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REPORT
OF THE PANEL OF EXPERTS
TO THE
INTER-AMERICAN ECONOMIC
AND
SOCIAL COUNCIL

PAN AMERICAN UNION

General Secretariat, Organization of American States

Washington, D.C.

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"This report was presented to the First Annual Meetings of the Inter-American Economic and Social Council at the Expert Level and the Ministerial Level, as document No.17 (English), September 30, 1962".

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PRELIMINARY NOTE

Title II, Chapter V, paragraph 8 of the Charter of Punta del Este provides that:

"The Inter-American Economic and Social Council will review annually the progress achieved in the formulation, national implementation, and international financing of development programs; and will submit to the Council of the Organization of American States such recommendations as it deems pertinent."

Similarly, in its report to the plenary of the Special Meeting of the Inter-American Economic and Social Council at the Expert Level, held in Washington, D.C., from November 29 to December 9, 1961, Committee I expressed the view that:

"...the experts on the panel (of Nine) should be given ample power, within the spirit and aims of the Charter of Punta del Este, to examine their mandate and, after analyzing the existing circumstances, to prepare a preliminary report, for presentation to the next Regular Meeting of the Inter-American Economic and Social Council at the Ministerial Level, in which they may freely express their opinion as to the best way in which to carry out the tasks for which they were appointed."

In the spirit of the two foregoing provisions, and as a contribution to the studies to be made under Topic I of the Agenda: The Economic and Social Situation in Latin America and the Alliance for Progress, the Panel of Nine has prepared this document for consideration by the Inter-American Economic and Social Council at its regular meeting in October 1962.

The report has been divided into three main parts:

- I. Organization of the Panel of Nine and Principal Work Accomplished.
- II. Advisable Changes in the Evaluation Machinery.
- III. The Alliance for Progress: A General Evaluation.

The first two parts relate to the tasks for which the Panel of Nine is directly responsible. The third part covers many aspects of the Alliance for Progress that are closely related to problems of national economic and social development, although not the direct responsibility of the Panel, and that, therefore, must inevitably be considered by any ad hoc committee responsible for the work of evaluation, if the recommendations made regarding the various Latin American countries are to be a success.

INTRODUCTION

Contrary to what was true in the last century, when social progress took place only after capital had been accumulated, there is no doubt that today there is a desire to maintain a close relationship between economic progress and the achievement of social justice.

The interdependence of these two objectives is one of the chief reasons for the social tensions evident to a greater or lesser degree all over the world, but most particularly in the three fourths of its area comprising the underdeveloped countries. In these countries, tensions are aggravated by the great imbalance between possibility and reality, of which the masses are well aware, and which heightens their desire for more rapid economic progress and more direct and immediate satisfaction of their social aspirations. Such is the drama of present-day Latin America -- the only area of western, Christian civilization where under-development is the general condition of the countries making up the region.

For the first time since the last century, when the industrial revolution made social justice economically possible to a degree previously viewed as a Utopian dream, Latin America, with the firm support of the United States, has resolved to face this critical moment of its existence with a vigorous, collective, coordinated, multilateral effort, aimed at helping to overcome economic and social underdevelopment.

Tensions in Latin America are of such a nature as to be in themselves the potential germs of violent revolution. Aware of this, the American governments have committed themselves to carrying out the program of the Alliance for Progress. The Alliance is intended to provide a wide channel for the currents of a peaceful revolution, which, in addition to accelerating economic development, will make possible a more equitable distribution of wealth and social benefits, changing, when necessary, those features of the socio-economic structure that have proved inadequate for the achievement of the foregoing aims.

This is not an easy task. It requires determination and effort on the part of the majority and, above all, austerity, sacrifice, and dedication on the part of minorities, who have already attained standards of living far higher than the minimum ones sought by the masses. It also requires timely and adequate assistance, which can only be furnished by economically stronger countries.

The Alliance for Progress seeks to be an adequate instrument for solving Latin America's problems. In its first year of operation, however, certain defects have come to light that must be corrected. The Alliance has also caused so much doubt and impatience among the people that serious misgivings have arisen as to the effectiveness of the terms in which it was conceived.

As indicated in the Preliminary Note, the Panel of Nine, in publishing this document, fulfills its duty to report on the work it has done in line with the activities assigned to it by the Charter of Punta del Este. The first two parts of the report -- one summarizing the work accomplished and the other giving the Panel's opinion as to the way in which the evaluation machinery should be reorganized -- might lead to the erroneous impression that, in the Panel's judgment, the mere adoption of its recommendations would suffice to eliminate the deficiencies of the Alliance that are of such concern to both its defenders and its critics. Actually, the Panel of Nine believes that the roots of the problem go deeper and that though it may be wise for the suggestions made regarding its own activities to be adopted immediately, there are other, more important aspects that urgently require decision, if the governments and peoples of America really wish to carry out the task they set for themselves at Punta del Este.

In the third part of the report, the Panel expresses its opinion on, and suggests possible solutions to, the problems that are the responsibility of the Inter-American system as a whole, as well as of the individual countries that compose it. This document only makes an effort to contribute to the discussions by the First Annual Meetings of the Inter-American Economic and Social Council, in connection with the central topic of The Economic and Social Situation in Latin America and the Alliance for Progress.

Part I
ORGANIZATION OF THE PANEL OF NINE
AND PRINCIPAL WORK ACCOMPLISHED

I ORGANIZATION OF THE PANEL OF NINE
(COMMITTEE OF NINE) AND OF THE AD HOC COMMITTEES

1. At the Special Meeting of the Inter-American Economic and Social Council at the Expert Level, held in Washington from November 29 to December 9, 1961, approval was given to the proposal presented jointly by the Secretary General of the Organization of American States (OAS), the President of the Inter-American Development Bank (IDB), and the Assistant Secretary of the United Nations in charge of the Economic Commission for Latin America (ECLA) for the appointment of the members of the Panel of Nine Experts, provided for in the Charter of Punta del Este.

2. The appointments were made effective as of January 1, 1962. Since, however, the persons chosen had first to free themselves from personal commitments in their own countries, the panel was not officially established until February 26, in Santiago, Chile, and work was definitely begun in the middle of March.

3. Of the nine persons appointed, Mr. Gonzalo Robles had to resign for reasons of serious ill health. At the proposal of the same individuals mentioned in paragraph 1, and by a resolution of the Council of the OAS of June 20, 1962, Mr. Jorge Grieve was appointed to replace him and assumed his duties on September 10, 1962. For personal reasons, Mr. Ary Torres was also unable to accept his post permanently, and on July 25, 1962, he presented his resignation. In short, during the period covered by this report, the Panel has been composed of only the following seven members:

Hernando Agudelo Villa
Ernesto Malaccorto
Manuel Noriega Morales
Felipe Pazos

Harvey Perloff
Paul Rosenstein-Rodan
Raúl Saez

4. In January 1962, a majority of the Panel members consulted together as to the general way in which their work should be organized. At that time, they adopted, on a provisional basis, preliminary standards for the internal operations of the Panel of Experts and the ad hoc committees, which are shown in Appendix I.

In examining this appendix, it should be kept in mind that it represents a body of standards adopted provisionally before the Panel of Nine had gained any experience in the matter in question. Some of these standards are still valid and may be taken into consideration in drawing up new internal regulations for the Panel of Nine and the ad hoc committees; but others should be revised as dictated by experience. The opinion of the group of experts regarding its internal organization is

contained in the provisional regulations appearing in the appendix and in the arguments on this point set forth in the report itself. In cases of inconsistency between the two documents, the points of view contained in the report should be considered as more representative of the Panel of Nine's thinking, in that they result from experience acquired during the last eight months and are therefore more recent.

5. As indicated by the report of Committee I of the Special Meeting of the IA-ECOSOC at the Expert Level, referred to in the Preliminary Note, experience has shown that the Panel of Nine needs to meet periodically to determine methods, adopt common views on evaluation and coordination, express opinions, and make recommendations on various general aspects of the Alliance. Although the Panel is not a formal agency, legally speaking, it is impossible for the members to fulfill their individual tasks, provide useful guidance, or suggest solutions to the numerous problems that must be dealt with, if they do not act in the coordinated fashion proper to a well-defined agency. The Panel of Nine is now commonly called the "Committee of Nine" and will be so designated in this document.

6. The main collective functions of the Committee of Nine can be summarized as follows:

- a. To establish standards and guidelines for the presentation of development plans;
- b. To establish common methods and criteria for evaluating the plans;
- c. To hold meetings in order to determine the progress made by the ad hoc committees in their work and to exchange experiences and opinions in regard to this work;
- d. To cooperate with the governments in helping them to adjust or revise programs, although taking no part in their formulation;
- e. To make specific studies on matters of general interest which will promote greater compliance with the aims of the Alliance;
- f. To cooperate in publicizing the objectives and principles of the Alliance;
- g. To cooperate with the Secretary General of the OAS and the Executive Secretary of the IA-ECOSOC in aspects of the Alliance with which its own tasks and functions are concerned;
- h. To prepare an annual report on its activities and those of the ad hoc committees;
- i. To express general approval with regard to the administrative and technical organization required for its operations and those of the ad hoc committees;
- j. To cooperate with the various financial organizations whose collaboration is essential to the Alliance for Progress.

7. The aforementioned report of Committee I also expressed agreement to the appointment of a Coordinator "who would direct the preparatory organization of the committees, the discussions of the experts, and the meetings of the Panel of Experts formulating common criteria." The duties of the Coordinator, as conceived of by the Committee of Nine, are broader. Indeed, if the Committee requires an organized structure and has an administrative and technical staff to carry out its own work and that of the ad hoc committees, the Coordinator should be responsible for the operations of the organization. His functions have been provisionally defined in Section Two of Appendix I of this report. The Secretary General of the OAS appointed as Coordinator Dr. Raúl Prebisch, who, at great personal sacrifice, agreed to accept the job until January 1, 1963. Since the Coordinator must periodically be absent from Washington to attend to his other responsibilities as Executive Secretary of ECLA and as Director of the Latin American Economic and Social Planning Institute, an Assistant Coordinator was chosen from among the Committee of Nine; Mr. Raúl Saez was appointed to this post.

8. The ad hoc committees have been organized in accordance with the provisions of the Charter of Punta del Este. To date they have been composed of six members, three from the Panel and another three especially chosen for each case. The six have been designated by agreement between the interested government and the Secretary General of the OAS. For short-term programs, however, which are generally simpler to study, the desire is to form ad hoc committees of only four members. The functions of these ad hoc committees are defined in Section Three of the document appearing as Appendix I. To evaluate a program and prepare a report with its recommendations to the government of the country concerned, the ad hoc committee must study and analyze the documents submitted to it. It does this with the help of especially assigned technical personnel, and with that of officials or technical missions provided by cooperating agencies, and of consultants hired to study specific problems.

9. A technical staff, which will consist of a maximum of 12 to 15 professional people, has been formed to cooperate with the Committee of Nine and the ad hoc committees. Seven economists are already working under Mr. Raúl Saez, the Assistant Coordinator of the Committee of Nine, who has been appointed Acting Technical Director. The permanent technical staff has been complemented by specialists on loan from the OAS who have been employed for specific studies. In addition, cooperation has been sought from officials of other institutions interested in the Alliance for Progress.

10. The administrative and secretariat work of the Committee of Nine and of the ad hoc committees has been placed under the direction of a Secretary, Mr. Benjamin Hopenhayn, appointed by the Executive Secretary of the IA-ECOSOC and responsible to him. Mr. Hopenhayn also takes part in economic studies and aids the Committee members in other important tasks. The administrative functions relating to accounting, finances, travel arrangements, library services, reproduction of documents, procurement, etc., are carried out by the OAS, which has hired the technical and administrative personnel on contract.

11. The Committee's relations with the OAS with regard both to everyday administrative matters and to more important ones involving other agencies and the governments are maintained through the Executive Secretary of the IA-ECOSOC. Technical relations with the IA-ECOSOC are carried out directly between the Director of the Department of Economic Affairs and the Technical Director of the Committee of Nine. A good modus operandi has been established between the permanent staff of

the OAS and that assigned to the Committee. It is a pleasure for the Committee to record the effective cooperation received, the wide latitude given it in directing the personnel assigned to it, and the helpful administrative services provided by the OAS.

12. The Committee has been especially interested in establishing close relations with the international financial institutions and organizations working in the Latin American area, in order to obtain information from them and to gain their cooperation in the formation of study missions. Such relationships are also useful for the exchange of ideas, for helping to avoid duplication of effort, and for making full use of human resources in the work of the ad hoc committees, while preserving the latter's full independence. Furthermore, cooperative relations are necessary for the later stage of putting into effect the ad hoc committees' recommendations regarding development programs, particularly in the matter of external financing. The Committee of Nine is pleased to report that the generous cooperation it has received from the financial organizations has been most helpful.

II STUDIES AND WORK CARRIED OUT BY THE COMMITTEE OF NINE

13. Besides the organizational work described in the previous section, the Committee of Nine has carried out the collective functions listed in paragraph 6. Of these, 6.c and 6.j, which are more directly concerned with the work of the ad hoc committees, will be considered in the following section. The functions described in paragraphs 6.g and 6.i refer to matters already covered in Section I.

14. With regard to establishing standards and guidelines for presenting development plans (6.a), and to establishing methods and criteria for evaluating such plans (6.b), the Committee of Nine took an active part in the Latin American Seminar on Planning, organized by the OAS, the IDB and ECLA, and held in Santiago, Chile, from February 19 to 24, 1962. It also participated in the Consultations on Economic and Social Development Planning, held in the same city from February 26 to March 3, 1962.

15. The first of these meetings "was held for the purpose of studying and discussing experiences acquired by the Latin American countries in planning for economic and social development, with a view to advancing and activating the work that the governments have promised to undertake by virtue of the Charter of Punta del Este." The Seminar gave particular attention to analyzing the work most urgently called for in formulating, drafting, and executing short-term plans; as well as to some of the more important technical aspects of long-term planning; and, in general, to methods and criteria of evaluation. The main aspects discussed can be summarized under the following headings:

- i. Basic approaches in short-term action.
- ii. Content and methodology of short-term planning.
- iii. Organization and administrative mechanisms for preparing and executing plans, and problems related thereto.

The conclusions of this Seminar were published in a report ^{1/} which also includes as appendices the works entitled:

1. See Reference Document No. 1, Consultation on Economic and Social Development (OE4/Ser.H/X.3).

Evaluation of a Short-Term Development Plan
Preparation of Short-Term Development Plans
The Government Investment Budget in
Short-range Planning.

These documents were prepared by various members of the Committee of Nine and, together with the report of the Rapporteur of the Seminar, set forth standards, guides, methods, and criteria which, in general, conform to those provisionally adopted by the Committee of Nine.

16. The purpose of the Consultation on Economic and Social Development Planning was to hold round-table discussions on the conclusions of the Latin American Seminar on Planning and on the difficulties of applying these in a practical way. Government officials from sixteen countries of the hemisphere took part in this meeting. In addition to participating in the round-table discussions, the Panel of Experts had the opportunity to meet with officials responsible for planning in the various countries, in order to consider certain fundamental criteria for evaluating national programs. These private discussions also enabled the Committee of Nine to form an idea of the degree of progress attained in short and long-term planning and of the kind of problems with which the countries are faced. ^{2/}

17. Even though the two aforementioned meetings helped to define certain standards, methodology and evaluation criteria for national development plans, the reports issued are far from being complete, definitive studies. The Committee of Nine feels that more experience is needed, especially broader knowledge of the actual difficulties confronting the countries of the area, before any recommendations of lasting value can be made.

18. To better comply with the aims of the Alliance for Progress, the Committee of Nine has concentrated on certain specific tasks, chiefly, on exchanging opinions with agencies and individuals closely related to the activities of the Alliance, in order to modify methods or procedures and to study the difficulties that arise in solving the many problems involved in such an ambitious program. So far, little progress has been made in this respect, partly because of the short time that has elapsed. This report attempts to provide the first complete study of the problem, as the Committee of Nine sees it, and to suggest some avenues that might be explored as a means of avoiding difficulties of the kind that have already arisen or others that may arise in the future.

