for countries such as Peru, where the available statistics indicate a fairly high rate of per capita growth, the vast majority of the Peruvians are probably experiencing little or no change in their well-being. It is not the purpose of this report to describe in detail economic conditions or the rate of economic progress, sector by sector and country by country. However, I believe it is safe to say that in few, if any, of the Latin American countries has the broadly based rate of economic growth and individual well-being equivalent to the 2½ percent per capita growth goal of the Punta del Este Charter been achieved. This is partly a reflection of the relatively low rate of real savings and investment, and partly a reflection of the fact that technical progress and changes in basic economic structure have not affected the productivity of the vast bulk of the agricultural and industrial workers in these countries. Since most of the people live in rural areas, this will require first of all an agricultural revolution involving changes in production techniques and in systems of land tenure on the one hand, and greatly expanded industrial production and the creation of economic overhead facilities for the productive employment of the surplus labor, which an agricultural revolution will inevitably produce, on the other. To accomplish this, rates of saving and properly channeled investment in all sectors of the economies will need to be substantially increased.

High rates of saving and productive investment needed for broadly based economic growth require a monetary and financial environment which will encourage a high marginal savings rate and incentives for productive investment in agriculture and industry. Unfortunately, these conditions are lacking in the major countries of South America. High rates and inflation, ranging up to 45 percent in Brazil and over 20 percent in Argentina, coupled with exchange instability, are incompatible with rates of saving and properly directed investment required for a broadly based economic growth.

Inflation, capital flight, and the balance of payments

Inflation is almost inevitably accompanied by balance-of-payments deficits and frequent devaluations or uncertainties regarding exchange rates. These conditions, which are clearly evident in Argentina, Chile, Colombia, and Brazil, among others, encourage capital flight and reduce incentives to make long-term productive investments in the country. High interest rates, which inhibit productive investment in industry and agriculture, are a reflection not only of the shortage of capital but of a high rate of depreciation of the real value of the currency. Thus, if prices are rising at a rate of 30 percent per annum, an investor must obtain a rate of return on his investment of nearly 25 percent just to maintain the real value of his capital. Thus it is often necessary for businessmen to pay a rate of interest of 35 to 40 percent or more for the use of productive capital, even in cases where the risk of default is low. Such rates of interest tend to channel investment into more speculative operations and discourage the more socially desirable types of investment. Also, the rates of capital outflow from many Latin American countries have reached alarming proportions. In fact, in some major Latin American countries, capital flight over the past year has represented a substantial proportion, and in some cases may have exceeded, the total amount of public external assistance to these countries.

Inflation and the accompanying exchange instability and capital flight are mainly a consequence of budgetary deficits financed by the creation of credit by the central banks. Under these conditions, controls on the expansion of commercial bank credit are difficult to maintain and, in fact, may prove harmful by starving the private productive sector for credit in order to maintain subsidies and investment expenditures in the public sector. Preaching financial responsibility and orthodox financial practices by the International Monetary Fund and other external assistance agencies is frequently resented by Latin American countries and regarded by some as a doctrine of deflation which impedes growth and creates unemployment. Nevertheless, economic growth and the proper channeling of resources simply cannot take place in an atmosphere of price and financial instability. Moreover, external assistance funds are largely drained off in capital flight, high rate of consumption by a small proportion of the population, and misdirected domestic investment.

Having said this, however, it is not enough for us to exhort Latin American governments to adopt orthodox financial policies. Governments need to expand their fiscal revenues by broadening their tax base with special emphasis on increasing the degree of progressiveness of their tax systems, and improving tax administration so as to capture a larger proportion of the incomes of the wealthy and middle classes. They also need to make more effective use of their revenues by eliminating subsidies and swollen and inefficient bureaucracies in favor of expenditures which will expand the productive and social capital of the country.

Most of the South American countries, with the notable exception of Peru, are faced with serious balance-of-payments problems and, by and large, their current international positions and outlook for the immediate future are more critical than perhaps at any time during the postwar period. A number of factors have contributed to this situation. In some cases exchange earnings have fallen off sharply as

a consequence of reduced prices of major exports, e.g., coffee. Increased debt service and the necessity of meeting external obligations arising out of the growing volume of short and medium term supplier credits, as well as service payments on long-term loans, have added to the balance-of-payments burden. Inflation, coupled with overvalued exchange rates, has produced a high rate of capital flight and increased demand for imports. Finally, political disturbances as well as exchange and price instability have tended to reduce the inflow of foreign capital as compared with earlier years. At the same time, import requirements for basic development continue to rise and, indeed, must do so if Latin American countries are to achieve their basic growth and social progress goals. Over the long run these import needs, plus service payments on past borrowings, must be met largely from expanded export proceeds. But in the case of most countries, exports have either been growing slowly or stagnating. The world's demand for traditional exports, such as coffee, is not growing at a rate commensurate with the foreign exchange requirements of the Latin American countries. Even where the world market may be counted on to absorb a larger volume of certain Latin American exports, as in the case of Argentine beef, domestic supplies available for export have not been expanding at a sufficient rate. For example, Argentina's production of beef is about the same level as it was in 1930. Unless the countries of Latin America broaden their export base to include additional primary products for which the world demand is rising, and to include manufactures, the production of which has risen enormously in Latin America in recent years, these countries will be faced with a growing gap between their export proceeds and the foreign exchange needed to pay for imports and debt service obligations. It is almost inconceivable that this gap could be filled over the next decade or so by private and public capital. The amounts required would dwarf the estimate of \$20 billion suggested by the Punta del Este Charter as the amount of external resources required by Latin America to achieve the objectives of the Alliance for Progress program. Hence, unless this longer run structural balance-of-payments problem is dealt with by a substantial increase in the rate of Latin America's exports, most of these countries are inevitably doomed to a continual series of balance-of-payments crises which will impair, if not make impossible, genuine economic progress.