19. The members of the Committee of Nine have also taken part in other activities related to the Alliance for Progress.

20. The Committee has discussed various problems of promoting the Alliance with numerous high-level Latin American economists, planners, and officials. Also, some members of the Committee of Nine have visited various countries in order to learn about the kinds of national development programs being prepared, and in some instances, have helped to inform the public on the Alliance through lectures, newspaper and radio interviews, and other information media. On these occasions, widespread ignorance of the Alliance's principles, objectives and forms of action has been noted.

² Ibid.

21. With reference to paragraph 6.h, this report fulfills the function specified therein.

III WORK OF THE AD HOC COMMITTEES

22. The chief responsibility of the members of the Committee of Nine is their active participation in the ad hoc committees. The Charter of Punta del Este recognizes that to accomplish the proposed objectives of economic and social development, it is necessary "that comprehensive and well-conceived national programs of economic and social development, aimed at the achievement of self-sustaining growth, be carried out in accordance with democratic principles." It is therefore obvious that evaluating these programs in accordance with the criteria established in the Charter, and making appropriate recommendations to bring these programs into being, constitute basic activities within the Alliance for Progress.

23. At this writing, the following countries have requested of the Secretary General of the OAS that their development plans be evaluated by an ad hoc committee: Bolivia, Chile, Colombia, Mexico and Venezuela.^{3/} Other countries, such as Honduras and Panama, have stated that within a short time they intend to present their national development programs, which are nearing completion. In addition, many countries have requested technical assistance from the OAS, ECLA and other institutions for organizing national planning machinery or for completing programs already in preparation.

24. Colombia was the first country to request the formation of an ad hoc committee to study its 10-year plan. For the reasons mentioned in Section I, which delayed the formal establishment of the Panel of Experts, it was impossible to set up the ad hoc committee until the middle of March 1962. The members of this committee visited Colombia, where they held extensive discussions with government officials, as well as with representatives of private enterprise. On July 19, 1962, the committee officially presented its report to the Colombian Government, which accepted its conclusions and recommendations and requested that, in accordance with the Charter of Punta del Este, the committee bring the report to the attention of the international agencies and governments that might be interested in participating in the necessary financing. The report contains a detailed evaluation of the program for the 1962-1965 period and a general appraisal of the projects and possibilities for the 1965-1970 period. Based on the ad hoc committee's report and on the earlier studies made by a technical mission from the International Bank for Reconstruction and Development -- whose report was duly considered by the committee-- the Bank, at the request of the Government of Colombia, immediately started negotiations for the program's financing by the various international agencies and capital-exporting countries. The ad hoc committee is cooperating in these negotiations. It is hoped that these will result in a financial arrangement adequate to advance the economic and social development of Colombia as outlined in the plan, which, in the ad hoc committee's opinion, conforms to the goals and objectives of the Charter of Punta del Este.

25. On January 24, 1962, Bolivia's 10-year plan was presented to the Secretary General of the OAS for study by an ad hoc committee. For the reasons already mentioned, the ad hoc committee could not be set up until March 1962. After some

3. Appendix II shows the membership of the ad hoc committees that have studied the Bolivian, Chilean, and Colombian plans. The other two committees are being set up.

of its members visited Bolivia, the ad hoc committee, with the approval of the government, decided to present its first study in the form of a memorandum in which, on the basis of the 10-year plan and the urgency of attending to the special situation in Bolivia, it recommended that an immediate action program be put into effect with adequate foreign financing. The committee deferred a complete study of the plan until a later date. The memorandum with the ad hoc committee's recommendations was presented to the Government of Bolivia on May 18, 1962, and with its approval and authorization was brought to the attention of the Inter-American Development Bank and other institutions and governments that might be interested in lending financial and technical assistance to Bolivia, to carry out its development program. In view of the urgent action required, the IDB proposed a financial arrangement together with the U.S. Agency for International Development (AID) and, after pertinent negotiations, both bodies on July 20, 1962 announced the granting of loans and subsidies amounting to 80 million dollars. These are mainly for pre-investment studies, the preparation and execution of economic and social projects, and the strengthening of financial and credit institutions. This financing was the first of its kind granted to a nation on the basis of an ad hoc committee's recommendations.

26. Chile's 10-year development plan was presented for evaluation during the ceremony formally establishing the Committee of Nine in Santiago, Chile, on February 26, 1962. Although the plan covers the decade from 1961 to 1970, the evaluation made refers only to the 1963-1970 period, with particular emphasis on the next three years. In its study of the plan, the entire ad hoc committee visited Chile and exchanged views with its highest authorities, as well as with other officials, technicians and representatives of the various economic sectors. The committee also took into consideration, among other things, the valuable report of the International Bank for Reconstruction and Development on the 10-year plan. The report of the ad hoc committee was presented to the Government of Chile at the beginning of September, 1962, and it is hoped that its conclusions will be accepted so that negotiations may be conducted with international agencies and capital-exporting leading countries to establish a consortium or multilateral financial arrangement that will help the Chilean economy begin a dynamic process of growth within the shortest possible time.

27. The ad hoc committees formed to evaluate the Bolivian, Colombian and Chilean plans have closely cooperated with the respective governments, under the obligation to "report its conclusions to the Inter-American Development Bank and to other governments and institutions that may be prepared to extend external financial and technical assistance in connection with the execution of the program." ⁴/At the same time it is encouraging to note the interest shown by the Inter-American Development Bank, the International Bank for Reconstruction and Development, and the Agency for International Development (AID) in financing the programs that have been presented for evaluation by the ad hoc committees. It is to be hoped that other international organizations and capital-exporting countries in other areas will soon join in this cooperative effort.

28. The ad hoc committees also have continued to cooperate with the countries by making detailed analyses of certain aspects of the development programs presented for consideration. This cooperation in some cases means making concrete revisions or modifications of a program and should not be confused with giving technical assistance to the governments in the preparation of plans, which would undout-

4. *Charter of Punta del Este, Title II, Chapter V, par. 4.*

edly invalidate the committee's independence of judgment in issuing later reports on these plans.

29. It is a recognized fact that the preparation and execution of a program is a continuous process, subject to modification according to the political, social and economic conditions of a country. Thus, after completing the evaluation of the programs, the ad hoc committees might be called upon to observe their development and execution. Some countries have already indicated that they would like the respective ad hoc committee to follow the progress of the program at first hand and consider any advisable changes in it. Although there has not been enough experience to provide a clear picture of the scope of these tasks and the responsibilities that might fall to the ad hoc committee in this undertaking, the Committee of Nine is willing to take care of any such requests made by the governments in the most suitable way possible.

PART II

ADVISABLE CHANGES IN THE EVALUATION MACHINERY

30. Although the experience obtained so far has been very brief, the Committee of Nine believes that it is already possible to point out some weaknesses and disadvantages in the evaluation machinery that should be corrected, even though the system established for this purpose in the Charter of Punta del Este may be maintained in its essential aspects. The remarks that follow concern evaluation machinery. Later, in Part III, the Committee of Nine endeavors to examine the Alliance for Progress in its entirety, to present its own views, and to suggest those changes it considers most basic.

I THE COMMITTEE OF NINE

31. The Charter of Punta del Este states that the fundamental objective of the Alliance for Progress is "to enlist the full energies of the peoples and governments of the American republics in a great cooperative effort to accelerate the economic and social development of the participating countries of Latin America, so that they may achieve maximum levels of well-being, with equal opportunities for all, in democratic societies adapted to their own needs and desires." The Charter points out that to attain this objective it will be necessary to undertake action in three principal fields: a. national programs for economic and social development (Title II of the Charter); b. economic integration of Latin America (Title III); and c. the defense of basic export commodities (Title IV).

32. If these fields of action are analyzed, it is easy to see that they are closely interrelated and that, though susceptible of short-term treatment as separate problems, they are, basically, essential and concurrent factors of the complex development process of every one of the Latin American countries in its present stage of evolution. It is impossible to expect the success of development programs that do not take into account the critical common problems of the defense of basic products and the regional economic integration plans, whose aims include, among others, the expansion of markets. To illustrate, there could not in the future be well-conceived national programs that did not consider the effect that a regional market comprising several countries of the area would have on the demand for certain products, or whose production and export policy was not coordinated with that of other countries exporting the same basic products. In other words, national programs generally give rise to problems that should be solved within the framework of broader international arrangements.

33. The best way to achieve the objectives of the Alliance for Progress is to undertake national economic and social development plans or programs with some regard to regional circumstances of production and markets. It logically follows that the significance of the ad hoc committee's program evaluation lies in its taking into

account the potential of the domestic and foreign effort required, particularly that of cooperation on a regional basis. Needless to say, there should be a certain unity of principles, criteria, and methods of evaluating each country's action within this multilateral effort.

34. The Committee of Nine feels that this unity of principles has been brought to the ad hoc committees by organizing each with experts drawn from within the Panel, as well as with an equal number from without. Thereby, each national program is analyzed within a framework that extends beyond the strict limits of the country whose program is under study.

35. To be able to do this, the experts drawn from the Panel should act as a Committee capable of performing certain basic functions with singleness of judgment. As mentioned in Part One, this need was explicitly recognized by Committee I of the Special Meeting of the Inter-American Economic and Social Council at the Expert Level (see paragraph 5 of this report) and it is also implied in the naming of a Coordinator (see paragraph 7).

36. On the basis of the foregoing, it is recommended that the functions of the Committee of Nine be recognized as those set forth in paragraph 6, including the functions of drawing up its own regulations within the conditions stipulated in the Charter of Punta del Este, as well as other functions that seem advisable and that are discussed throughout this part of the report. The Committee of Nine would thereby become a more organized body, and experience has shown a real need for this. Some of its decisions would take the form of simple recommendations, which would not limit either the independence of judgment of the members of the ad hoc committee or the scope of their functions. With respect to organizational and administrative matters, as well as standards, guidelines, and general criteria for evaluation, and general reports, the decisions of the Committee of Nine would be binding upon all its members. It would also be able to delegate administrative functions and the like to whomever it wished. In making these suggestions, it is understood that it is not enough merely to establish the functions of the Committee as such, since it is only one organ of the Alliance, and, as stated in Part III, the Committee believes that a new organization of the entire machinery should be studied.

37. In Part I, paragraph 7 of this report, mention is made that the Secretary General of the OAS appointed Dr. Raúl Prebisch as Coordinator. Although accepting the post as an expression of his interest in the Alliance for Progress program, Dr. Prebisch pointed out that he would be unable to devote full time to the job because of his other responsibilities. Owing to these limitations, he later said that he would keep the assignment only to the end of this year, but would continue assisting the Committee as a permanent advisor.

38. Experience has shown the need of a Coordinator who can make the day-to-day decisions the work of the Committee of Nine and the ad hoc committees demands - a Coordinator who can also represent the Panel members in relations with the numerous organizations actively participating in the Alliance and in relations with the countries, institutions, and individuals interested in the Committee's activities.

39. The Committee of Nine feels that the best solution would be for it to name one of its members to serve as Coordinator for whatever period the Committee itself may decide, and to provide that he may be substituted during his absence by another Committee member, chosen in accordance with simple internal regulations.

40. As has already been mentioned, the Panel experts do their principal work as members of the various ad hoc committees. As a result, their functions on the Committee of Nine are those that must be assumed by experts evaluating a national program, rather than those that, according to this report, are considered as the direct responsibility of this Committee. Therefore, before making a general evaluation of the nature of the Committee's work, it seems necessary to examine the ad hoc committees.

II THE AD HOC COMMITTEES

41. The Charter of Punta del Este defines the responsibility and work of the ad hoc committees in Title II, Chapter V, paragraphs 4 and 5 and part of paragraph 7, in the following terms:

4. The committee will study the development programs, exchange opinions with the interested government as to possible modifications and, with the consent of the government, report its conclusions to the Inter-American Development Bank, and to other governments and institutions that may be prepared to extend external financial and technical assistance in connection with the execution of the program.
5. In considering a development program presented to it, the ad hoc committee will examine the consistency of the program with the principles of the Act of Bogota and of this Charter, taking into account the elements in the Appendix.
7. [...] The ad hoc committee shall not interfere with the right of each government to formulate its own goals, priorities, and reforms in its national development programs. The recommendations of the ad hoc committee will be of great importance in determining the distribution of public funds under the Alliance for Progress which contribute to the external financing of such programs....

42. From the foregoing citation, it may be inferred that the responsibilities of the ad hoc committee are basically two: a. to evaluate development programs and, in the light of such study, to make recommendations leading to their execution; and b. to make known their conclusions to the financing entities and to the governments of capital-exporting countries that could give financial and technical assistance to the programs. In the opinion of the Committee of Nine, there is a third responsibility implicit in the Charter: that of seeking to bring about a certain coordination among the national development programs of various countries, especially with reference to the problems of regional economic integration and the defense of basic products, inasmuch as the very objective of the Alliance is "a great cooperative effort to accelerate the economic and social development of the participating countries."

43. In evaluating the plan submitted to it, from the standpoint of its capacity to promote the country's development, the validity of its economic and social objectives, the extent of the national effort, and the consistency of the measures proposed for carrying it out, the ad hoc committee should be completely impartial, basing its judgment on the standards and general principles established in the Charter of Punta del Este (taking into account the objectives set forth in Title I and the elements of the program enumerated in the Appendix of Title II), on those of the Act of Bogota, and

on the general criteria adopted by the Committee of Nine, insofar as they may be helpful. The final recommendations of the ad hoc committee, which are presented in a confidential report to the government of the country requesting the evaluation are an expression of the committee's opinion of the program and of the way it should be carried out.

44. In fulfilling this responsibility, the ad hoc committee, as has already been indicated, acts as an impartial tribunal. Its members, chosen exclusively for their personal competence and experience, must act with complete independence with reference to the country requesting the evaluation and the institutions or countries that might participate in carrying out the committee's recommendations. None of the parties involved is obliged to request a decision, accept it, or comply with it. But the procedure can be successful only if, once the evaluation is completed, the recommendations made (provided that these are reasonably sound) are accepted and put into practice, both by the country presenting the plan and by the institutions and governments interested in contributing to its financing.

45. When an ad hoc committee performs the second function recognized by the Charter, that is, when it presents the conclusions of its study to the financing entities and the governments of capital-exporting countries so that they may decide as to their participation in the financial or technical assistance needed to carry the program forward, its character is somewhat different. In this stage, the ad hoc committee cooperates with the interested government, if it so requests, in obtaining the external help required. In so doing, however, the committee has the moral obligation to see that this aid is properly used, in line with the aims that justified obtaining it. It also has this moral obligation when (as will be most frequently the case), on the basis of its recommendations and with the consent of the country concerned, a financial institution, such as the Inter-American Development or the International Bank, assumes the responsibility of acting as the country's financial agent and requests the committee's cooperation in this respect.

46. Finally, as already pointed out, a third responsibility implicit in studying the different national development programs is that of seeking and recommending ways to coordinate them. This responsibility derives not only from the fact that the Alliance is a cooperative and multilateral effort for the development of the countries of the region, but also from the importance that the Charter itself attaches to regional integration as being one of the most important instruments for accelerating progress. It is easy to understand that this responsibility of coordinating development programs cannot be exercised separately by each ad hoc committee, whose action must to a certain extent be limited to the program assigned to it for study and might not coincide in time with that of other ad hoc committees. Thus the responsibility for coordination largely belongs to the experts from the Panel assigned to the respective ad hoc committees. This means that the coordinating action can be carried out effectively only by the Committee of Nine, which is aware of the problems of all the countries requesting the evaluation of their programs. In turn, this makes possible common recommendations involving collective efforts or decisions by two or more countries.

47. The triple responsibility of the ad hoc committees, as set forth in the foregoing paragraphs, determines some of the characteristics of their formation and the nature of their functions and powers, as well as certain ones that should be considered as belonging to the Committee of Nine, in addition to those already treated in previous sections.