International commodity price stabilization

Since Latin American economies are so heavily dependent upon exports of primary commodities to world markets, many Latin Americans regard world prices for their exports as being more fundamental to the well-being of their economies than external financial and technical assistance. Indeed, in some years, reductions in export receipts have been substantially larger than all of the external capital, both private and public, that many of these countries have been receiving. In the course of my public lectures and talks to university faculties and students, I was asked many times why the United States and the various external assistance agencies did not concentrate more on the problem of maintaining or increasing the prices of Latin America's basic export commodities, since they regarded this as the major contribution that could be made to Latin America's economic welfare.

The problem of commodity price stabilization is much too broad and complex to be dealt with in the course of this report.¹ The importance of this problem is emphasized in the Punta del Este Charter, and negotiations are currently in progress for a new International Coffee Agreement which will include both producer and consumer countries. Consideration is also being given to a plan for compensatory financing of reductions in export receipts resulting from fluctuations in commodity prices along the lines of a study by a committee of experts appointed by the Secretary General of the United Nations entitled "International Compensation for Fluctuations in Commodity Trade," 1961.

The problem of fluctuations in the prices of primary commodity exports of less developed countries is one which concerns not simply the Latin American countries but virtually all of the countries of the free world, both as consumers and producers. It is one to which we must give increasing attention, both as regards shorter run fluctuations and, perhaps more importantly, the longrun problem of expanding the export markets of the underdeveloped nations. Past experience with international commodity agreements has not been generally satisfactory and temporary shoring up of prices has often led to a worsening of structural imbalances. Unless means are found for achieving a long-term growth in the export earnings of the less developed countries, all of our efforts in the field of technical and capital assistance will fail to create viable economies in Latin America capable of eventually achieving a satisfactory rate of economic growth on a self-sustaining basis. Thus, in dealing with the problem of international commodity price stabilization we must not ignore the longer run problem of achieving a fundamental change in the structure of the economies of the Latin American countries which will broaden their export base so as to reduce their dependence upon one or two major export crops and will provide for growth in their export earnings commensurate with their long-range foreign exchange requirements. This broader problem involves not only the direction of investment and the character of production in the Latin American countries themselves, but the commercial policies of both the industrially advanced and the less developed nations.

2. ECONOMIC AND SOCIAL REFORMS

As was mentioned above, there is a widespread conviction of the need for economic and social reforms which, in many cases, imply far-reaching changes in the traditional economic and social structure. Among these, fiscal and land reform, universal education and vocational training, and changes in the economic environment which will provide greater opportunities and incentives for increased productivity and the mobilization of resources are the most important. These changes cannot take place overnight and, if they are to be accomplished by orderly processes established by existing legislative, judicial, and administrative procedures, we must accept the fact that marked progress will require a decade or more. For example, Colombia passed an agrarian reform law in 1961 but I was told that

¹ For a discussion of my own views on some aspects of this problem, see Raymond F. Mikesell and Robert Loring Allen, "Economic Policies Toward Less Developed Countries" (a report prepared for the Joint Economic Committee of the Congress of the United States), USGPO 1961, pts. IV and V.

its implementation has met with serious legal and administrative obstacles.

Agrarian reform

Agrarian reform not only involves the passage of legislation with respect to land tenure, which must be flexible enough to deal with a variety of conditions in various parts of the country which require different types of programs. It requires the creation of administrative machinery for the provision of credit and technical assistance; the opening up of new lands for settlement; vast expenditures for transportation; and the provision of distribution facilities which will make possible the transformation of subsistence agriculture to commercialized farming or, in some cases, the transformation of farming based on a single crop to diversified farms which will provide a better balance between demand and supply in the country, and perhaps a broadening of the export base. Large numbers of administrators and technicians will need to be trained to implement these programs, and considerable time and effort will be required to change the traditional attitudes and customs of the people whose lives will be affected by the agrarian revolution. Over half of the people of Latin America now live in the rural areas, and for there to be an increase in output per man, large numbers of people will have to be moved out of farming into industry and services in areas where employment and living facilities do not yet exist. This task is made all the more difficult when we consider that for many of the poorer countries the rate of population growth will rise from 2 or 2½ percent per annum to 3½ percent or more over this next decade—largely as a consequence of the decline in the death rate. On the more hopeful side, however, most Latin American countries have vast untapped resources and the opportunities for increasing output per man in both agriculture and industry through changes in methods of production and economic organization are very great. This will require the mobilization of existing human and material resources, the improvement of the technical and administrative abilities of people, and, perhaps above all, a fundamental change in attitudes and incentives.

Tax reform

Improvement of tax administration will also not take place overnight, even with the best of will and determination on the part of the governments. Here, also, legislative procedures and limitations on administrative capabilities are the major barriers to rapid progress. Nevertheless, serious efforts are being made to achieve fiscal reforms in at least some of the major Latin American countries. Colombia passed a progressive tax law in 1960. In Chile, Prof. Albert Hart of the Department of Economics of the University of Columbia has been working for several months as a U.N. specialist sent at the request of the Chilean Government to assist in drafting their fiscal reform law. While Professor Hart has met with many difficulties in his dealings with various branches of the Chilean Government concerned with taxation, he told me last March that he felt he was making substantial progress and that there was a good chance for an important reform of Chile's fiscal system. This is of special significance, since it is no secret that Chile's system of taxation is among the most regressive and inefficient in the world.

Ecuador's tax system is also not only inequitable but the low revenue yields have been a major factor in Ecuador's financial difficulties in recent years. Here again progress on fiscal reform has been very slow; reform bills have been introduced into the legislature but have not been passed because of political differences with respect to the nature of the tax system.

Housing

Some headway is being made in the area of slum clearance and the construction of low-cost housing. Yet new slums around some cities are being created at a faster rate than older ones can be eliminated and the people moved to reasonably decent housing. The continual influx of population from the rural areas into the large metropolitan centers often results in the creation of a large slum area literally overnight on land that happens to be vacant. I witnessed the results of this process in Cali, Colombia, where they have been working very hard to provide adequate housing, partly through self-help projects in which the workers build their own homes with materials provided by the local government. As soon as the homes are ready, a slum area is destroyed but two more may suddenly appear as a consequence of organized groups from the rural areas settling on empty sites during the night and constructing temporary shelters with every conceivable kind of material from bundles of sticks to scraps of sheet metal.