48. From this description of the different responsibilities of an ad hoc committee, it is obvious that its activities cover a far longer period of time than was originally foreseen. Indeed, apart from the time required merely to form a committee, the complete evaluation of a good program is to take an estimated minimum of four months. If to this is added its ensuing collaboration in negotiations for external assistance, which in the light of present experience takes several months, the work of the ad hoc committee is actually of long duration. This does not take into account the fact that the committee might later be asked to follow up on the way that its recommendations have been applied and to express opinions on important changes that may be required by a program already approved and in the course of execution.

49. It has become evident that, because of the lengthiness of this work, it is rare to find suitably competent, influential people who have the time to take on the responsibilities entailed. Consequently, although the contribution that such individuals can make to the activities of an ad hoc committee is of high intellectual value, it suffers from lack of continuity, since it is impossible, at any given moment, to count on these persons for advice on the delicate matters involved in making a fair judgment of the elements of a program and on those related to the application of the committee's recommendations.

50. Furthermore, the establishment of an ad hoc committee also suffers from the delay in finding two or three persons with the required qualifications, who are also acceptable to the government in question, and to the Secretary General of the OAS, and who are available for a reasonable minimum period of time covered by the work of the committee. In practice, the organization of an ad hoc committee in accordance with the system in force is done only by making many concessions regarding strict compliance with its obligations.

51. For these reasons, and on the basis of the experience acquired to date, the Committee of Nine feels that a new procedure should be sought to eliminate the undesirable features pointed out in this report. Among other things, consideration could be given to the formation of ad hoc committees made up of three experts from the Panel plus a representative of the country who might or might not, according to what seems advisable, participate with the right of voice and vote. The selection of the experts of the Panel would be made in conformity with the provisions of the Charter, but with special consideration given to the opinion of the Committee of Nine. The Committee bases this suggestion on the need to make proper use of the time and of the personal abilities and experience of each of the Panel members. Undoubtedly, other similar solutions could be suggested that would also make possible the creation of more effective evaluation machinery, better prepared to comply with the responsibilities assigned by the Charter, and would provide greater coordination of action and more continuity in future studies of development programs.

52. In order that the financial assistance required to carry out an ad hoc committee's recommendations may be obtained under the most advantageous terms and in the shortest time possible, the committee should be able not only to consult with the authorities and the interested parties in a given country, but also to hold exploratory conversations with the principal international financing institutions, and especially with those most closely connected with the Alliance for Progress program. In the opinion of the Committee of Nine, it would be of great advantage for the governments to consider the possibility of authorizing the ad hoc committees to duly inform certain entities of the nature of the studies being carried out, the kind of problems presented, and the amount and composition of the financial assistance thought to be required annually. In other words, in order to obtain the financial help the country needs, it

should be possible to hold preliminary conversations that will give an idea of the prospects for solving the problems in question. Such action would appreciably reduce the periods of negotiation subsequent to the committee's report and would permit the programs and recommendations to be better adapted to existing conditions.

53. Also so that the work of the ad hoc committees may be carried out under the best circumstances possible, both the governments submitting plans for evaluation, and the members of the committees must be assured that the latter's recommendations will be duly considered when the proposed financial aid is decided upon. Although this is a matter to which the Committee of Nine wishes to return later, in its analysis of the Alliance, it seems useful to recall here that, in some of their statements, high officials of the United States Government have attributed great importance to the recommendations of the ad hoc committees in decisions to grant a country the aid required for its development. ^{5/} In order to be effective, the moral support given to the committees' recommendations must be backed up by specific action of sufficient importance and impact.

54. This would be the best way of convincing the Latin American peoples that the conditions for obtaining help for accelerating economic and social development and the measures for doing so are determined by the careful studies made by a group of experts who, in the majority, are Latin Americans. Also, such acts would effectively assure the possible creditors (international agencies, the United States, and Europe) that the proposed program is suited to its objectives and that it is not merely a case of obtaining emergency aid to temporarily alleviate the existing situation in the countries, nor of maintaining internal political situations, and postponing, by successive emergency measures, the needed -- albeit difficult -- structural changes required to accelerate economic and social progress.

55. The explanation made of the manner in which the ad hoc committees should exercise their responsibilities, shows that changes such as those proposed in this section are advisable. Also, practical experience shows the need for maintaining a much closer tie between the ad hoc committees and the Committee of Nine. Thus, the latter would be the principal instrument in working out a policy of evaluation and coordination of national development programs, without jeopardizing the collaboration which, as a consultative body, it could lend the various agencies having a direct part in the Alliance for Progress, if this was deemed advisable.

III DEVELOPMENT PLANS

56. The preparation of national programs of economic and social development is established as a basic requisite by the Charter of Punta del Este and recognized as such by the signatory countries. Furthermore, it can be said that the preparation and execution of a development program is a necessary condition for obtaining technical and financial aid within the terms of the Alliance for Progress. ^{6/} These plans should be drawn up to include at least the points established in the Charter and may or may not be submitted for evaluation by an ad hoc committee, according to each government's decision. It should be remembered, however, that the Charter itself points

5. Among others, the speech of President Kennedy on the first anniversary of the United States proposal for the establishment of the Alliance for Progress (March 13, 1962) and the statement of the Secretary of the Treasury, Douglas Dillon, at the meeting of the Governors of the IDB (April 25, 1962).

6. See especially Title II, Chapters I, II, and IV, of the Charter of Punta del Este.

out that "the recommendations of the ad hoc committee will be of great importance in determining the distribution of public funds under the Alliance for Progress which contribute to the external financing of such programs."^{7/}

57. It is appropriate to recall here some of the views set forth in the report of the group of experts on planning for economic and social development in Latin America, presented to the meeting at Punta del Este: "Development planning refers to systematic efforts by governments to speed up and channel the process of economic and social development into predetermined directions and toward quantitative goals. It involves a deliberate choice of objectives, the design of policies and programs, and the allocation of necessary resources. It sets up a framework for action which permits the government to fit public projects and activities, as well as the activities of the private sector, into a systematic pattern that maximizes the chances of making rapid economic and social progress."^{8/}

58. As indicated in paragraph 17, the Committee of Nine feels it is still too early to establish more precise and detailed guidelines and standards than those indicated in the Appendix to Title II of the Charter of Punta del Este, with regard to the content and form of the programs to be presented for consideration by an ad hoc committee. The experience so far gained makes it recommendable merely to call attention to certain principles, to indicate a few defects, and to note a few ideas that may give a broader or clearer view of what the Committee of Nine considers to be a national program adapted to the principles and concepts of the Charter.

59. In recent months, at different times, the question has been raised as to whether a plan could be conceived simply as a strategy of development. In other words, would it be enough for a country to have balanced and sensible fiscal, monetary, foreign-trade and other policies, directed toward its economic development? In the judgment of the Committee of Nine, this would not fully answer the requirements of the Charter, since it would not give a realistic picture of the possibilities of reaching the specific goals proposed therein. Moreover, it has been shown by economic theory and the most recent practical experience that monetary, fiscal, and trade policies alone do not furnish a sufficient basis for determining the quantity, distribution, and timing of public investments, or the incentives and restrictions needed to orient the private sector's contribution to the development effort. It is essential to clearly define which sectors should grow and at what rates, in order to effectively achieve determined economic and social objectives. A general development strategy could be a basis for obtaining external cooperation under the Alliance, if it were complemented by a number of specific investment projects meeting the conditions of that strategy and, thus, were to constitute, to a certain extent, the minimum basis of a short-term program.

60. The Committee of Nine holds that, although the Charter refers to national development programs, it is quite conceivable - and indeed it should be so interpreted - that regional development programs should also be included within the framework of the Alliance. This interpretation should be limited only as follows: a. the size of the region should justify its separate treatment; b. the region should be capable of consideration as an economic unit; c. the regional program should be an overall one; and d. the regional program should meet the economic and social objectives established in the Charter. In these cases, the Committee of Nine would recommend

7. Title II, Chapter V, paragraph 7, subparagraph 3, of the Charter of Punta del Este.

8. Cf. OEA/Ser.II/X.1/ES- RE - Doc. 4, page 9, Chapter III, paragraph 1.

applying the same standards of evaluation as are applied to national plans, save that, in evaluating the measure of domestic effort and the advisable structural changes, consideration should be given to the fact that the region is part of a broader geographic and political unit, with economic characteristics and legal and other limitations that must be taken into account.

61. While the Committee of Nine has no doubts as to the possibility of evaluating regional programs with the characteristics described, it believes, on the other hand, that consideration of isolated sectorial plans falls outside its sphere of competence. Such sectorial plans - which should in any case be prepared as part of over-all programming - can only be conceived as complex projects within a broader framework. If they were studied separately, no satisfactory conclusions could be reached with reference to the aims set forth in the Charter.

62. Furthermore, although this is not specifically stated in the Charter, the coordination of the plans of two or more countries within a scheme of economic integration should be handled in accordance with the guidelines for national plans established in the Charter. The Committee of Nine believes that sectorial programs of this nature might also be presented and that they should receive preferential treatment with reference to study and in the matter of granting them the aid they may require. This would make it advisable for the Committee of Nine to take part in such important matters as those referred to in Title III, paragraphs 6, 7, 8, 11 and 12 of the Charter. The Committee's action might take the form of promoting projects of this nature in countries whose national plans are being considered by the ad hoc committees, or of examining specific projects that may be presented by the Inter-American Specialized Organizations within the framework of the Alliance for Progress.

63. As pointed out at the meetings in Santiago, Chile,^{9/} the Committee of Nine believes that plans presented by countries to an ad hoc committee may be short (2 years), medium (4 or 5 years), or long term. As it stated at those meetings, however, the Committee believes that even short-term plans should be comprised within a general framework of long-term objectives, which defines the desired development policy to be followed. On that occasion, the short-term plan was defined as being, to a certain extent, the action to be taken immediately under a long-term plan.

64. Although the Committee's experience up to now is too inadequate to permit drawing conclusions, it seems advisable to emphasize that in view of the scarcity of technical resources and statistical and economic information available in the Latin American countries, of the uncertainty of foreign markets, and of the lack of a sufficient number of specific projects, there is no practical value in formulating programs of eight to ten years or more, save to establish guidelines for development and aims for the immediate future. Although it is natural that the shorter the term of the program the more specific should be the projects to be undertaken, even the minimum of specifics required for a long-term program is, in general, outside the normal possibilities of an underdeveloped country. Fortunately, there are only a few projects, in certain sectors, requiring decisions many years in advance. Nevertheless, certain decisions made today may influence others on investments to be made

9. See the already-cited Ref. Doc. 1, Appendix III (OEA/Ser. II/X.3).

in subsequent years. In particular, massive, permanent works and installations, representing basic social capital, which cannot be undertaken piecemeal, require long-term rather than short-term decisions. Taking into account the foregoing considerations, it would seem advisable to concentrate planning efforts on medium-term programs, particularly if their development be viewed as a continuing process.

65. For the reasons indicated in the preceding paragraph, some of the development programs that the Latin American countries are at present in a position to prepare are frames of reference defining the strategy and aims of development, rather than detailed investment plans drawn up with the detail proper to a work in progress or policies fixed in all their aspects. The criticisms made in this respect are justified in that they state a fact, but they are unjustified in that they fail to recognize that this initial approach to the problem may be useful, and that even a defective program can make an immediate improvement in public investments and in the policy of stimulating or restricting the private sector. To repudiate present programs for deficiencies due to their having begun with insufficient information and facilities would mean to postpone action indefinitely, or to weaken action that can be greatly improved within a few years, if an effective and vigorous effort is made in this direction. The ad hoc committees and the Committee of Nine have been completely aware of these difficulties and have tried in their recommendations to reduce to a minimum the requirements made of a program for it to be considered as such, since they are convinced that if the process is indeed made continuous, as it must be, the deficiencies will tend to disappear.

66. The lack of a small number of key activities upon which practical effort might be concentrated during the earliest years of the plan is perhaps a widespread defect in the programs. In the majority of cases, statements on strategy are too generalized to be translated into positive activities; rather, they give rise to a rapid multiplication of activities, which, owing to the limited funds available, are hard to put into practice. This problem becomes the more acute if one takes into account that perhaps the chief weakness in the national plans is the lack of a sufficient number of specific projects, studied as to their technical viability and economic validity, which make it practically possible to achieve the goals proposed in the program within the period for which it was planned, or at least during its first years. Once the program and its external financing have been approved, these specific projects in a development program are the ones that permit putting the program into effect immediately. Much credit has been granted during the last several years; however, only an insignificant amount of it has been used, and only a small fraction has even been committed. The concept of what a project is, of what constitutes a true study of its technical viability and a clear justification of its economic and social priority, should immediately be classified as among the most important national decisions.

67. This defect, serious as it is in the public sector, since it is the direct responsibility of the government that presents the plan and of the planning organizations that draw it up, is even more serious in the private sector. In the programs, the private sector is assigned a role in investment and in the increase of the national product, which in a very short time should be greater than it has been in the years immediately preceding. This is impossible if conditions appropriate for an increase in savings in the private sector are not created, and if there is not available a sufficient number of projects, concordant with the aims and possibilities of the program, which may be undertaken immediately.

68. One of the most important factors that might explain this possible discrepancy between what is expected of the private sector and what it is effectively capable of doing is the small part it takes in drawing up the plans in whose execution it is supposed to share. In the reports they have made to date, the ad hoc committees have emphasized that it is urgently necessary for all national forces to participate in the formulation of development programs, in order better to adapt them to actual possibilities and to create greater responsibilities in the later stage of their execution. The Committee of Nine realizes that in many respects this recommendation may seem academic, if one considers the weakness of the organizations through which public opinion in our countries is expressed on these matters. It believes however, that there is always a minimum number of activities to which the recommendation may be applied. The problem of development must be the concern of the whole nation, and its solution must be undertaken on a broad basis; in other words, every sector must feel responsible for conceiving and carrying out the program.

69. The very fact that the cooperation of all the sectors of the country is being sought in the formulation of the national program eliminates the argument of those who choose to view the planning idea as one representing a totally directed or socialistic economy. The Charter accepts the idea of programming as an effective instrument for development but makes no reference to matters of political ideology or economic theory beyond a formal one regarding democratic principles. In this democratic programming, the means of orienting the private sector are based on information given to private businessmen regarding the market possibilities afforded by an increase in income and on a general policy of incentives and restrictions. The appropriate balance between public and private investments cannot be determined for all countries on the same basis; an ad hoc committee, therefore, can only express an opinion as to whether or not a national program appears properly balanced in the light of the several countries' political, economic, and social conditions.

IV. CRITERIA FOR EVALUATION

70. It has already been pointed out in Section II of this Second Part that, in evaluating a program, the duties of the members of an ad hoc committee are similar to those of judges, in that they must impartially and equitably apply general principles to particular cases. Their function is not to legislate, but like judges, when they apply the standards of the Charter of Punta del Este in their evaluation of specific cases, they will be establishing precedents.

71. In Title I, the Charter establishes the aims of the Alliance for Progress and, consequently, the aims of a national development program. It also establishes the general standards that should be applied in evaluating the program. These form part of the principles of the Act of Bogota and of the Charter, and figure particularly in the Appendix to Title II of the latter. Naturally, these standards are either very general, and may therefore be broadly interpreted by the evaluators applying them, or they are merely descriptive of what it is hoped the elements of a program may be. It does not seem possible to draw up a theoretical list of exact standards of evaluation, since this might limit the freedom of the governments to decide on these matters,^{10/}

10. The Charter says: "The ad hoc committee shall not interfere with the right of each government to formulate its own goals, priorities, and reforms in its national development programs." (Title II, Chapter V, paragraph 7).

and also such standards might easily prove to be inapplicable in the particular cases of certain countries. On the other hand, in the opinion of the Committee of Nine, it seems necessary to clarify here some important rules of interpretation that the Committee's own experience or the criticism and comment of others have shown to be essential. This document, however, does not pretend to be an exhaustive study of the matter; the Committee of Nine will deal with it more fully when it has accumulated more experience.

a. Economic growth and social progress

72. As mentioned in the Introduction, during the 19th Century there was first an accumulation of capital, after which came a process of distribution of income aimed at achieving effective social progress. Nowadays, it is felt that economic and social development can and should be synchronized. This is the fundamental principle of the Alliance for Progress. The Charter of Punta del Este establishes that national programs should simultaneously further economic growth and social progress, in order to attain ambitious goals in both fields during this decade. Naturally, this is based on a maximum effort by the countries in the mobilization of domestic resources and on timely external aid in amounts and under conditions suitable for the achievement of the proposed goals. The task is not easy, a fact that the Committee has substantiated in analyzing the first programs.