Slum clearance and housing construction is complicated not only because of the rapid growth of the large metropolitan centers but because of property relationships and the financing of the housing construction. For most countries local materials and unemployed labor are readily available for housing construction, although some elements required for decent housing may be in short supply or involve an import cost. But perhaps the main obstacle lies in organizing programs for mobilizing the available local resources, and in the provision of credit at reasonable rates and on sufficiently long terms to enable the low-income classes to purchase new homes or apartments. By and large individual homeownership and payments for the homes which cover the costs are preferable to government or private corporate ownership. Not only does individual ownership give the workers a stake in property but government ownership introduces a political element in the setting of rents, while corporate ownership opens the door to profiteering with undesirable social repercussions. Private ownership under which workers pay for their homes out of savings also increases the volume of savings. However, current rates of interest are often so high as to make difficult the construction and selling of homes on credit terms which low-income workers can afford to pay. It is for this reason that government-sponsored home building and loan associations have been established, frequently with the assistance of foreign financing. Nevertheless, the major task of slum clearance and homebuilding lies with the communities themselves. Some technical assistance and seed capital from external sources can be extremely effective in getting these programs started, but massive amounts of external capital are neither necessary nor appropriate for this purpose. In addition, from my limited observation of low-cost housing programs, I believe that their administration and organization can best be undertaken by local or regional institutions rather than by a central government bureaucracy.

Education

In talking to both Latin American government officials and social scientists, I found general agreement that the promotion of the education goals of the Punta del Este Charter was perhaps the most vital of any from the standpoint of increasing well-being, providing the basis for a stable democracy, and achieving a more immediate social impact which will affect political developments in the near future. The task of building and staffing hundreds of thousands of additional primary schools is indeed a staggering one, as is also the reorganization and expansion of the inadequate system of secondary schools (much of it currently in private or church hands). An expansion of secondary schools is essential for providing teachers and for giving people the skills for operating a modern economy. While the universities are bulging, a large proportion of the applicants are turned away and those that are accepted (usually on the basis of a poor system of selection) are often not adequately prepared by the secondary schools for college level work.

Whether the Latin American countries are going to be able to organize themselves to achieve the aims of the Alliance for Progress and whether they are going to acquire and transmit to the masses the ideals of a society based on individual opportunity and freedom, depends very heavily upon the course of higher education in Latin America. It is these institutions that are producing the new leaders of these societies in revolution. The average Latin American undoubtedly has a higher respect for the intellectual than we have in the United States, and we should not forget that the ideal of the left-wing revolutionary in Latin America is Dr. Castro.

We have had a tendency to regard many Latin American universities as hotbeds of leftist revolution and centers of xenophobic nationalism and antiforeign sentiment. Yet we must depend upon these institutions for providing the training and the skills for leadership and for implementing our common economic and social goals in Latin America. The basic answer to the problem of changing the attitudes of Latin American university students and faculties is better universities. The students are often frustrated and rebellious, largely because the level of instruction is poor, they have only intermittent contact with instructors for whom teaching is only one of several part-time jobs, there are few, if any, textbooks (but plenty of free Marxist literature), and the faculty members are very often incompetent products of the same inadequate institution in which they are teaching. This is not to say that there are not some good universities and faculties in Latin America but the majority are extremely poor. Without going into the details, the basic reasons for inadequacies of Latin American universities, particularly in the social sciences, are outlined in a study entitled "The Teaching of Economics in Latin America," which was prepared under the joint direction of the Pan American Union and the United Nations Economic Commission for Latin America by two Latin American scholars—one of whom is now the Minister of Economics in the Chilean Cabinet and former dean of the economics faculty of the University of Chile—and one American scholar.²

²"The Teaching of Economics in Latin America," a report submitted to UNESCO, ECLA, and OAS by Profs. Howard S. Ellis (University of California), Benjamin Cornejo (University of Cordoba), and Luis Escobar Cerda (University of Chile), Pan American Union, Washington, D.C., 1961.

8. ECONOMIC PLANNING AND DEVELOPMENT POLICIES

In spite of the emphasis on planning and government ownership and controls emanating from Latin American spokesmen throughout the postwar period, by and large Latin American governments lack the administrative machinery for planning or even for formulating and carrying out long-range economic programs. Although the public sector of the Latin American economies constitutes a somewhat larger proportion of the total than in the United States and in most Western European countries, there is a general lack of coordination and integration among the various elements of the public sector. This lack of integration extends to budgetary controls and in spite of a long history of foreign exchange regulations many countries do not have an adequate centralized control of the foreign exchange commitments of the various public entities. It is true that some countries, including Colombia, Chile, and Ecuador, have prepared and published long-range economic programs but, by and large, these are little more than targets for various sectors of the economy and for the most part have not been based on adequate sectoral studies, nor have specific projects been formulated to implement them. In Argentina and Brazil, they have scarcely even begun the formulation of long-range plans.

I suspect that both in the United States and in the Latin American countries there is widespread misunderstanding of the nature and significance of typical 5- or 10-year economic plans. By and large the plans that I have had an opportunity to study are little more than intellectual exercises involving the projection of broad economic sectors from inadequate data with respect to past performance, and the determination of the implications of these projections for levels of investment, the balance of payments, and foreign assistance requirements, by somewhat dubious statistical techniques. In many respects the plans are unrealistic since they are based on expectations of performance in the private sector which cannot possibly be realized without basic changes in governmental policies which affect the inducement to invest or the ability to sell and compete abroad.