73. The growth of income, at a sustained annual per capita rate of 2.5 percent over a ten year period is in itself a difficult goal to reach, although the rate represents an average during the decade and does not necessarily have to be attained every year, even at the beginning of the period. This implies a considerable increase in total investment and, as a consequence, a substantial increase in saving, which in many cases it would be difficult - although not impossible - to couple with a better distribution of income and a simultaneous rise in living standards. Given the inequality in the distribution of income prevalent in the majority of Latin American countries, it is necessary to seek formulas that will diminish this inequality without detriment to appropriate economic growth. In order to appreciate the effort required to reach the planned rate of growth, it should be remembered that, in the 1950-60 period, only three Latin American countries were able to increase their per capita income to an average of more than 2 percent a year, and that in the five year period 1957-61, the total gross domestic product of the Latin American area, taken as a whole, increased at a rate of only 3.8 percent a year - an annual growth in per capita income of scarcely 1.2 percent.

74. The difficulty of reaching this goal is accentuated even more if one considers the need for greatly expanding and improving social benefits, in order to attain the objectives that the Charter establishes for the first decade of the Alliance for Progress. To do this, investments are required in the social field that are relatively unproductive in proportion to the capital employed and that, at the same time, give rise to added current expenditures that diminish savings capacity.

75. The Committee of Nine has given particular attention to such complex and difficult problems as the proper balance between social and economic investments, between better distribution of income and encouragement of private savings, and between maximum income and maximum employment. Considerable effort is required on the part of directors and planners to make decisions that will result in a proper balance between the proposed economic and social goals. The Committee wishes to state that, in its opinion, even though some countries in their present more advanced stage of development may be able to achieve all the objectives

proposed in the Charter simultaneously, the failure to do so does not render a program unacceptable, provided that the ad hoc committee is reasonably convinced that the country is making its best effort under the circumstances and that it would be impossible to exceed the less ambitious goals proposed in the program without intolerable sacrifice for the people.

76. If resources are insufficient to cover simultaneously investment in the economic and social fields in order to reach the goals set forth in the Charter, the Committee does not believe that social investment should be undertaken only with what is left after economic investments have been made that will assure an annual per capita rate of income growth of 2.5 percent. The Committee believes that a careful estimate of social investments should be made, seeking in any event a volume sufficiently large so that the new benefits attained will increase proportionally more than the growth of the population.

77. The earmarking of an important amount of resources for social investments that by their nature will generally result in increased consumer spending makes it more difficult to insure an increasing supply of resources for economic investments, especially if the low income level of the majority of Latin American countries is taken into account. This problem, however, should not be resolved by postponing the satisfaction of social needs without first making a maximum national effort, through a suitable policy of taxation and incentives, to channel toward economic investment resources used for superfluous consumption, investments in luxuries, and other purposes that are not in the national interest. Only after this national effort is exhausted and an estimate made of possible external aid should priorities between economic and social investments be established.

78. It should be pointed out that, as a complement to domestic efforts, external aid will have to play an important role in accelerating economic and social progress. This is in keeping with the principle of the Charter that excessive burdens should not be imposed on the people to achieve the rapid accumulation of capital, as was done under 19th-century capitalism and as is being done again today under communism. In this connection, the Committee feels that reports on the programs of countries that are making a maximum internal effort but still require additional resources to achieve acceptable goals in the social field should include a special recommendation to the effect that the aid given to them for this purpose should not burden the economy over and above the limit established as a maximum.

b. Breadth, scope and degree of the specification of a plan

79. As planning is still in the embryonic stage in the majority of Latin American countries, it is to be expected and experience has proved, that many of the plans presented will exhibit noticeable gaps, making for grave doubts as to whether or not they can be accepted as true plans and whether the Committee should proceed to evaluate them. When can a plan presented by a country be called a national program? Only when it fully complies with all the requirements set forth in the Appendix to Title II of the Charter? To what degree are investment programs in a variety of economic sectors acceptable, even when they fail to present a sufficient number of specific projects, with satisfactory studies of their viability and a clear demonstration of their priority over other possible projects?

80. The Committee of Nine does not pretend to seek perfection in the first programs presented by the countries, as this is outside of present possibilities. Even when the programs studied do not fulfill all technical requirements, the Committee

feels that it should use broad standards in accepting them. The essential qualifying factor should be the possibility offered by the aggregate of measures proposed to effectively stimulate and guide the economic growth of the nation in the near future and to provide a general outline or master plan under which specific projects will be prepared or completed and measures of economic policy put into practice. The recommendations of the ad hoc committee should lead a country to be able at a later date to present a program that more effectively complies with the requirements declared necessary by the Charter in this respect.

81. Even with this liberal acceptance of what is to be defined as a program, it must be made clear that even though a program has to consist of projects that will make material achievement of the program possible, a group of isolated projects, no matter how well studied, do not necessarily constitute a program. Actually, it is the program that determines the types of projects to be carried out at a given time, and not the projects that determine the development program.

c. Structural reforms

82. The obligation to carry out necessary structural reforms in each country has possibly been one of the greatest points of controversy in Latin American public opinion. It has been insisted that these reforms are a prerequisite to the granting of any aid within the terms of the Alliance for Progress.

83. The Committee of Nine does not consider that structural reforms are a prerequisite. The same opinion has often been expressed by high U.S. officials. Such reforms are an integral part of the national programs; they are important measures that should be incorporated in the programs. The reforms are not prerequisites for external aid; they are a necessary condition for the aid to produce effective results. The ad hoc committee that evaluates a program must know and realistically judge the will that exists in a country to carry out the necessary reforms, and it must determine to what degree the legislative and administrative measures under consideration are adapted to prevailing conditions and proposed objectives. The enactment of the reforms that a government promises to carry out and on which an ad hoc committee bases its recommendations is part of the machinery called for in the Charter of Punta del Este and is thereby an obligation emanating from an international statute. Non-compliance with promises of reform is likely to produce the same effects as usually result from any other situation of this nature.

84. This opinion is the more valid if it is remembered that the situation varies from one country to another. The necessary reforms will have to be approached according to the institutional organization, the socio-economic situation and the urgency of attending to certain conditions existing at a particular time in each country; the reforms will take shape in a different manner and at a different rate, according to the nature of the domestic situation.

85. The Committee of Nine wishes to emphasize that the structural reforms needed in a particular country are not necessarily all those contemplated by the Charter, nor are they the only ones. Latin American countries and public opinion have centered their attention exclusively on two of the most important: land reform - generally limited in the public's view to the problem of land tenure - and tax reform. The fact is that the problem of reform is much more extensive, since in some countries the lack of development capacity may stem from the fact that all the administrative machinery is inadequate, or from the basic characteristics of the educational systems, or from the structure of governmental or private enterprise.

86. In the opinion of the Committee of Nine there is one reform essential to the success of the Alliance: if there is a true desire to give national support to development programs, it is necessary to aid in the organization of workers and to assure them, in the best way possible, of being able to share in development activities and in their results. In this regard, the programs should make adequate provision for these basic forces to play a role in keeping with their importance to development, both on the national and on the international level.

d. Domestic effort and external aid

87. Structural reforms suited to the particular conditions of each country constitute a principal element of its domestic effort. The countries that signed the Charter have agreed that programs should "be based on the principle of self help - as established in the Act of Bogota - and on the maximum use of domestic resources, taking into account the special conditions of each country." ^{11/}

88. The evaluation of the effort made by a country to mobilize additional domestic resources is one of the more delicate and complex tasks of the respective ad hoc committee. It seems only fair to expect that the closer a nation's domestic effort comes to the maximum attainable for the simultaneous advancement of economic development and social progress, the greater should be the external aid given to it. One way of assessing domestic effort is by its acceptance and application of the necessary reforms. Another is the adoption of a price and wage policy that, while permitting increased consumption by low-income groups, prevents average per capita consumption from growing at a rate higher than the increase in income, in order to achieve adequate investment rates. Another fundamental expression of domestic effort is the obtaining of revenue from high-income groups through a progressive tax system and through limiting the consumption of luxury items.

89. The importance of this evaluation stems from the fact that it is directly related to the total external aid required to implement the program. The Committee of Nine believes that external aid should be based on domestic effort rather than on variables such as population and income. The greater the domestic effort, the greater will be the country's absorption capacity. Therefore, all measures tending to increase domestic effort will be directly conducive to increasing the external aid that can be effectively used to reach the goals considered as acceptable within the program. External aid will be especially useful when it acts as a catalytic agent for multiplying the domestic savings effort and mobilizing additional investments.

90. Considering that a substantial part of the domestic effort (frequently over 60 percent of the investment) is made by the private sector, both national and foreign, the measures required to induce its participation should be an important part of the policy of the national development program, and the respective ad hoc committee will have to pay particular attention to this.

11. Charter of Punta del Este, Title II, Chapter I, paragraph 2.

e. Some other important criteria

91. In the plans analyzed so far, existing studies on the size and quality of the work force available and that called for in the program are inadequate for establishing the criteria on which to base the selection of the most advisable investment projects. And yet, one of the decisions of greatest importance in development policy is that which forces a choice between "maximizing" production and "maximizing" employment. This is one of the most obvious conflicts between the economic and the social. In an underdeveloped country it is extremely difficult to choose the correct solution and it seems impossible to establish a criterion of general validity. In a long-range plan, however, guidelines for this purpose are absolutely indispensable if the inequalities of income and of opportunities between the employed and the unemployed, between the urban labor force and the rural, etc., are to be reduced.

92. A similar concern and one that has a decisive effect on the quality of the available labor force, especially for the future, is education. If the main purpose of a modern society is to offer equality of opportunity more than equality of income, free access to all levels of education is the most basic way to achieve such a purpose. Generally, this is the field of social investment that should receive the greatest consideration in development programs.

93. Throughout this study, there has been repeated mention of the importance attached to regional integration as one of the most effective measures for accelerating economic growth. The Committee is of the opinion that particular preference should be shown for those projects proposed by the countries as a part of their national programs that are especially focused on regional integration. The Committee also believes that special recommendations for preferential aid should be given to transportation projects that would reduce the cost of trade between the countries of the area, as well as to communications projects that would facilitate relations between those countries, and, in general, to all those that would tend to aid the advancement of the common market or that would be significant as complementary efforts.

94. The adaptation of the administrative machinery to put the program into operation should be an important element of each country's policy. The recommendations prepared in this respect should receive special attention, for in most cases, the successful execution of the program fundamentally depends upon the existence of suitable administrative machinery.

95. Finally, with regard to specific projects, the programs studied thus far do not generally indicate the criteria for selecting alternative projects. Although this is due in many cases to the scarcity of projects or to the need for eliminating existing bottlenecks, the Committee believes that these criteria should be established as essential bases for evaluating the validity and feasibility of the programs. Such matters, however, are concerned with the technique of planning and are outside the scope of this report.

V. CONTRIBUTIONS OF EXTERNAL CAPITAL AND TECHNICAL ASSISTANCE

96. The main purpose of an ad hoc committee is to evaluate a national development program, to propose advisable changes within the limitations established by the Charter of Punta del Este, and to make the recommendations needed to carry out the program. The most important part of such recommendations is the determination of the kind and amount of external resources required by the program. These resources refer on the one hand to technical assistance and, on the other, to the external financing that the country needs in the form of investments, loans, and grants.

97. The importance of technical assistance in carrying a program forward is evident. To appreciate the urgency in obtaining it, one needs only to keep in mind the reforms that in some way require the cooperation of specialists who must frequently come from the outside, and the necessity of preparing a sufficient number of specific projects, which often cannot be done on schedule, even with all the technical ability available in the country. Although the point is outside the scope of this report, it is worth noting here that the problem of technical assistance is not so much a matter of quantity as of the quality of service rendered.

98. Foreign private investments consist of those made both by firms and individuals. Private decisions to invest cannot truly be classified as "external financing" in the ordinary sense of the expression within an aid framework. The amount of this investment will depend upon the characteristics of the country, its economic, political, and social situation, the guarantees offered to private capital in general, and the political climate in the Latin American area as a whole.

99. The balance of foreign funds reaches the countries in the form of credits and grants. The latter, which have a high social value, frequently represent a small fraction of the needs of the respective program. The amount and the proportion of the grants should not necessarily depend on the nature and yield of the individual projects for which the aid is given, but rather on the requirements of the entire country program and the capacity of the country to contract debts. When this determination is made, the grants could then be assigned to social or other projects. These grants generally have a considerable impact in such sectors as education, health, research, and others. The promotion of aid in this respect should be sought within the Alliance, but it is beyond the activities of the Committee of Nine.

100. In matters of external financing, the Act of Bogota and the Charter of Punta del Este decided on a radical departure from traditional methods. The changes can be summarized in the following points:

- i. Possibility of financing by programs and not in an isolated way, by individual projects;
- ii. Possibility of obtaining more loans for longer terms and at lower interest rates; and even of receiving subsidies, especially for social investments;
- iii. Possibility of obtaining financing on flexible terms and conditions, which would include the repayment of loans in national currency, especially when this is advisable because of the balance-of-payments situation; and loans to cover local expenses.

These new methods of financing should be analyzed separately, with reference to their significance and to the existing operative instruments for developing them, along three main lines: a. volume, b. continuity, and c. flexibility.

101. The external financing of a national development program can and must be greater than the sum of foreign money needed to finance the individual projects of which it is composed. Development programs generally presuppose an increase in the total volume of investments over that which the country has been experiencing. Through the so-called "multiplier effect", this increase in investment creates an increase in national income and, consequently, in the total demand for goods and services. Only one part of this increase in demand can be satisfied by domestic production; the rest is usually covered by greater imports and less exports. This causes a greater upset in the balance of payments than that caused by the outside factor of additional investments. For this reason, external financing must cover not only the direct external costs of the investment program, but also the indirect external costs and their secondary effect on the balance of payments. To meet this need, financing agencies are following two courses: one is that of broadening the definition of external costs to include the purchase of equipment and of intermediate goods produced in the country; and the other, of financing the costs of a project in their entirety, whether they are external or internal, that is, financing not only the costs in foreign currency but also those in local currency. In both ways, but more fully in the latter, external loans allow the country to finance internal costs without resorting to credit expansion and place at its disposal a temporary surplus of foreign exchange with which it can finance additional imports (raw materials, fuels, work tools or supplies, etc.) resulting from the investment program.^{12/}

102. Because of its continuity, among other things, program financing is fundamentally different from project financing. In the case of program financing, there is no attempt to cope with an urgent situation (emergency credits) or to build certain works whose ability to yield a return has already been demonstrated (financing of projects), but rather to carry out a sustained effort whose full value will be evident when the program can be completely carried out. To do this, the countries, besides making a great effort throughout the program, must create the legal machinery that will permit giving continuity to financing from the public sector. At the same time, it is undeniable that those who have committed themselves to contributing the external aid required, must also give assurance that such collaboration will continue throughout the time that the program is in operation.

12. *These principles have been recognized in theory and sometimes in practice. As an example, on page 10 of the Fifth Annual Report of the International Bank for Reconstruction and Development, 1949-50, the following statement is made: "The Bank recognizes that a country may be in a position where its domestic savings are reasonably fully employed in productive investment and where the most advantageous kind of additional investment for it to make would be in such projects as roads, irrigation or housing which call principally for expenditure in domestic currency. If this investment is likely to lead in a few years to a correspondingly higher level of domestic savings, the provision of foreign exchange to finance the indirect foreign exchange requirements would serve to tide the country over the period of expansion without inflation. Provided that the expansion of investment activity is in line with the natural growth of the country and does not cause undue strain in particular sectors of its economy, loan for this purpose would generally be justifiable."*

103. Since almost all of the countries in the area have serious foreign exchange problems, most of the credits available in the next few years should be granted through a reasonable combination of conventional terms and "soft" loans, so that the debt service does not exceed the capacity of each country. If financial aid is granted by a group of institutions and countries, the different kinds of credits should be suitably distributed among them, with no assumption that all of the "soft" loans should come from only one source.