If planning is to have any real significance, it cannot be limited to the formulation of a long-range program which consists of projections and relationships between economic quantities based on inadequate data. Rather, planning must constitute a continuous process by means of which the performance of the economy is subjected to constant review for the purpose of determining the measures and policies which will promote growth in various sectors of the economy, as well as the overall monetary and fiscal environment which will achieve the growth goals and other social and economic objectives which have been determined. This implies, of course, a close relationship between the basic elements of planning and review, and the implementation of policies and programs by the various governmental ministries and quasi-governmental institutions, such as development banks. Implementation requires the preparation of projects in the public sector, the enactment of appropriate legislation, government encouragement and assistance in the private sector, and the carrying out of fiscal and monetary measures necessary to finance and to provide the proper environment and economic incentives for the realization of the growth targets. Unfortunately, this kind of administrative machinery does not exist in Latin American countries and, even where the beginnings

of an appropriate structure are being evolved, the governments lack the trained and experienced personnel to do the job.

Latin American economic integration

Under the Marshall plan for Europe, both the United States and the OEEC countries regarded the expansion of intra-European trade and other steps toward the integration of the European economies as being perhaps the most important single element in the European self-help program. While admittedly the economic ties among the Latin American countries are of far lesser significance than those which existed among European countries before World War II, the expansion of intra-Latin American trade as a means of providing a broader market for Latin American products and of promoting greater efficiency through industrial specialization has been recognized as an important element in the Alliance for Progress program, and, indeed, by students of Latin American development for a number of years. Although a Latin American Free Trade Association (LAFTA) now encompassing the major countries of South America, plus Mexico, was established in February 1960, my impression in talking with a number of Latin American government and business leaders is that interest in the promotion of inter-Latin American trade is seriously lagging, and that the possibility of expanding this trade is not playing a significant role in Latin American planning.

The first round of tariff negotiations under LAFTA showed a general unwillingness on the part of member countries to reduce import barriers on commodities which they were producing or expected to produce themselves. There is also a widespread feeling that external assistance agencies have not been paying enough attention to the possibilities for inter-LAFTA trade and, rightly or wrongly, they are being accused of financing duplicate facilities or excess capacities. A review of the development programs which have been formulated or are now in the process of formulation, reveals that relatively small account is taken of the possibilities for producing for a Latin American or a LAFTA market. Perhaps in a larger sense this is a reflection of the failure of Latin American leaders and planners to think in terms of a Latin American system and program. In other words the Alliance for Progress appears to be regarded more in terms of a bilateral relationship between the United States and individual Latin American countries than as a multilateral effort in which the Latin American members have agreed to modify their nationalistic interests for the promotion of common goals. This impression should perhaps suggest some reorientation of our external aid program for Latin America, a subject which will be touched upon in a subsequent section.

4. PROBLEMS OF THE U.S. AID MISSIONS AND OTHER EXTERNAL ASSISTANCE AGENCIES

Many of the observations regarding economic conditions and policies in Latin America have important implications for our external assistance agencies and, in particular, for our AID missions. While the internal processes and organization for self-help under the Alliance for Progress are sadly deficient in most Latin American countries, it must also be said on the other side that, to a very large measure, our AID missions are not designed or staffed for the carrying out of a

broad development assistance program. Our missions do not have an adequate staff of trained and experienced economists, engineers, agricultural specialists, and other technicians to administer a capital financing program, nor are they in a position to provide the kind of technical and administrative assistance which the host countries need, and, indeed, are requesting to help them in their planning, in the formulation of projects, in the undertaking of appropriate economic and engineering studies, and in the organization of their administrative machinery.

By and large our missions in Latin America were staffed for carrying on limited technical assistance activities. The capital project financing in the past has been handled by the international lending agencies such as the World Bank, the Export-Import Bank, and, more recently, the Inter-American Development Bank. These institutions send missions from time to time for a review of proposed projects in response to loan requests, but maintain little continuity with the country or with its development process as a whole. This general pattern continues except with the difference that our AID missions are now expected to constitute still another source of capital project financing and, more importantly, to undertake a continuing responsibility with respect to the country's economic and social progress. Yet this responsibility cannot be discharged without (a) an adequate staff and (b) coordination at the country level of the activities of the manifold external financial and technical assistance agencies now operating in Latin America.

Under the new approach to external assistance for Latin America established by AID Washington—sometimes called the turnaround—economic assistance from AID is to be provided for both economic development and so-called social impact projects on the basis of carefully formulated projects which fit into a broad-range plan or program indicating the directions in which the individual economy ought to be moving in order to achieve the economic and social objectives of the Alliance for Progress program. Yet an examination of actual disbursements of AID funds (and to a considerable extent those of the Export-Import Bank) in recent months indicates that they have been employed to a very large extent for covering balance-of-payments deficits or for general budgetary support, rather than for the financing of projects which have been selected with a view to the investment priorities of the country with respect both to long-range development and to their more immediate social and political impact.³ In part this situation is a reflection of the time and difficulties in formulating and evaluating projects which meet the standards of the turnaround, but in larger measure it is a consequence of the severe balance-of-payments pressures now plaguing most of the Latin American countries for reasons indicated in the preceding sections.

Balance-of-payments financing

The question of whether the United States should continue to make balance-of-payments loans to Latin American countries raises difficult and complex issues. On the one hand it has been argued that countries need immediate help in financing their balance-of-payments and budgetary deficits if they are to avoid serious economic crises which would impair economic progress, political stability, and their

³ This point was admitted by Mr. Teodoro Moscoso in his testimony of Apr. 16, 1962, before the Committee on Foreign Relations of the U.S. Senate. See Foreign Assistance Act of 1962, Hearings, p. 390.

ability to introduce necessary reforms. On the other hand, it may be argued that such financing in large measure does not contribute to a higher level of productive investment but merely permits a continuation of unsound economic and financial policies which are responsible for low exports and a high volume of imports of consumption goods and large capital flight. This type of aid neither provides immediate relief to the masses nor increases investment of a kind which would expand output in the future. In fact, it can be argued that the continued availability of this type of assistance renders the undertaking of reforms less urgent and involves the use of our aid resources for subsidizing the consumption of the middle and wealthier classes, and the financing of capital flight.

The question of balance-of-payments financing is much too complex to be dealt with adequately in the course of this report, and since individual situations may, for one reason or another, justify such financing, it is not my intention to take a doctrinaire position on this issue. However, if balance-of-payments financing is to be provided, it should be done openly and under terms of an agreement involving financial reforms which will not require the United States to respond continually to requests for such financing, which would only remove the pressure on governments for fundamental reforms. I say "openly" because I found considerable evidence that some of the so-called projects financing undertaken at the present time in Latin American countries simply involves payments for past expenditures, such as paving of streets and other maintenance activities, rather than genuine projects involving new net investment.

The International Monetary Fund

Normally, and I think appropriately, balance-of-payments financing should be tied to recommendations of the International Monetary Fund. However, IMF recommendations are extremely unpopular in almost all Latin American countries because of the Fund's insistence on the removal of subsidies to consumption, the elimination of fiscal deficits, the establishment of realistic exchange rates, and limitations on inflationary bank credit. Such reforms are generally unpopular with business and labor alike. (I am told that there have been cases of street demonstrations in Latin American cities against the IMF, and indirectly against the United States which is identified with the IMF.) Though much of this criticism is inevitable, I believe that the adverse reaction to the Fund's recommendations might be minimized if the IMF would broaden its recommendations to include more fundamental reforms in the financial area, looking toward an expansion of revenues and a reduction of fiscal inequities, and giving the widest publicity to its recommendations. In other words, it is in the interest of both the IMF and the U.S. Government to create a more favorable image of the Fund and to place it in the eyes of the public squarely on the side of broadly based economic reforms, and not identify it with financial orthodoxy for its own sake or with economic and social reaction.

In the case of countries where IMF agreements have been violated, or recommendation ignored, we should terminate balance-of-payments and budget support financing, and limit our assistance to solid, long-term economic development and social impact projects, accompanied by a careful control of the uses to which the funds are put, the nature

of the local contracting, et cetera. I do not believe that the American taxpayer should be asked to provide general support for economies where governments are failing to collect a reasonable amount of taxes from the wealthy, where income distribution is highly inequitable (and, hence, we are in large measure supporting a high level of consumption of the wealthy), and where balance-of-payments difficulties can be traced in the main to capital flight, overvalued exchange rates which subsidize consumption and encourage imports, and generally improper governmental policies. I cannot believe that a continual series of balance-of-payments bailouts is promoting the foreign policy of the United States, nor can they be justified on humanitarian grounds. Moreover, this type of aid financing is certainly not in accordance with the Alliance for Progress program as it was sold to the Congress and to the American public.

Supplier credits

One of the ironies in the balance-of-payments situation in Latin America is that the industrial countries of the world, including the United States, have been contributing to the rapid growth of short and medium term obligations of these countries through the generous supplying of exporter credits. Government-sponsored schemes for supplying and guaranteeing exporter credits constitute an important factor in competition among industrial countries for world markets, and these credits have enabled Latin American countries to increase their imports by assuming obligations for repayment in future years. This method of providing credits has two disadvantages. First, it tends to increase the ratio of current obligations to foreign exchange income, as compared with the same amount of credits made available in the form of long-term development loans. Second, the supplier credits may finance consumer goods imports or capital goods that bear little relationship to rational long-term economic planning. Moreover, the lack of proper control by the Latin American governments over these supplier credits has frequently been a major cause of balance-of-payments crises. The net result is that the U.S. Government is frequently called upon to provide balance-of-payments loans in order to enable Latin American countries to meet their credit obligations to European and American creditors, while at the same time we have no control over the original expenditures.

This process, which has been rather widespread in Latin America, constitutes a misuse of our public assistance dollars, and "bailing out" European creditors who have gained markets in Latin America in competition with American firms by providing exceedingly generous credit terms represents a drain on the U.S. balance of payments. One possible solution to this problem is cooperation among the members of the OECD in limiting or controlling government-sponsored credit competition for Latin American markets.

Money versus personnel

The more I study economic development first hand, the more I am convinced that development is basically a matter of changing the hearts and minds and capabilities of people. I think that in our aid program generally we put too much emphasis on pouring money into countries and not enough on personnel. For some reason, throughout the postwar history of our aid programs both the administration and the Congress have been more eager to provide money or goods than

they have been to provide well-trained and dedicated people who can make an impact on the educational systems, on government organization, on social institutions, on business and agriculture, and on people generally in the less-developed countries. Development assistance is, in my opinion, 75 percent a matter of involving ourselves in the economic and administrative processes and policies of other countries. It is, of course, much easier just to write checks, but providing money alone will not achieve our objectives in Latin America or elsewhere in the less-developed world. It is not enough to say, "We will help you with our money if you will help yourselves." We must send the kind of people who will help them to help themselves.

What I am saying can be best pointed up by the fact that in most South American countries the amount of capital that is being lost through capital flight, plus what is being misdirected or wasted in various ways, is considerably larger than what they have been getting from external sources. In addition, the introduction of efficient and equitable tax systems would go a long way toward financing the important social impact projects which are so urgently needed in order to maintain moderate middle-of-the-road governments in power. In other words, given proper governmental policies and capable and honest administrations, most, if not all, South American countries could make substantially more economic progress than they are making today without any public financing from abroad. On the other hand, given proper governmental policies plus financial support for the right kinds of projects, I believe that most Latin American countries could readily achieve or exceed the Alliance for Progress goals. Thus, what we need to concentrate on is not financing but the staffing of our missions and organizing and coordinating all of the external sources of technical and financial assistance, so that we can have a maximum impact on governmental policies and administration. In this effort, education and involvement in educational institutions at all levels should play an exceedingly important role, certainly far greater than it is today.

Aid to education

During the course of my recent trip, I had a number of contacts with Latin American universities, and particularly with faculties of economics and administration. Here is certainly an area where the United States and other Western countries, through university-to-university contacts, could have an enormous influence. The shortage of trained economists and public administrators is perhaps the most critical of any of the shortages which exist in Latin America today. And while I am quite aware of certain political difficulties involved in assisting and penetrating Latin American universities, these can be overcome, and there are many universities and faculties that are exceedingly anxious for help. Yet many of these faculties have never been visited by AID mission personnel, and I have firsthand knowledge of a desire for assistance from American universities by several Latin American universities.