104. Although Alliance funds should be used to finance programs only in accordance with the standards of volume, continuity, and flexibility described, it is conceivable that for some time the agencies in charge of the Alliance will continue considering financial aid for individual projects. Nevertheless, the Committee of Nine is of the opinion that the agencies financing the Alliance should encourage the countries to program their development and should give priority and even more flexible terms to projects that are part of over-all plans. Thereby, the programming concept will be strengthened and a distinction drawn between the countries that make this effort and those that are reluctant to do so. Indeed, the Charter establishes that a development program is an inescapable requirement. It should be noted that Public Law 87-195 of September 1961 authorized the President of the United States to make loans for promoting the economic development of the less developed countries and emphasizes assistance for long-range plans and programs. This principle might also be applied by other financial institutions connected with the Alliance program.

105. Financial aid provided in accordance with the new forms stipulated in the Act of Bogota and in the Charter of Punta del Este may encounter some problems in the statutes of the international institutions, which fail to give specific authorization in two principal matters:

1. Ability to make financial commitments for the length of the programs, or at least, for several years; and
11. Ability to undertake over-all financing by programs and not just by specific projects.

This situation may be due to the fact that the statutes of the financing agencies were issued before the Charter of Punta del Este. The matter should therefore be looked into with reference to such financing agencies as the Agency for International Development, the Export-Import Bank, and other cooperating entities of the United States Government, as well as the Inter-American Development Bank. Unless these difficulties are overcome, it will be impossible to obtain financing in the form required by the development programs, and it will then be necessary to use intermediate less effective forms, or to continue the procedure of financing programs by selected, specific projects, thereby impeding the broad use of financing based on the standards of flexibility and continuity established in the Alliance.

106. With respect to the total amount of financing recommended by the ad hoc committees for the respective countries, it is the opinion of the Committee of Nine that each recommendation should be based on the needs of the program evaluated, and not on an estimate as to what portion of external aid required for the whole Latin American area should be assigned to a particular program. The Committee's opinion is based on the fact that the Charter proposes certain objectives, without placing any limit on the external aid that might be required to achieve them.

107. The figure of 20 billion dollars mentioned in the Charter of Punta del Este is only illustrative. Title II, Chapter I.4, says that "in support of well-conceived programs, which include the necessary structural reforms and measures for the mobilization of internal resources, (it will be necessary that) a supply of capital from all external sources during the coming ten years of at least 20 billion dollars be made available to the Latin American countries, with priority to the relatively less developed countries." Moreover, in Title II, Chapter IV.2, in order to supplement the domestic efforts of the countries whose development programs establish self-help measures and economic and social policies consistent with the goals and principles of the Charter, the United States committed itself "to allocate resources which, along with those anticipated from other external sources, will be of a scope and magnitude adequate to realize the goals envisaged in this Charter."

108. Finally, the Latin American countries are known to feel strongly that the operating machinery of the Government of the United States - principal contributor of the foreign aid contemplated by the Alliance for Progress - is inadequate to handle the practical administration of financial assistance that may be granted. Although the orderly execution of a plan will obviously eliminate most of the difficulties involved in processing emergency loans, which by nature are urgent, the Committee believes that a careful examination of the matter should be made, both by the institutions granting the aid and by the countries receiving it, in order to simplify administrative regulations and lessen the difficulties. The Committee suggests that one way of accomplishing this might be to give more power of decision to the AID missions in each country. The Committee of Nine stands ready to cooperate in the study and solution of this problem in whatever way is considered most advisable.

PART III

THE ALLIANCE FOR PROGRESS: A GENERAL EVALUATION

I. IS THE ALLIANCE IN A STATE OF CRISIS ?

109. In the two preceding parts of this document, the work done by the Committee of Nine and the various ad hoc committees so far established has been analyzed. For this purpose, attention has been given to the organization and system of work adopted, the defects and difficulties encountered, the weaknesses of the plans themselves, the principal criteria employed in evaluation, and the problems of external financing for which solutions must rapidly be found. Necessary changes have also been suggested in the organization and functions of the Committee of Nine and the ad hoc committees, which, in accordance with the experience already gained, would better fit them to carry out efficiently the task assigned to them. But are the problems facing the Alliance for Progress due solely to defects in that machinery? Clearly not.

110. Are there really many difficulties in the path of the Alliance for Progress? Reading the editorials in the most important newspapers of the hemisphere, listening to the opinions expressed in the national congresses, judging from the comments made by the responsible leaders of economic activities or enterprises in all the countries, noting the scarcity of favorable expressions of public opinion in the hemisphere, heeding the critical opinions expressed at the Conference on Tensions Affecting Development in Latin America, held in Bahia, and, finally, considering the skeptical or critical attitude taken by high government officials, one may well conclude that the Alliance for Progress is indeed encountering serious difficulties.

111. The Alliance for Progress was proposed by President Kennedy in March 1961. The Charter of Punta del Este was signed on August 17 of the same year, and the first administrative measures that brought it into being were adopted in December. The Committee of Nine was officially installed at the end of February 1962. In other words, the time spent for initiating a program of such complexity and scope was relatively short. It is of interest, therefore, to ascertain whether the difficulties encountered are only those inherent in putting the program into operation and whether the criticisms made are merely expressions of impatience. Those who participated in the Marshall Plan recall the skepticism with which it was received in the United States, and which continued even during the first few years of its execution. But this was not the case in Europe: there, the action taken had the support of the governments, the political leaders, private enterprise, and, what is more important, the people. That does not seem to be the situation in Latin America today.

112. The Alliance for Progress has not yet had the political and psychological impact that it should -- whether because the problems are extremely complex, because the situations of the Latin American countries are more difficult than they seem, because the program in itself does not have popular support, because external aid has not been as quickly effective as hoped, or because the governments are not in a position to fully carry out their obligations. In the face of this picture, an

urgent question arises: Is the Alliance for Progress in a state of crisis? And if it is, what caused it, and how can it be solved?

113. The Committee of Nine wishes to express an opinion on this matter and to indicate the measures that it feels should be adopted. If, indeed, its opinion is to be considered as a determining factor in the decisions made on external aid for the Latin American area, its responsibility for the over-all success of the Alliance for Progress will also be very great. For this reason, the Committee considers it its duty to point out what, in its judgment, has caused the present crisis, if it can be called that, and to propose solutions. No attempt is made in this document, however, to deal with the way the Alliance for Progress as such has developed in the various countries in the area, or with the part that the various organs and organizations of the inter-American system have been called upon to play in the work. These subjects fall outside the scope of the Committee and are dealt with in the various reports being presented to the IA-ECOSOC at its current meetings.

114. The Committee realizes that there is an element of artificial and calculated exaggeration in this "crisis". The Alliance for Progress hurts powerful political and economic interests, which have become aware of the transformations involved in the principles and aims of the program much sooner than the masses of the people, most of whom are poorly informed. These interests defend themselves by attacking the Alliance. Some of these attacks come from the ultranationalistic and extreme leftist groups that are opposed to participation by the United States in the development of the hemisphere, because they attribute to it aims of economic imperialism or political pressure. Other attacks originate in conservative groups that, in addition to seeing in the program a threat to their privileged positions, feel that a policy of structural reforms brings with it disturbances seriously affecting economic development, and that the mere announcement of the policy will provoke withdrawal of national and foreign private investments in the area. But whatever the origin of these attacks and the artificial causes that are exaggerating the "crisis" of the system, there is no doubt that there is a crisis to some degree, and it is essential to examine the causes of it.

II. THE POINT OF DEPARTURE

115. Once the imbalances that World War II produced in the area were overcome, Latin America seemed to be starting a period of vigorous development. The reconstruction of the devastated countries and the readjustment of national economies, even of the countries that did not directly suffer the effects of the war, resulted in a growing demand for the exportable products of the Americas and a considerable improvement in prices. From 1950 to 1957, the gross domestic product of Latin America increased at a cumulative annual rate of 4.9 percent.^{13/}

116. About 1957, however, there was a severe drop in the prices of primary products, which constitute the bulk of the exports of the countries in the region. The terms of trade went down from a base index of 100 for the four-year period 1950-53 to 97 in the four-year period 1954-57 and to 84 in the period 1958-61. This deterioration

13. The economic statistics in this section have been prepared on the basis of the Economic and Social Survey of Latin America, 1961, prepared by the OAS in cooperation with ECLA; the Statistical Supplement of ECLA's Economic Bulletin for Latin America (November 1960 and November 1961); and the publication International Financial Statistics.

of the capacity to import weakened the region's economic growth to such an extent that the gross domestic product increased at a rate of barely 3.8 percent, which amounts to a per capita growth rate of only 1.2 percent. In several countries, the reduction of the rate of growth was such that per capita income actually declined.

117. The feeble growth of the Latin American economy in the last five years and the continuing population explosion have produced serious imbalances, such as widespread unemployment, a decline or insufficient rise in real wages, very little increase in the purchasing power of the low and medium-income groups, and, in general, a lack of dynamism in development, which has aggravated the effect of the drop in the prices of primary products. As a result, economic and social tensions have become more acute, and this has been reflected in the marked instability of political regimes in Latin America.

118. During the last few years there has also been a considerable decline in the volume of foreign investments in all the countries, as a natural reaction to the political and social instability and because of lack of interest on the part of foreign capital in investing in operations producing raw materials whose prices have been falling. With this, the balance-of-payments deficits have become larger and there has been a decline in the total volume of investments, in which foreign savings -- in the form of net contribution -- had in some years been a positive factor. The increase in certain lines of foreign credit has been completely insufficient to compensate for the deterioration of the terms of trade and the lessening of foreign contributions in the form of private investments ^{14/}

119. The Alliance for Progress Program has been drawn up as a solution to the problem of Latin America's low level of development, at a time when the hemisphere is undergoing one of its most severe economic crisis. This program, as it has been conceived and accepted by the signatory countries, requires that the domestic effort be increased to the highest possible level. In practice, this means reforming structures that prove inadequate for the aims of the plan and establishing a policy that will guarantee that this effort will be made. Naturally, it is very difficult for the governments to gain greater sacrifices by their peoples at a time when they are undergoing economic difficulties.

120. In other words, the point of departure of the Alliance for Progress is in itself the first obstacle. It is true that the initial stage of a national development program requires a general viewpoint of "austerity," but it also means more activity, more and better employment opportunities, and so on. There is, however, a primary political difficulty facing the governments with regard to doing their part in the Alliance for Progress.

121. In large part, this political difficulty stems from a false representation of the Alliance. The program has been presented to the people, not in its true

14 The loss in the value of Latin American exports, because of the change between the prices prevailing in the four-year period 1958-61 and those of 1950-53 is estimated, at roughly 1.5 billion dollars a year. This figure is not intended as a quantitative measure of the crisis but rather as an illustration of its importance, since it must be recognized that a comparison with the maximum prices somewhat exaggerates the drop. The gross reserves of gold and foreign exchange fell between 1957 and 1961 by approximately one billion dollars, or 26 percent of the 1957 level.

perspective as a multilateral cooperative effort, in which self-help plays the main role, but as a vast plan for aid by the United States. The image thus created cannot give the people incentives for action and therefore cannot engender the public support to enable the governments to initiate activities tending to solve the problem.

III. THE ALLIANCE FOR PROGRESS AS A SOLUTION TO THE PROBLEM OF UNDERDEVELOPMENT

122. In a certain respect, underdevelopment is an absolute concept. Countries that cannot attain certain minimum levels of essential consumption and cannot progress on their own are underdeveloped. In order to emerge from the stage of "underdevelopment" a country must attain a level of income and a margin of savings that will generate a cumulative and autonomous process of growth, with the country's own resources, and which will proceed at a satisfactory rate, without sudden or serious institutional disturbances. But, more than an absolute concept, underdevelopment is a relative one. The proof of this is the great variety of situations and circumstances found among the underdeveloped countries. So long as the process of the developed nations, expressed in the rate of growth of per capita income, is greater than that of the underdeveloped nations, the latter will remain underdeveloped even if their per capita income doubles or triples. At Punta del Este, it was estimated that the minimum rate of sustained growth of income that would permit overcoming the condition of underdevelopment was 2.5 percent per capita per year. The achievement of this rate, which, in view of the low income level of the Latin American countries in general, might seem a rather unambitious goal, would, in fact, be an ambitious one if maintained for a long period, say for the next ten years.

123. To reach this goal, the Charter of Punta del Este proposes over-all action on three main inter-related fronts (see paragraphs 31 and 32 of this document):

- i. national economic and social development programs;
- ii. economic integration; and
- iii. defense of basic export products.

124. It is important to recall briefly the aims pursued in each of these fields and to examine the means of action that should be mobilized to achieve them. It will thereby be possible to determine the reasons for the difficulties encountered by the Alliance and for its slowness in getting underway.

125. In signing the Charter, the countries of the hemisphere signified their agreement on a plan for over-all action to attack the problem of underdevelopment simultaneously on all the fronts indicated by the Latin Americans to be necessary. The Charter is the embodiment of a Latin American aspiration. Its content is fundamentally based on a report prepared by a group of experts named by the Organization of American States in June 1961, but all of the basic points in it are similar to those presented and defended earlier by Latin American government officials and leaders.¹⁵ In this connection one must remember "Operation Pan America," proposed by Presi-

15. "It would not be necessary to make a recapitulation of the origins of that movement. Not only are they remote but they have roots in all our countries, whose chiefs of state, foreign ministers, or delegates to meetings of the UN or the OAS have expressed themselves or adopted firm positions in the same direction of what is today called 'Operation Pan American' (Doc. OEA/Ser.X/13.1.1, 'Operation Pan America and the Committee of 21')."

dent Kubitschek in August 1958, which contains almost all the principle elements of the Alliance: the preservation of democracy, multilateral and long-term effort to overcome underdevelopment, international financial and technical aid, the defense of basic products, encouragement of regional markets, fiscal and tax reforms, and so on. Even earlier, at the Fourth Extraordinary Meeting of the Inter-American Economic and Social Council, held at Quitandinha, Brazil, in November 1954, a document prepared by the Secretariat of ECLA was submitted for consideration. This included, in addition to a preliminary report by the secretariat itself, an interesting statement by a group of distinguished Latin Americans with basic ideas for the development of Latin America in the fields of economic programming, external financing, defense of basic products, and on the creation of an advisory group on economic development. This is a valuable forerunner of the principles and machinery adopted in the Charter of Punta del Este.^{16/}

126. The Charter establishes the concept of planning as an instrument for the development of national economies. The idea of such planning has been accepted by Latin America, urged for many years by ECLA, and given practical expression in some countries in varying degree. In signing the Charter, the United States (which had previously been reluctant to accept this idea, possibly because of the success of its own development without systematic planning of an over-all nature) recognized the necessity of an orderly, balanced effort, with strict criteria for priorities in order to speed the development of economies the resources of which are scarce, as is the case of the Latin American countries.

127. The Alliance recognizes that, in order to mobilize the resources of those countries, it is necessary to carry out structural and other reforms varying in nature, scope, and urgency from country to country. Among these is agrarian reform, which means an active policy of development of the land. Agriculture is the principle means of livelihood for sixty percent of the population of the area, but its production has shown a cumulative annual increase of only 2.4 percent during the last five-year period (1957-61). There is a need for tax reform that will produce larger revenues and a fairer distribution of the tax burden, in order to enable the public sector to make the investments in infrastructure essential to development and to meet the most imperative social requirements. Both quantitative and qualitative reform is called for in education, to make possible the education of the masses and the cultural and technical training of people at all levels. In Latin America, approximately 45 percent of the people over ten years of age are illiterate, and our educational systems generally do not provide what is needed for the development of a modern society. Reforms in labor legislation, in the system of justice, and in education are prerequisites for equality of opportunity, which is the principal incentive for development and the basis for a democratic society. Administrative reform must fit the general machinery, institutions, and procedures for new functions called for by the more rapid development that is sought.

128. These are basically Latin American ideas. It is Latin America's government leaders, economists, sociologists, and thinkers who have pointed out the obstacles to development created by certain present conditions. Some U.S. students of Latin American affairs have also made observations on these points. But Latin

16. See the document entitled "International Cooperation in Latin American Development Policy," Doc. E/CN.12/359, United Nations, New York, 1954. The Latin American Group was composed of Messrs. Eduardo Frei (Chile), Evaristo Araiza (Mexico), Cleantho de Paiva Leite (BRAZIL), Carlos LLeras Restrepo (Colombia), Rodrigo Facio (Costa Rica), and Francisco Garcia Olano (Argentina). The group also had the technical advisory services of Jorge Sol Castellanos and Paul Rosenstein-Rodan.

America is not used to seeing the United States as either a "revolutionary" or a "reformer" in economic and social matters, even though many of these "revolutions" and "reforms" have already been carried out in that country as a logical result of its historical evolution. The "image" of the United States held by Latin Americans is something else, and is influenced by the past history of political and economic relations between the United States, as a world and industrial power, and the Latin American countries, as weak nations producing raw materials that are highly dependent on the United States market. This is why the reform program of the Alliance, which has the support of the United States, is looked upon with skepticism and incredulity by broad sectors of the Latin American population.

129. For many years, Latin America has asked that investments for social purposes also be considered in financial aid programs. For some time, technical assistance has been received in this field, but it was only starting with the Act of Bogota, signed in September 1960, that the countries of the hemisphere committed themselves to act jointly for the simultaneous solution of economic and social problems. It was decided at Bogota that financial aid would also be made available to deal with social problems and that the highest priority would be given to the satisfaction of social needs, through tax reform, land distribution, and education, health, and housing programs. The change of attitude on the part of the United States in this regard began to be evident with its support for the creation of the Inter-American Development Bank and the channeling of some of the credits available for Latin America through a regional agency in which, moreover, decisions are taken multilaterally.

130. The Charter recognizes as an economic goal an average annual cumulative rate of growth in per capita income of 2.5 percent, over a period of ten years, to be achieved simultaneously with a substantial improvement of social standards in such fields as education, health, and housing. A considerable and sustained effort is required to attain these goals. The gross domestic product would rise from 65 billion dollars in 1962¹⁷ to 106 billion at the end of the decade, in 1971. The total gross investment, very roughly estimated -- partly on the basis of the plans examined by the Committee -- would reach a level of between 140 and 170 billion dollars. This represents a considerable investment effort and must be substantially complemented by foreign savings. The figure mentioned as a minimum contribution from all external sources will undoubtedly be surpassed, to the extent that the Latin American countries present solidly worked out development programs reflecting the size of the domestic effort. But in any case, the statement that the principal responsibility for the effort is and should be Latin America's still stands.

131. Under the terms of the Alliance for Progress, the national economic and social development programs may or may not be submitted for evaluation by an ad hoc committee, as each country freely decides. However, if the Charter of Punta del Este is interpreted according to the terms of its fundamental philosophy of cooperative effort in the pursuit of common objectives, and if the value of the operation of the multilateral machinery within the Alliance is recognized, it is not difficult to conclude that examination of all the national programs by ad hoc committees is a desirable goal, consistent with the spirit and the basic philosophy of the Charter.

132. In any event, it is advisable to recall that examination and evaluation of a national development program by a group of independent experts is also a Latin American idea. It was first presented to the countries of the hemisphere for consider-

17. In terms of 1961 dollars.

arition by the Latin American group mentioned on page 34 of this document in the report that the secretariat of ECLA submitted to the Inter-American Economic and Social Council at its meeting at Quitandinha in November 1954.^{18/} Later, the idea was proposed in the report prepared by the group of experts on development planning, which submitted the report that served as a basis for the Charter of Punta del Este.^{19/}

133. The system proposed in the Charter, based on the Panel of Nine and the ad hoc committees, was extensively analyzed in Parts I and II of this document. But it is important to point out here that the system of ad hoc committees, as it was originally conceived -- and as it could do still better if certain suggested changes were made -- fulfills two additional purposes, namely:

1. By making external financial aid a cooperative and multilateral effort, it eliminates or considerably reduces the difficulties that accompany such aid when it is treated as a bilateral arrangement between the country aided and the United States, or between the country and certain financial groups.
- ii. In examining each national program within the broader framework of the needs and possibilities of the region as a whole, the Committees achieve one more step toward the essential objective of working together for the development of a Latin American common market.

It is essential to emphasize that the concept of multilateral effort is perhaps the part of the machinery whose improvement should interest the Latin American countries most. More important than the multilateral organization itself is the multilateral attitude or spirit that the Charter proposes. Actually, the present machinery should be seen as one of "bilateral arrangements within the framework of a multilateral agreement." But it would be essential for the countries to be able to feel and express their collective responsibility for the success of the program, since the purposes of the Alliance for Progress cannot be wholly fulfilled within the narrow framework of one or a few countries of the hemisphere.

134. The inclusion in the Charter of the idea of economic integration as "essential to accelerate the process of development in the Hemisphere . . . (and) an appropriate means for obtaining greater productivity through specialized and complementary industrial production which will, in turn, facilitate the attainment of greater social benefits for the inhabitants of the various regions of Latin America"^{20/} is also a fundamental step in the consolidation of Latin American ideas on the most efficient way to achieve progress in the area.

135. For many years, the Latin American countries have been seeking bases for regional economic integration. This movement began to take definite shape with

18. *Op. cit. Recommendation No. 8 of the Latin American group, entitled: "Creation of an Economic Development Advisory Board"*

19. *Report of the Group of Experts on Planning for Economic and Social Development in Latin America, OEA/Ser.II/X.1, ES-RE-Doc.4, Rev., June 1961.*

20. *Charter of Punta del Este, Title III.*

the series of studies and reports that led to the signing of the Central American Treaty on Free Trade and Economic Integration in June 1958. This has been complemented by other later important agreements that have made possible the establishment of the legal and institutional bases for carrying out joint projects of general interest, increasing intraregional trade, broadening the common market vis-à-vis other countries, making progress in industrial integration, and advancing on the path to integral development of the Central American isthmus. Geographically, the broadest effort at integration has been the creation of the Latin American Free Trade Association (February 1960). Even though the United States vigorously aided the formation of the European Common Market, it maintained a passive and hesitant position regarding the first efforts toward integration of the Latin American republics.^{21/} The recognition in the Charter that "the broadening of markets will . . . make possible the better use of resources under the Alliance for Progress" is an admission of all the signatory countries and particularly the United States, of the importance of action along those lines.

136. Finally, within the program of the Alliance for Progress, the Charter provides for dealing with the permanent problem of the defense of the markets for, and the prices of, Latin American's basic export products, and thereby it indirectly deals with the problem of the frequent deterioration of the terms of trade with respect to the developed countries of the world and the disequilibrium this produces in the balance of payments. It is obvious that, so long as the economies of the Latin American countries depend to a large extent on one or two basic export products, the supplementary foreign savings that will be necessary to maintain a given rate of investment within a development program will depend basically on the conditions prevailing with respect to those products in the international markets. In a way, the possibility of carrying out a national program depends much more on the anticipated knowledge of how foreign-exchange earnings will vary than on a high temporary level of export prices.^{22/}

137. It is easy to conclude, from this rapid review of the basic aspects of the Alliance, that none of the earlier programs of international cooperation had stated the problems afflicting Latin America more accurately or with greater understanding. Nor had any of them approached the problem in such an all-inclusive way or included among means of action so many solutions that incorporate the thinking of government leaders and statesmen of Latin America. The objectives of the Alliance for Progress respond to the most deeply felt needs of the people of Latin America. Nevertheless, an atmosphere of criticism and difficulty, a feeling of frustration, and a sense of "crisis" have grown up around it. Why is this?

21. "At the same time, the United States, discarding historic attitudes and policies, vigorously supported the development of common markets in Latin America in the belief that wider market potentials would speed economic development and increase the credit worthiness of the participating nations." (Milton Eisenhower: *The Alliance for Progress: Historic Roots*.)

22. "For this reason I have said on many occasions, and I here repeat, that for Colombia, as for the majority of the Latin American countries, the greatest contribution that the Alliance for Progress can make is the long-term world coffee agreement. So long as that is not forthcoming, the aid given us, no matter how generous, will not be a blood transfusion to vitalize our economy as was planned, but a mere tranquilizer to prevent complete collapse." Jorge Mejía Palacios: *Address given at the Third Annual Meeting of the Board of Governors of the IDB (April 1962)*

IV. CAUSES OF THE "CRISIS" AND POSSIBLE SOLUTIONS THEREOF

a. Ignorance of the Latin American origins of the Alliance and of its significance as a cooperative effort

138. The Latin American man in the street is at present of the opinion that the Alliance for Progress is a United States program. It is true that this program, under the name of the Alliance for Progress, was presented to the countries of the Inter-American system, for their consideration, by President Kennedy's administration. But all of its underlying philosophy, the principles and methods it brings into play, and the goals it pursues constitute an integrated body of proposals, which in different forms and on different occasions have been advanced by Latin Americans, and for which their governments and leaders have fought for many years. The Alliance for Progress is not a program imposed by the United States upon Latin America, but an aggregate of Latin American ideas accepted by the United States.

139. Recognition of this fact in no way lessens the credit due President Kennedy and his government for accepting these ideas and giving them their country's support. On the contrary, it shows their sensitive perception of the hopes of the Latin American people. The United States has put its prestige behind the Alliance for Progress, has assumed responsibility therefor, and has taken the initiative in obtaining external support for the undertakings that it entails. This attitude of firm support has paradoxically created the false image of the program as referred above.

140. The Alliance is not a foreign aid program of the type undertaken in behalf of a country or area that has been ravaged by disaster. Neither is it a matter of some countries giving and of others receiving. The Alliance for Progress purports to be what its name indicates: an association in which the members mobilize their resources for accelerated progress. The Latin American countries are and must be the principal actors in this program, and it is essential that the people understand this to be the case.

141. The Charter clearly establishes who must take the initiative and do the most important work. The initiative is assigned to the Latin American countries, which must draw up action programs and mobilize their national resources to the maximum, and carry out the structural and other reforms that are advisable, according to their several abilities and circumstances. There is an element of time in this program, the possibility of shortening which lies essentially in the hands of those who have the initiative. So long as the program is a cooperative effort, rather than an aid program, no one can complain that he is not receiving the cooperation he deserves, if he himself has not exerted some effort of his own, which, as has been indicated, is the most important of all.

142. The lack of public support for the Alliance in Latin America -- support which would help eliminate many of its difficulties in getting a start -- is largely due to a misapprehension resulting from ignorance of the aims of the program. Many of the problems faced by the Alliance stem from lack of information. At the same time, the information given projects a false "image", based apparently on facts.

143. In spite of the fact that the Alliance is a program of Latin American

origin, and not one imposed by the United States, the people do not understand it so, owing, in part, to the politically skillful, self-seeking presentation of it by extremist parties. The Alliance for Progress program is represented as a political manoeuvre of the United States, identified with President Kennedy. The political leadership of the program thus seems entirely one-sided and not located where it should be -- in the Latin American leaders -- and where it would be if the governments and agencies of the Inter-American system were to put their prestige behind the program and thereby effectively act as the entities chiefly responsible for its conduct.

144. The Alliance is not a bilateral aid program, decisions on which lie solely in the hands of the United States. On the contrary, with regard to both its concept and the decisions for which it calls, it is a cooperative, multilateral effort, to be carried out through the mechanisms established in the Charter of Punta del Este. Indeed, the multilateral concept, as was pointed out earlier, is one of the fundamental principles of the Alliance. It means that external aid will be determined according to the actual needs of the countries and that these needs will be evaluated by impartial technical organizations. Again, it means that there will be no interference with the freedom of the Latin American nations to make their own decisions as to their economical and social orientation, within a democratic framework. Such multilateral action, in contrast with the traditional bilateral negotiations that generated so much political friction in the past, should be the chief reason for confidence on the part of the countries of the area that the Alliance is, indeed, an instrument of international cooperation for attacking at their roots the causes of underdevelopment in Latin America.

145. For the success of the Alliance, it is essential that this multilateral principle not be weakened, but that, on the contrary, it be continually strengthened by positive actions, so as to avoid creating a false image of the program. The multilateral principle would be considerably reinforced if the regional financial organization, such as the Inter-American Development Bank, were more widely used to channel aid, in a way similar to that employed in the case of the Social Progress Trust Fund. Also, it would be advisable that the special or emergency loans, which up to now have been the chief manifestations of the Alliance for Progress, be limited in size and in time, in order that external funds may be made available, in increasing proportions, following the procedures and mechanisms established in the Charter of Punta del Este and the Act of Bogota. In any case, if in the future these emergency credits are granted under the name of the Alliance for Progress, they should bear a distinguishing classification, inasmuch as they are not suited to the fundamental aims and long-term scope of the program, nor do they fit the conditions set forth in the Charter, as it was accepted by all the countries of the Inter-American system. In order not to create a false image of the Alliance, it is essential that no action unrelated to its principles be carried out in its name, particularly when such action constitutes the most important outward manifestation of the activities attributed to it.

146. For all the foregoing reasons, it is necessary to make the people of Latin America understand the true significance of the Alliance -- that it is a cooperative program, and not simply one of aid, and that it has been maturing for years in successive stages, culminating in Operation Pan America, the Act of Bogota, and the Charter of Punta del Este. Only when the people are aware of this significance and practical ways are found for making the Alliance a reality will the difficulties confronting it be effectively eliminated.

b. The Alliance for Progress is a revolution

147. The Alliance for Progress is intended to hasten Latin America's economic development. It recognizes that to achieve this end not only must there be a knowledge of the material work to be done and of the means available for carrying it out, but it is also necessary that specific aims be determined and obstacles standing in their way eliminated. The aims consist in raising the general wealth of the countries more rapidly than has been done in the recent past, and in attaining a more equitable distribution of this wealth among the members of the national community, at the same time preserving and improving the system of representative democracy. The obstacles are found chiefly in the social structures, when these fail to adapt to the new conditions that are sought.

148. In not all countries of the area do existing social structures obstruct achievements of the proposed aims. But it will be necessary to change the political structure when this fails to allow broad expression of the will of the national majority; the educational system, when this does not assure full equality of opportunity; the tax system, when it does not divert a sufficient amount of the national income to collective needs, and when it does not make for a fair distribution of the tax burden; the system of land tenure, when concentration of holdings puts a brake on the development of agricultural production and makes for an inequitable distribution of farm income; and social and labor legislation, when it hinders free expression by labor. If these structures must be changed, according to the circumstances and conditions prevailing in the country, it would be advantageous to make such changes quickly, in order that their benefits may soon be enjoyed. Any social change that is made quickly, instead of being allowed to evolve normally, is a revolution. The revolution consists of a change to a new state of conduct of affairs. The more numerous the social changes and the greater the area each covers, the more important will be the revolution.

149. This "revolutionary" quality is recognized by the United States. In his speech on the occasion of the first anniversary of his proposal for the Alliance for Progress, President Kennedy said: "For too long, my country, the wealthiest nation on a poor continent, failed to carry out its full responsibilities to its sister republics. We have now accepted that responsibility. In the same way, those who possess wealth and power in poor nations must accept their own responsibilities. They must lead the fight for those basic reforms which alone can preserve the fabric of their own societies. Those who make peaceful revolution impossible make violent revolution inevitable."^{23/}

150. The question once more arises: Is this revolutionary significance of the Alliance understood by the peoples of America? No, because the Latin American leaders have not presented it to their people in this way. But if the Alliance purports to be a democratic revolution, and if revolutions must be popular in order to be effective, the Alliance cannot flourish in the Latin American countries so long as its significance as a transformation is not explained and popular support for and participation in it are not obtained.

151. While the people have been unaware of the revolutionary significance of the Alliance for Progress, the forces opposed to reform, whether because they hon-

23. Quoted from President Kennedy's speech on the first anniversary of the Alliance for Progress, Washington, D.C., March 13, 1962.

estly do not believe them to be necessary at this time, because they fear an economic upheaval that would be overly dangerous for Latin America's present socio-political situation, or because they feel that their interests are being affected, have initiated a powerful campaign of resistance, which they are conducting through the information media they own or through the political sectors that represent them. The result of this situation is an attitude of considerable skepticism in many leading circles of both the United States and Latin America.