I am firmly convinced that our efforts in the field of college level training should be directed mainly at improving the level of teaching and research in the institutions of higher learning in the less developed countries themselves rather than in bringing large numbers of undergraduate students to the United States. Many of the students

brought to the United States are not prepared for college level work. Moreover, they often have little interest in returning to their home countries, and frequently lack opportunities to use their newly acquired knowledge and skills in their home countries when they have finished their training in the United States. I believe, therefore, that we should aim basically at educational institutional building in Latin America and in other less developed countries. Such programs will have a far greater impact than attempting to provide a college education for large numbers of foreign students in American universities. Such programs would, of course, not exclude the bringing of foreign students and faculty members to the United States for specialized training, particularly where the arrangements are made with foreign educational, research, business, governmental, or social institutions, and where the foreign student has both an obligation to return to his home country and a position in a specific institution to return to once his training in the United States has been completed. For example, the deans of a number of Latin American economics faculties, as well as heads of research agencies, bank officials, and governmental bureaus have expressed to me a desire to send some of their people to the United States for specialized training. Faculty members in Latin American universities have an intense desire to obtain advanced degrees in the United States, and their universities are not only willing to give them leave but, in some cases, make some contribution to the cost of their training abroad or to meeting the expenses of their families at home. Considering the political importance of universities in Latin America and the great need for properly trained people, I believe that we can have a greater impact through assistance to universities in the form of American teachers and research scholars, books, and equipment, and trainee programs in the United States for Latin American university faculty members, than through any other form of assistance. Two things need to be done in this area. First, cooperation with Latin American universities in preparing applications for external assistance in a manner which would take full account of the delicate political problems raised by foreign involvement in universities; and, second, prompt action on applications and enlisting the support of American universities by offering contracts of the kind that would be attractive to American universities. (The matter of university contracts with AID for programs abroad is a complicated subject which would require another memorandum to deal with adequately, but many people in AID are well aware of the problems and what should be done about them.)

Training of Latin Americans in Puerto Rico

In the course of my recent visit to Latin America, I had the opportunity to visit the Commonwealth of Puerto Rico and to spend a few days studying Puerto Rico's development program. The miracle of Puerto Rico's economic progress since 1940 should be studied first hand by every important political leader and economic planner in Latin America. The development policy in Puerto Rico, which has been largely formulated and implemented by the Puerto Ricans themselves, constitutes a combination of government economic participation in strategic areas, strong incentives to domestic and foreign enterprise, and basic social reforms. In the last couple of decades, these programs have transformed Puerto Rico from a country which

had most, if not all, of the shortcomings of a poor Latin American economy, to a country whose per capita income of \$625 (as opposed to \$126 in 1940) is one of the highest in Latin America. The recent history of Puerto Rico development shows what a country which is poor in resources and largely dependent upon a single crop can do when it rigorously applies the basic self-help measures outlined in the Punta del Este Charter. Agrarian and fiscal reforms, emphasis on education and health, and sound governmental policies in both agriculture and industry have all played a part in the remarkable transformation of this economy.

What the people of Latin America need to realize is that what has happened in Puerto Rico did not occur simply because of the special relationship between the Commonwealth and the United States. That relationship existed for nearly 50 years and nothing much happened. Puerto Rico's economic and social revolution occurred because of the leadership of Puerto Ricans like Governor Muñoz and Mr. Teodoro Moscoso.

Because I believe that Puerto Rico constitutes a model for Latin American development which Latin Americans ought to know more about and appreciate, I would like to suggest that Puerto Rico be used to even a greater extent than it has in the past, as a training and educational center for Latin Americans. In this connection, I would also like to suggest that an effort be made to develop the University of Puerto Rico into a truly distinguished university which would attract graduate students from all over Latin America, particularly in the fields of economics, public administration, education, and business. I visited the graduate school of economics at the University of Puerto Rico. While the school has made an excellent start, it is in need of substantial assistance if it is to achieve the status of a really distinguished school capable of attracting top scholars from the Latin American Republics.

The Inter-American Highway

In the course of a short stopover in Panama City, I discussed with American Embassy and AID officials the Inter-American Highway and the reasons for the disgracefully slow progress on a project which should have been completed more than a generation ago. I got the impression that work is proceeding at a snail's pace on completion of the road from Costa Rica to the canal, and not even the basic survey work for the road south of the canal to Colombia has been done. A number of factors have been cited for this sorry record, including the failure of Congress to appropriate funds, failure of local governments to provide funds, lack of agreement as to routes, etc. The Inter-American Highway has been regarded by a number of U.S. administrations as exceedingly important from the standpoint of both economics and hemisphere defense, and has constituted a symbol of inter-American cooperation. There is no reason why American leadership, financing, and engineering could not have completed this important project years ago, but at the rate things are moving, I get the impression that it still won't be completed by the year 2000. I think it's high time that both the administration and Congress decide whether or not we really want this project to come off and, if we do, we should give it a high priority and complete the highway within a reasonable period of time.

5. COORDINATING EXTERNAL ASSISTANCE ACTIVITIES AT THE COUNTRY LEVEL

One of the disappointing results of the Punta del Este Conference of August 1961 was its failure to deal effectively with the problem of coordinating the activities of the manifold national and international and regional assistance agencies at the country level. My discussions with our AID mission people as well as with individuals in Latin American governments provided substantial evidence of the need for creating adequate machinery in this field. Alternative approaches and suggestions for specific measures for coordination of activities and policies of a number of agencies operating in individual less developed countries were outlined in my report of November 1961, for the Joint Economic Committee of the Congress, entitled "Economic Policies Toward Less Developed Countries".⁴ Such coordinating machinery might include, among other things, a committee on which all external agencies operating in the country were represented, with power to make specific joint recommendations directly to the headquarters of each of the agencies represented, as well as to high level coordinating groups in Washington or elsewhere. The task of the country coordinating committee would be to review development programs and requests or recommendations for various types of assistance from the host country, and to reach agreed positions in connection with negotiations with officials of that country. A system of country level coordination would undoubtedly require some changes in the operating procedures of existing agencies such as the World Bank, the Inter-American Development Bank, the Export-Import Bank, and various technical assistance agencies. In particular it would be highly desirable for these agencies to establish country or regional representatives and to rely more on these representatives operating in concert with AID and other external agency representatives than on special missions sent from Washington for investigating and making recommendations on specific loan applications.