152. The opposition to reform follows three different lines of thinking:

- i. Reform as a prerequisite delays the Alliance for Progress.
- ii. Reform, as social change, discourages private investment, particularly foreign investment.
- iii. Before arriving at the planning stage, individual projects of nation-wide impact must be financed and carried out.

153. The first argument has already been dealt with in Section IV. c. of Part II of this document, where it is pointed out that it is a fallacy to think that reform is a prerequisite in all cases. The Committee of Nine believes that a serious study of the situation, bringing to light needed reforms and the means of putting them into effect, and indicating what socio-economic results are expected of them during the period covered by the program, plus a projection of those results over a period of several years, is sufficient for purposes of initiating a program. As was stated in paragraph 83, the reforms considered necessary for a country should form part of its development program.

154. With reference to the withdrawal of private capital, it should be remembered that in 1957 foreign investment reached its highest level, and that since that year, its volume has steadily declined.²⁴ This decline was accentuated by the general fall in prices of basic products exported by the area, by the expropriations in Cuba, and by the severe political disturbances of the last two years in countries that traditionally have been the largest recipients of foreign investments. As for the decline in domestic private investment and a probable increase in the rate of flight of domestic capital, these are due to the same causes as were indicated above. In other words, the withdrawal of private capital is a fact, but it occurred prior to the beginning of the Alliance for Progress and its insistence upon the need for structural reforms in Latin America.

155. At the hearings held recently by the Subcommittee on Inter-American Economic Relationships of the Joint Economic Committee of the U.S. Congress,²⁵ none of the many leaders of private enterprise called upon to make statements regarding the problems of the Alliance for Progress expressed any reservations regarding the social reforms; all they emphasized was the need to create greater stimulus for private initiative to assume a more important role in the program. Furthermore, some of these leaders strongly and frankly expressed their fear that neither the governments nor the present ruling classes in Latin America understood the urgency and importance of making the social changes involved in the commitments of the Alliance.

24. Investments in 1957 were especially high, owing to advance payments covering many years, made in connection with oil concessions in Venezuela.

25. "Hearings Before the Subcommittee on Inter-American Economic Relationships of the Joint Economic Committee." May 10 and 11, 1962.

156. Many of those who desire to postpone the execution of the reforms also want to delay the preparation of the national development programs. The connection between these two positions is obvious, since, when any over-all program is drawn up, the necessity for carrying out certain reforms in order to mobilize the national resources more effectively becomes evident. The same intent may have motivated those who suggest that popular support for the Alliance should be won by immediately carrying out certain isolated projects that would have a direct impact on the people. The Committee recognizes the merit of this approach, which has not been rejected by the financial organizations that deal with these problems. It believes, however, that, simultaneously with such transitional measures, steps must be taken and attitudes adopted that will make it possible, within a reasonable time, to prepare short, medium, and long-range over-all national or regional development programs to give true continuity and meaning to the country's effort and to the external aid that it receives.

157. The foregoing analysis indicates that the opposition to the reforms is based on invalid excuses. No one has publicly maintained so far that development programming and structural reforms are not necessary in order to achieve the aims of the Charter of Punta del Este. On the contrary, foreign observers have found wide agreement on these ideas in Latin America. For example, R. F. Mikesell has noted that "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."^{26/}

158. If the responsible authorities merely accept the reforms passively, they will not be carried out. If, on the other hand, they decide to act in accordance with what they recognize as necessary, the Alliance will acquire the revolutionary quality previously indicated.

159. Moreover, in order to be effective, the Alliance must be popular -- that is, it must have the support of the people. How is this to be gained? The first thing needed is to spread knowledge of its true characteristics, particularly in connection with reform. This task is the responsibility of the political leaders and of the information media. But that is not enough. In order for the masses to understand the Alliance as action by the people, they must feel not that they are the object of aid, but active subjects, with responsibility for the job to be done. What was pointed out above as a responsibility on the national level must also be considered an essential element on the individual level.

160. Unless the workers, the farmers, the students, the urban masses can feel that they have been invited to take part in the job of economic and social development for their own benefit, they will not consider themselves the object of real concern. The Alliance may have been conceived for them, but if it does not manage, by mobilizing their organizations, to cooperate with them, it cannot find the only solid foundation of support on which it can build toward its objectives. Furthermore, so long as the documents of the Alliance continue their laconic treatment of labor, the farmer, the student, and civic organizations in general, those sectors will remain skeptical of the announced intentions.

161. To emerge rapidly from economic underdevelopment is inevitably a painful process, but the technical progress achieved in our time can make it shorter,

26. R.F. Mikesell: "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 1962.

because it provides means that were nonexistent in the last century. Only if skepticism is eliminated, however, can this difficult effort be demanded of democratically governed peoples. For this purpose, they must be made a part of the process and given an opportunity to participate in the conception and execution of the national development program. All elements of society -- the government, businessmen, labor leaders, producers and consumers -- have a direct interest in some stage or in some aspect of the program. If they participate in the formulation of the goals and objectives, they will feel responsible for achieving them.

162. It is particularly important to create and give active participation to various kinds of social groups in programs that directly affect them and to which they can even make a financial contribution. Social programs, such as those in education, health, and housing fall in this category. It is particularly in these fields that the isolated projects of great psychological impact already referred to could and should be encouraged. But the Alliance for Progress should establish means of broader action in fields that touch the people, such as cooperatives (Inter-American Bank for Co-operatives) and Latin American universities to which aid should be given, if they so request. In general, it should promote all activities that in some way contribute to the solution of the many problems facing the basic community groups.

163. In order to assure this popular support, it is also essential to reform the legal systems, which in one way or another unduly restrict the organized expression of opinion on the part of the masses, regarding problems that directly concern them. An agrarian reform that does not allow the farm workers to organize for the protection of their interests, or a generalized statement on the desirability of a better distribution of income, which at the same time denies freedom of union organization, will not enable the Alliance for Progress to gain popular support, and thereby to achieve its objectives through peaceful revolution.

164. In view of the foregoing, the time element continues to play a fundamental role, particularly with reference to the pace of the revolution. Peaceful revolution is a speeding up of the normal evolutionary process, but peaceful revolution in a democratic society takes time. No effort is being made to force the countries to adopt reforms at an impossible rate of speed, which could create greater difficulties than those already existing. As Mr. Teodoro Moscoso so well put it, the problem is not to attain maximum speed in investments and reforms, but optimum speed.^{27/} This is what makes the difference between peaceful revolution and violent revolution; the latter certainly achieves maximum speed, but not necessarily the optimum.

c. The revolution needs ideology and leaders

165. As has already been said, the Alliance has a revolutionary significance. Therefore, to make it practically effective, the support of the people is needed. The responsibility for making the people of the countries understand the significance of the great tasks that they must perform is a political one.

166. The vanguard of these political movements must consist of those who are determined to "lead the fight for those basic reforms, which alone can preserve the fabric of their own societies."^{28/} The ideal would be for all parties with democratic

27. Teodoro Moscoso: "The Alliance for Progress--One Year Later," address delivered at the National Conference on International Economic and Social Development, Chicago, July 19, 1962.

28. President Kennedy: text cited, footnote 23.

roots, which are the ones that represent the vast majority in Latin America, to give their support to the Alliance, since, in order for it to be a democratic success, it needs an expression of majority backing. But such support cannot come from those forces that accept only the economic import of the Alliance and fail to recognize the importance of social change.

167. This does not mean that the Alliance must necessarily have just one mode of political expression in Latin America. It must be reflected in each country through the national interpretation of democratic political ideologies, in order to reach the people effectively. The solutions deemed necessary in the various countries must result from the free interpretation by each party or group of the best ways to achieve the aims of the Alliance, according to its own political, economic, and social thinking.

168. The Alliance, like every other revolutionary movement, needs an ideological content. For the mentality of the Latin American peoples, this is essential. Its interpretation is up to the political parties that are genuinely democratic. But its ideological content cannot be expressed merely in the general concepts of freedom and representative democracy. Those concepts are often far removed from the poverty-stricken, illiterate masses existing in most countries of the hemisphere, and in themselves, therefore, are not enough. Moreover, the Alliance and its aims must be directly associated with the basic organizations: labor unions, cooperatives, student federations, farm workers' leagues, etc. In other words, it is necessary to interest and mobilize the leaders working directly at that level.

169. The Alliance, like all other agreements among sovereign states, functions basically at the government level. The principle of nonintervention makes this not only a legitimate but an inevitable requirement. The national expression of the Alliance will to a large extent be that which the government of the country in question chooses to give it. The governments, first in the Act of Bogota and then in the Charter of Punta del Este, assumed commitments that in many cases they have found hard to carry out, because of the domestic difficulties confronting almost all of the Latin American countries. But these difficulties that stand in the way of achieving the aims of the Alliance for Progress cannot be eliminated if the governments, on their part, fail to take the responsibility for explaining to their countries the meaning of the Alliance and the great local effort it involves, in other words, if they do not provide the leadership required to execute a national program of accelerated development.

170. But the Alliance is also a multilateral and cooperative program. Its success is a matter of importance not to just one or several countries of the region, but to all of them. The difficulties it encounters are not restricted to the national boundaries of each country, but, in many cases are of general incidence. The nature and amount of external aid, of cooperation in the Alliance for Progress Program by the countries that do not belong to the inter-American system of trade in basic products, and of regional integration, these are some of the many multilateral aspects of the Alliance. Consequently, the program must find a collective expression so that the concept of multilateral and cooperative effort will become a reality.

171. An essential primary expression, which has not yet been forthcoming, should be made by the important Latin Americans, who have fought to bring into being the ideas contained in the Alliance for Progress, who believe in its significance as an instrument for rapidly overcoming our economic and social underdevelopment, and whose words are heeded throughout the hemisphere. These prominent individuals have a responsibility for leadership that they should assume.

172. The Alliance is a cooperative program. One of its partners has agreed to be the major contributor of the external aid required by the Latin American countries. This partner is, of course, the Government of the United States, which is meeting the problems of the program with its own agencies, directed by individuals specifically responsible for the progress of the Alliance. On the other hand, there is no equivalent Latin American agency that has assumed a similar role in dealing with the problems. Is it not necessary to seek a clear inter-American representation of the Alliance for Progress? The Inter-American Economic and Social Council is a mechanism that meets only periodically, at long intervals, so that it is unable to play this role. To make the Alliance significant on a multilateral and cooperative level, it would seem advisable to have a mechanism that could physically represent the Alliance in dealing with the great number of problems that it now faces and will face as a joint program.

d. The Alliance needs organization

173. There is no doubt that the Alliance needs organization. On the national level, this organization is a problem for each country, which will be solved through the institutional and administrative reforms deemed necessary by the national program. Planning needs not only the training of personnel -- for which, fortunately, necessary steps are being taken on national and inter-American levels²⁹-- but also sufficient technical assistance from abroad, and in this the Alliance for Progress should participate on a broader scale. But we must emphasize again that, in order for the development program to gain solid national backing, the drafting of the plans should not be confined to the closed circle of technical offices but should seek to interpret the aspirations and possibilities of the various sectors of activity in the country.

174. It was mentioned earlier that the Committee feels that it is urgently necessary to find an inter-American agency that would represent the Alliance for Progress as a whole. This would provide a center for discussing the problems of the Alliance with the United States (including not only the government of that country but also representatives of the public) and with the other capital-exporting countries that are able to contribute to these discussions. In this body, furthermore, other problems connected with the general aspects mentioned above could also be discussed and given timely attention.

175. It also seems advisable to consider the establishment of a mechanism for consultation that in some way would make it possible to determine and relate the activities of all the agencies of the inter-American system that are actively concerned with development problems and that today, to some degree, conflict with each other.³⁰ Among the entities that might be considered for this system of periodic and systematic consultations would be the OAS, the IDB, and ECLA, which today make up the only group of agencies that have made a start at coordination. To them should be added the Permanent Secretariat of LAFTA and that of the Central American Treaty on

29. Particularly, through the creation of the new Latin American Institute of Economic and Social Planning.

30. It is appropriate to quote here the comments of the Secretary General of the Organization for European Economic Cooperation Mr. Thorkil Kristensen: "I'm afraid that much is wasted because so many countries, so many agencies, are trying to do the same thing. We know that some of the less developed countries are so busy talking to people who give them advice that they have hardly time to do their work. So if we could coordinate our efforts to see to it that not too many people are trying to do the same thing --or still worse, the opposite things--in the same countries, then we could save some of our resources. And after all, good human resources, good brains, well-educated brains, are in short supply, even in Europe and North America."

See *Restless Nations, a Study of World Tensions and Development*, p. 107.

Economic Integration, as well as other regional organizations, AID, and the Committee of Nine. When advisable, representatives of industry, education, labor, and other inter-American or Latin American groups could be invited to these periodic meetings, in order that the consultative body might broaden its field of information with other viewpoints. The periodic meetings would be supplemented by a systematic exchange of information on those activities of each agency that, by their nature, should be generally known so that the purposes of the Alliance might be carried out more effectively. This consultative committee seems all the more desirable in view of the fact that the concept of the Alliance for Progress includes not only development programs but also other intimately related aspects, such as regional integration and the defense of basic products.

176. The organization of the Committee of Nine is the principal subject of the first two parts of this document, and it seems unnecessary to consider it further in this section.

177. There remains an even more significant question. Certain organizational steps have been suggested in this document that seem advisable from an operational standpoint, and particularly, from the standpoint of coordination. But it can still be asked whether, because of the dynamic implication, all the organizations and agencies of the Alliance for Progress will not need to be reviewed, in order to adapt them to this new stage. If there is room for suggestion here, the Committee of Nine would venture to propose that the governments consider appointing a committee, composed of individuals of recognized standing in the hemisphere, who with the aid of highest-level experts, could, within a maximum of six months, recommend advisable changes in all the existing machinery to fit it to the new tasks. If this is not done, it may be that we shall be trying to speed up economic and social development with tools adapted to other functions and another speed, and, unfortunately, it would not be worthwhile to be sure of winning the battle in the long run when only the short run can be counted on. As President Figueres said: "If we fail to deliver economic development democratically, the new generation now at the universities will try economic development at any political cost."^{31/}

178. The role of the United States in the success of the Alliance for Progress is certainly a decisive one, and its government so recognizes it. A complete reorganization of the administrative apparatus responsible for the operation has been undertaken and put into effect. Nevertheless, there is no doubt that policies and procedures are still to be defined, but this requires more experience and therefore more time than has so far been available. This is particularly evident if it is recalled that all aid, with the exception of that given to Bolivia, has been agreed to on the basis of bilateral arrangements and without complying with the more formal procedures indicated in the Charter.

179. Directly, owing to the two circumstances noted in the preceding paragraphs, namely, the fundamental role of the United States in the Alliance and its direct responsibility for the credits so far granted for projects, much of the criticism directed at that country has arisen from the slowness with which the loans are granted, and above all, from the administrative and operational obstacles that prevents timely use of the credits.

31. "The Alliance and its Political Objectives," by Jose Figueres, in *The Alliance for Progress—Problems and Perspectives*, edited by John C. Drieser, The Johns Hopkins Press, Baltimore, 1962.

180. In this respect, and as pointed out in paragraph 109, the Committee of Nine believes that many of these difficulties will be eliminated by instituting financing by programs. These, by their very nature, require continuity and flexibility, automatically demanding the establishment of simpler and more expeditious procedures than those applied to isolated projects. It seems advisable to repeat here that the success of an investment program requires that the preliminary plans and individual projects composing it be prepared sufficiently in advance and finished in time for the financing to be negotiated with the national or foreign agencies that are to cover all or part of the costs. It is also essential that once the works are started, they proceed reasonably on schedule, with no interruptions or delays other than unavoidable ones. Promptness in meeting the schedules set for the preparation, conclusion, approval, financial negotiation and actual execution of the projects composing the program is in itself essential for the plan to develop properly, and is also a necessary condition for maintaining a regular and uninterrupted flow of external financing.