Coordination of the operations of various external assistance agencies with our AID missions at the country level is also essential for effective coordination of our external assistance efforts in promoting economic integration among the Latin American countries as a group, or within certain regions. More effective machinery is needed among the agencies themselves for encouraging and promoting Latin American integration through a constant review of development programs and a careful consideration of the implications of financing projects in one country for market opportunities in Latin America as a whole and for the avoidance of regional overcapacity. However, such coordination at the Washington level can have little real value in the absence of agency coordination at the country level.

I am convinced that the kind of development assistance program we are seeking to administer in Latin America requires a strengthening of the authority and capabilities of our country missions. Not only has the effectiveness of our AID missions been weakened by the existence of a number of other external assistance agencies operating on the basis of sporadic visits to the country or through negotiations with country officials in Washington, but the influence of our AID

⁴ See Raymond F. Mikesell and Robert Loring Allen, "Economic Policies Toward Less Developed Countries," Subcommittee on Foreign Economic Policy of the Joint Economic Committee of the Congress, USGPO, Washington, 1961, pp. 34-40.

missions tends to be undermined by frequent "diplomatic end runs" in which high officials of the foreign government obtain assistance or promises of assistance in Washington, sometimes without consultations with the AID mission chief in the country concerned. Several of our AID mission chiefs in Latin America have told me frankly of their frustrations regarding these "diplomatic end runs." The Washington-negotiated agreements are frequently couched in rather vague terms with major emphasis given to the sums of money involved, but the mission chiefs are expected to administer the agreements by providing the funds in accordance with reasonable standards of performance. The result is that the U.S. country missions are frequently regarded as "niggardly" and spinners of redtape because they are slow in providing the largess so magnanimously promised by high officials in Washington. (This view was expressed to me by a cabinet member of an important Latin American nation.) Naturally this procedure undermines the prestige of the country mission and makes it difficult to administer an effective development assistance program.

I do not believe that we can administer an effective development program from Washington, or on the basis of short missions by high-ranking State Department and AID officials to the Latin American countries. We must build up the capabilities and the prestige of our missions in the field, and this requires, among other things, procedures by which allocations and promises for assistance will be made solely on the basis of recommendations from the missions and preferably communicated by the missions directly to the foreign governments, making clear the terms and conditions under which the assistance will be made available. One mission chief of a large Latin American country told me that he was not only frustrated by diplomatic end runs but, on several occasions, has been embarrassed by the arbitrary elimination by Washington of important elements in a carefully negotiated program covering interrelated projects which he had worked out with certain ministries in the Latin American government. If we do not trust our missions chiefs to carry out the policies established by Washington, they should be speedily replaced. But they cannot do their job unless they are given full support.

6. PRIVATE FOREIGN INVESTMENT

The countries of Latin America have received a substantial share of our total direct private capital outflow during the postwar period and a sizable portion of this capital outflow has taken the form of investment in manufacturing. There is considerable evidence, however, that foreign private investment has declined rather sharply in recent months, particularly in South American countries subject to a high degree of economic and political instability, and where governmental actions inimical to foreign property interests have been taken. I believe that since development assistance is in large measure a matter of people-to-people relationships, foreign investment can and should play a heavy role in Latin America's economic growth. Moreover, the role played by private investment cannot be measured in terms of the amounts of private capital actually transferred as recorded in the balance-of-payments statistics. It is mainly through private investment that industrial countries transfer technical knowledge,

managerial ability, and foreign entrepreneurship which mobilizes existing human and material resources for expanding output for domestic use and export. Through foreign investment, the technical knowledge and business experience for producing and distributing commodities, which it has taken the older industrialized countries many centuries to acquire, become available to, and are readily diffused throughout, the newly developing economies. Such diffusion of accumulated business knowledge is often best achieved through the medium of so-called joint ventures in which local and foreign capital and management combine for productive operations. Foreign firms have also found that they can play a role in petroleum development or in public utilities in partnership with local government enterprises in countries where wholly owned and operated enterprises in these fields are closed to foreigners.

I think that American business and the U.S. public generally must recognize certain important trends and attitudes toward private foreign investment in Latin American and other less-developed countries. First, foreign governments are tending more and more to screen investments and to limit foreign investments to certain fields or types of operations. Very often official approval of a foreign investment is necessary before a foreign investor is permitted to remit earnings or to repatriate capital at official rates of exchange appropriate for this purpose. Second, developing countries tend to favor foreign investment in which there is a certain portion of local capital participation and many Latin American countries have laws regulating not only the proportion of foreign ownership of domestic concerns but also the proportion of local labor and supervisory personnel that must be employed. Finally, we are seeing a trend toward greater government participation and/or control in the extractive industries such as petroleum and mining, just as we have seen a general trend toward government ownership in the field of transportation and power. Where such enterprises have not been nationalized, they are certainly regarded as quasi-public in nature and the day is past when a mining or petroleum firm can obtain a large concession covering thousands of square miles in which it can create an industrial empire with little or no interference with its internal or foreign operations.

I do not believe that these trends and attitudes in Latin American countries necessarily mean a reduced role for private investment in Latin America. The number of joint ventures in the field of manufacturing is rapidly expanding in Latin America and the long-cherished doctrine of a hundred percent ownership and control of foreign enterprises is giving way to one in which U.S. firms are sharing ownership and control with local capital and the contribution of foreign enterprise is taking the form of entrepreneurship and the transfer of technical knowledge and managerial experience.⁶

These trends are important to keep in mind in assessing the recent expropriations of American-owned public utilities in Brazil, since these actions involve issues which are common to foreign-owned public utilities in countries throughout Latin America. Expropriations of American-owned public utilities and threats of nationalization of petroleum or mining enterprises not only discouraged American and European investment in Latin American countries, but are generally

⁶ For a discussion of these developments, see "U.S. Private and Government Investment Abroad," edited by Raymond F. Mikesell, University of Oregon Press, Eugene, Oreg., 1962; see especially Chs. V and VI, written by Jack N. Behrman.

resented by the American public and constitute a threat to our willingness to cooperate in the Alliance for Progress program. While I believe that the actions on the part of Latin American countries in expropriating American property are unwise and are in part a reflection of nationalistic xenophobia, I also believe that in view of certain political trends we must anticipate additional actions of this kind. The days of foreign-owned public utilities, and perhaps even of wholly owned and controlled foreign mining and petroleum enterprises in Latin America, may well be numbered. We might as well face up to the fact that private foreign investment, at least for large enterprises, must more and more take the form of joint ventures involving a combination of foreign private and domestic private or foreign capital. Without condoning this trend, I believe it is wise that we understand the basic political and economic reasons for it and that both U.S. private companies and our Government should be prepared to deal with these developments in a way that will minimize frictions which can jeopardize both our economic and foreign policy interests.

Foreign-owned public utilities in the fields of power, transportation, and telecommunications, where rates are fixed by public authorities, present special problems. In countries like Brazil, Chile, and Argentina, where inflation is rapid and chronic, rates are not adjusted to rises in costs, and are often maintained at ridiculously low levels, partly because of the political repercussions to actions by the rate-making authorities in raising them. The result is that private companies do not obtain sufficient funds for expanding investment to meet growing requirements for power, transportation, etc., or, in some cases, even to cover maintenance. Not only are the foreign companies not interested in bringing new capital from abroad in view of the low or nonexistent returns on presently invested capital, but interest rates are so high that they cannot afford to borrow local funds for expansion. (In many cases the principal source of profit of the foreign companies is the prices charged for equipment and various types of technical services, but these charges are often a source of controversy.) The inability of the private companies to provide adequate service usually leads to complaints and to pressure on the government to take over the foreign-owned enterprises. The recent takeover by a provincial government in Brazil of an American-owned telephone subsidiary is a case in point. The company did not have the capital to meet the growing demand for telephones, and proposed that new subscribers make loans to the company equal to so much per phone, at reasonable rates of interest. The state government took the position that, instead of loans, the subscribers should receive shares of stock in the telephone company but without a revaluation of the assets representing the initial investment of the American subsidiary. This procedure would have watered down the U.S. company's interest to the point where it would soon become a minority stockholder. In the midst of a well-publicized controversy over this point, the state government suddenly expropriated the telephone company.

The answer to the problem of many of the remaining American-owned utility enterprises in Latin America may have to be found in some kind of a joint arrangement with the Government whereby the utility can earn a reasonable return on its investment and continue to provide important technical services needed by the Latin American countries. In addition, we should insist that, as a condition for ex-

ternal financing of utilities, rates be charged to consumers which will not only cover costs but will provide a substantial proportion of the investment needed for expansion. Subsidy rates for public services constitute one of the many practices which keep savings low in Latin America relative to investment needs.

7. SOME CONCLUDING OBSERVATIONS

While this report is somewhat critical of various policies and has emphasized certain negative aspects of the operation of the Alliance for Progress program, I do not want to give the impression that the program has been a failure or that there are not hopeful signs. On the contrary, in every country I visited, efforts are being made to implement the self-help measures to which the governments have committed themselves in the Punta del Este Charter. I am convinced that in none of the major Latin American countries would the majority of the electorate vote for a dictatorship or a social and political policy of the extreme left or right. The majority of the people want to see rapid social and economic progress along democratic and constitutional lines and favor mixed economic systems in which the government will play an important role in economic affairs but with the bulk of industry and agriculture left in private hands. Our policy should be designed to support this middle-of-the-road position. We must recognize that if social and economic reforms are to take place in an orderly manner and under constitutional and democratic procedures, they are going to take time. Our AID programs and missions are faced with the delicate diplomatic problem of helping these people to help themselves through close contacts with government officials and with educational and other social institutions. We need to think in terms of a balance between shorter run impact programs which will give the people of these countries an immediate sense of progress and of increased well-being while, at the same time, using our financial and technical assistance to guide and promote longrun economic growth.

A Brazilian friend of mine who is a well-known economist and holds an important position in his Government told me that he was terribly disturbed about press accounts in the United States saying that the Alliance for Progress was a failure because Latin American countries had not in the course of the few months following the Punta del Este Conference made significant progress in adopting the economic and social reforms outlined in the Punta del Este Charter. He said he was convinced that the majority of the people who had sufficient education to know what was going on were firmly behind the program and that, if the United States turns its back on Latin America, it will be playing into the hands of either the left-wing extremists who want a Castro-type regime or of the reactionaries of the right who want a military dictatorship for maintaining the old order. His plea was that the middle-of-the-road liberals need our help—not just our money, but the moral support and influence that can be provided by North American, West European, or international civil servants who will involve themselves deeply in the social revolution now going on in Latin America. This is why I believe we must give greater emphasis not only to strengthening our governmental missions in Latin America, but we should also be mobilizing our universities, our labor unions,

our business organizations, and various social institutions so that they will send the kind of people who will have the maximum impact in Latin America by providing guidance and support for what we have come to call the middle road.

The fundamental problem in Latin America is the mobilization of domestic human, material, and financial resources for economic and social progress. Our money alone will not achieve development and political stability in Latin America or anywhere else in the underdeveloped world. This means, in my view, that we must give greater attention to the staffing of our missions, to the coordination at the country level of the various sources of external assistance, and to mobilizing nongovernmental sources of personnel, including people from American and European universities, from labor unions, and from private business, for promoting the objectives of the Alliance for Progress. The more I study economic development the more I am convinced that it is basically a process of changing the hearts and minds and capacities of the people. This job can only be done by capable and dedicated people and not simply by writing checks.