181. In any case, the situations mentioned must be remedied in order to reduce criticism as much as possible, since this tends to discourage and frustrate the public and thereby to counteract the important successes achieved. The Committee wishes to make some suggestion in this respect:

- i. The exact bases and conditions for the aid that it is agreed to grant should be made public, with no limitations other than those necessary to avoid prejudicing the economy of the country. All reservations and conditions that are kept from the public or that are presented to it incompletely or in a biased way adversely affect the international policies of the country. This the Alliance should seek to avoid.
- ii. The prerequisites that must be met before the credits are made operable should be reduced as much as possible, with the clear understanding that, if such requirements are not satisfied within the term specified for the use of the loan, the aid can be discontinued.
- iii. Testing for technical and economic feasibility should be reserved for the more important projects, on the assumption that decisions on projects, works or activities of lesser importance can adequately be based on the good judgment of the governments and the officials involved in the program. Also, global credits for medium-sized and small projects might be established on terms that will permit them to be carried out appropriately, requiring only that there be justification for the projects, in order to obtain the disbursements when needed.
- iv. Greater powers of decision and control should be given to AID missions in the respective countries, and wherever advisable, the technical help that they may need should be increased.

182. The Committee understands perfectly that these decisions are the prerogative of the Government of the United States, but considering this country's part in the Alliance, the Committee wishes to call attention to the need for the Import-Export Bank and AID to try, insofar as Latin America is concerned, to adapt themselves in some way to the possibilities and needs of the Latin American countries.

183. As of the time that external aid for development programs is considered as a multilateral effort, in which several countries and a number of international financing institutions are to participate, it would be advisable to hold periodic meetings to coordinate the work of all participants in the external effort. At these meetings, the information required from the countries would be received and there would be an exchange of all the participants' experiences. It is conceivable that when these meetings are held in the respective countries, the participants could include the chiefs of AID missions and the local representatives of the OAS, the IDB, the IBRD, the IMF, the United Nations and its specialized agencies, and if pertinent, the economic attachés of the diplomatic missions of the countries that are joining in the external aid effort. At these meetings there could be an examination of the financial or technical assistance needs presented by the countries to the various agencies for consideration, in order that recommendations might be made to their representatives, in accordance with the opinions expressed at these meetings.

e. External resources for carrying out the Alliance

184. One possible cause of the difficulties of the Alliance for Progress is the insufficient or inadequate resources mobilized for it. It is certainly very hard to analyse the resources required, not only the domestic but the external as well. In this subsection, only the latter will be considered, since it is understood that domestic resources must be mobilized according to the particular circumstances of each country. For the purposes of the present study, and without any claim that the list covers all the most important resources, the following are proposed:

- i. Resources for programming
- ii. Technical resources
- iii. External financial resources
- iv. Foreign investments
- v. Basic products
- vi. Economic integration

i. Resources for programming

185. In paragraph 170 there is a general reference to organization for planning. It is not our purpose here to go into detail concerning those aspects of planning suggested in various parts of this report, and which, besides, must be adapted to the particular case of each country. Considering, however, the enormous time and effort involved in effectively organizing over-all planning in all of the countries, it seems fitting to point out two serious problems: (a) the lack of good statistics, of general economic information and useful indicators for preparing and executing the plan; and (b) the shortage of trained planners to undertake the tasks of economic and social programming in general and of planning in certain specific sectors, such as education, agriculture, and others. A serious effort should be made in each country to mobilize the necessary resources to remedy these deficiencies and to make maximum use of available facilities, such as those offered by the Latin American Institute of Economic and Social Planning, with headquarters in Santiago, and by Latin American and foreign universities. Also, the existing situation makes it advisable that all of the agencies of the inter-American system having some connection with these matters be mobilized

to coordinate with the purposes of the Alliance. Furthermore, whenever desirable, direct cooperation in these tasks should be requested from similar services provided by the United Nations and other international organizations, as well as by the United States and other countries.

ii. Technical resources

186. Underdeveloped countries generally lack a sufficient number of technicians at all levels to solve the problems of accelerated development. The technical assistance needed is not the traditional kind, in which a small group of specialists is provided to help in the execution of certain tasks. The Committee has already indicated (paragraph 95) that it believes a sufficient amount of this kind of technical assistance will be obtained. The immediate problem concerns the regular personnel needed for the preparation, execution, and continuing operation of the projects. The definitive solution to this problem, which should be a part of each country's development program, can only be obtained by training the technicians needed in each country, whether by accelerated methods or through regular instruction programs.

187. On the other hand, the already indicated lack of a sufficient number of specific projects, with studies on their technical and economic feasibility that might serve as a basis for the preparation and immediate execution of development programs, is one of the most serious obstacles to the advancement of the Alliance and one of the main reasons for the criticisms of its slowness in getting under way. It would be desirable if the international financing agencies and the United States and other interested countries extended lines of credit on "soft" terms that would enable the countries to progress more rapidly in pre-investment and specific projects studies, having them prepared under contract, whenever necessary, by appropriate consulting firms. When these firms go abroad, they should use local technicians to the fullest extent possible, so that the latter may acquire new experience and knowledge that will benefit their country. The fact that projects may be financed in part by external resources certainly should not mean that this in itself makes it possible to demand the approval of credit in order to bring the project into being. Credits for studies of projects should be granted expeditiously, on the basis of an explanation of the reasons justifying the study, but with a definite specification of its aims and content, spelling out the terms of reference for the consulting firm of the experts contracted for the purpose.

iii. External financing resources

188. It seems premature in this early stage of the Alliance to discuss the amount of external aid required. It has already been pointed out that in order to achieve an annual increase in per capita income of 2.5 percent, gross investments in the next ten years will probably have to total from 140 to 170 billion dollars. To reach this level, the external contribution will have to exceed the minimum indicated in the Charter. In the opinion of the Committee, if the requirements and purposes of the Alliance for Progress are fulfilled, there is no doubt that it will be possible to obtain a considerably greater amount of external aid. The truth is that accelerated economic development carried out simultaneously with necessary social changes will create a much more favorable social and political climate than the present one. This would mean an increase in direct investments by foreign firms, especially in view of the prospect of expanded markets and the need imposed by economic integration including restrictions on certain imports from outside the area. For the same reasons national capital placed abroad will tend to return to a certain degree, especially if at the same time the Latin American countries take internal measures to encourage this

return. It is also interesting to note that total United States foreign aid, measured on a per capita basis per year, was considerably greater in the past than it is at present, in spite of the fact that per capita income is much higher today than it was 12 or 15 years ago.³² An initial success of the Alliance program would certainly result in public support in the United States which would thereby insure more ample aid. To the foregoing it should be added that the volume of credits granted annually by the international financing agencies has been increasing regularly.

189. Finally, it should be kept in mind that for some years now a large number of European countries have had ministries or high-level agencies of foreign aid, so there is room to hope for much more significant cooperation than in the past particularly if thought is given to mobilizing interest on the part of the European countries in the Alliance, not merely as a field for new commercial activities, but rather, with a clear idea of the political and social value that Latin America should have for Europe. An agency representing the Alliance, such as was recommended in paragraph 174, could be the natural channel for the kind of action suggested here.

190. Despite this relatively optimistic picture of the future volume of foreign aid -- a picture that the Committee considers realistic -- a weak start has been made, which partly explains the skepticism of the peoples of Latin America. The nature of the discussions provoked by the foreign aid act in the Congress of the United States and the reduction in the funds requested by the Executive branch have created the impression that the commitment for financing made by the United States in the Charter of Punta del Este has not been totally fulfilled. The negative effect of this is even greater if one considers that the peoples of Latin America regard the program as primarily one of "aid," inasmuch as the true image of the Alliance does not yet exist for them.

191. In the problem of financing, not only total volume but also the limitations governing the use of credits obtained should be considered (see Section V of Part II). Perhaps it would be worthwhile to insist here on the need for revising many of the administrative provisions regulating the use of these credits with a view of making them less cumbersome and avoiding formalities that lessen this ultimate effectiveness.

192. With regard to the use of credits from the United States, which, because of the balance of payments situation, have been temporarily restricted to purchases in the country granting them, there is one aspect the Committee of Nine thinks should be studied carefully. This consists in the possibility of liberalizing these credits so that they may also be utilized for the purchase of capital goods produced in any of the economic integration areas of the hemisphere. In this case, the use of these credits could be limited in accordance with the following rules: (a) they should apply to capital goods manufactured up to a certain minimum percentage in the producer country; (b) customs protection of the regional market for these goods should not go beyond a certain pre-established limit; and (c) the country making the sale should promise to spend the proceeds of the sale in the United States or in the country that has granted the credit.

32. In this respect see the speech of the Ambassador of Brazil to the United States, Mr. Roberto Campos, at the National Conference on International Economic and Social Development, held in Chicago in July of 1962, and the speech of Mr. Frank M. Coffin, Deputy Director of AID, entitled "Toward a Sense of Purpose," Nebraska University, June 21, 1962.

iv. Foreign Investment

193. Foreign investment is a contribution of external savings; it also represents a contribution of more advanced technology, which is also very useful for the progress of the country. The advisability of encouraging these capital contributions has been recognized in many of the Latin American countries, which have passed laws to assure them of attractive conditions. From the point of view of this document, the Alliance for Progress should concern itself with seeing that the highly industrialized countries, in turn, offer adequate incentives to private capital to invest in new businesses in Latin America. Tax incentives to their nationals to invest in underdeveloped countries, guarantees against risks inherent in foreign investments, credits from their own financial institutions for these investments; these are some of the suitable lines of action suggested.

194. With an appropriate climate for economic development and political stability, and with the prospects offered by economic integration, stimuluses to foreign investment would be particularly effective. Such investment could even serve to promote integration, if the United States and other countries interested in the area would offer ample credit facilities to their nationals for establishing industries conceived especially for participation in the integration process. These might be industries making use of complementary establishments in several nations, or ones that process raw materials in the countries of origin to meet the needs of the region or of world export.

195. The fact that the Alliance considers the preparation of a development program to be a necessity is viewed by some circles in the United States as an obstacle to foreign private investment. It is thought that this contradicts the principle of free enterprise. However, at a session of one of the subcommittees of the United States Congress,³³ the representatives of private enterprise called upon to give testimony, not only did not object to the idea of programming, but in some instances they also recognized that the means of carrying out this planning were, unfortunately, inadequate and make specific recommendations in this regard.

196. A possible cause of concern in the foreign private sector is the greater role taken by the public sector in total investments in Latin America as compared with what is usual in the United States and in some countries of Europe. This situation, which differs in every one of the Latin American republics and for which there are different causes, is similar to that of other, highly developed countries of Europe, where private capital is in a much more favorable position for carrying out certain economic activities which, however, are in the hands of the public sector.

v. Basic products

197. Attention has already been called to the fundamental importance to Latin America of security with regard to markets and prices for its principal export products. The First Annual Meetings of the Inter-American Economic and Social Council have included a detailed study of this problem in the agenda. Interesting documentation places the problem within the perspectives of the Alliance for Progress.

198. It is essential to emphasize the advances made here through the International Coffee Agreement and the general possibilities offered by the Proposed Articles of Agreement of the International Fund for Stabilization of Export Receipts.³⁴

³³ See note 25.

³⁴ Document 7, OEA/Ser.II/X.3

The first is an intergovernmental agreement for regulating a basic product that affects the economy of 16 Latin American countries, and it represents an extraordinary advance in matters of international cooperation, for the following principal reasons:

- i. It represents a commitment for both producer and consumer countries;
- ii. It regulates supply of the product by establishing export quotas for the producer countries;
- iii. It establishes adequate control mechanisms to insure compliance with the agreement;
- iv. It fixes a policy for limiting world production of coffee and gradually eliminating surpluses;
- v. It proposes mechanisms for increasing consumption and broadening demand;
- vi. It asserts as a principle that the agreement will tend to improve the price of coffee;
- vii. It establishes procedures for gradually eliminating customs duties and coffee taxes established by consumer countries.

This international agreement, which is fully supported by the United States and the great majority of the Latin American countries, in compliance with their obligation under the Charter of Punta del Este, will provide a more solid basis for carrying out development programs in various Latin American countries. As for the International Fund for Stabilization of Export Receipts, already studied by a group of experts, it proposes means for integrating fluctuations in foreign exchange receipts of exporting countries resulting from changes in the world market.

199. In the Committee's judgment, this policy, which is one of the basic aspects of the Alliance, must meet the three following conditions, among other, in order to be a success:

- i. There must be determined and unremitting support on the part of the United States for basic Latin American products on the world market, since deterioration of this trade would weaken efforts to reach the investment level through domestic savings, demanded by the goals of the Alliance.
- ii. The countries of the area must have a coordinated joint policy to support these products, even though some of the countries may not be exporters of the raw materials needing support at a given time.
- iii. Aid for development financing must be regarded as independent of arrangements made with reference to trade in basic products and not as an alternative solution.

This joint policy in connection with basic products is also closely related to the problems of regional integration and, of course, to the urgent need for diversification of exports.

vi. Economic Integration

200. Special attention will also be given to this topic at the First Annual Meetings of the IA-ECOSOC. It should, however, be considered within the general context of the Alliance for Progress, since the topic is so closely linked to national development programs and to the possibilities for rapid growth of the Latin American economies.

201. In the first place, it is advisable to emphasize the basic differences in the conditions prevailing prior to the time that the European Common Market and the Latin American Free Trade Association were created.³⁵ In Europe, a high proportion of trade was already intra-European and this made possible immediate integration of the pre-existing trade. In LAFTA, trade among the member countries represents a very small fraction of the total trade of the area.

202. Hence, it is essential to look at the problem of integration, first as one of investment and then as one of trade. Investments of common interest must be found that will make it possible to increase trade in the area. This explains the importance that the Committee attaches to such specific points as those contained in paragraph 6, 7, 8, 9, 11, and 12 of Title III of the Charter. It also accounts for the recommendation made in paragraph 198, among others, of this document.

203. Aside from routes and means of transportation and communication, the investment fields that seem most suitable for regional integration are those comprising such activities as the steel, fertilizers, plastics, and heavy chemical industries, as well as certain manufacturing industries that are particularly favorable for complementary production.

204. Study should be made of a policy for developing and orienting these activities, which considered the location of the industries only with reference to the over-all market and not to existing limitations. Such a policy could, if it were vigorously supported by a line of credit for such purposes, be one of the most effective means of promoting integration, the rate of which does not seem to be satisfying the expectations of the participating countries.

205. It is indispensable to supplement the above policy, to help industries that are established in the countries of the area, by immediately removing duties on those products that are not yet produced in the area, or whose production may be considered as nonexistent because it is too low in relation to existing demand.

206. Furthermore, the Committee of Nine considers it urgent to strengthen the organs for studying the problems of the future Latin American common market, hastening the study of such important subjects as those of a financial and monetary nature, and those regarding payment arrangements, tariffs, taxes and subsidies, social security expenses, etc., all of which are indispensable as background for

35. Special reference to LAFTA will be made in these comments since this Association is the one that could organize a Latin American common market. The observations referring to LAFTA are also applicable to the Central American Common Market, although to a lesser degree

future progress in these fields. The Alliance should take an active part in promoting these studies.

f. The Alliance and public information

207. Throughout this analysis of the difficulties and problems of the Alliance and of the causes and solutions of its "crisis," one defect has been repeatedly emphasized: lack of information.

208. The people of the various countries are under a misapprehension about the Alliance because, among other reasons, they are ignorant of its aims. The Alliance is criticized because the only thing that is expected of it is more and more "aid;" when, actually, the aid is no more than a contribution to the effort that must first be made by the Latin American countries themselves, through planning. The Alliance has a deep revolutionary and reformist significance that can be put into practice only with the support of the masses, who, however, have taken no interest in the program.

209. The list of problems in the field of information could be greatly expanded. This was foreseen by the Punta del Este meeting, whose Resolution E is entitled: "Public Opinion and the Alliance for Progress." Its two main considerations are the following:

"In order to attain its goals this vast program demands understanding and active cooperation from all the peoples of America, and

"In order to teach its objectives it is essential that public opinion be fully informed of the causes that have brought about this movement, of the goals it seeks, and of its successive achievements."

210. Unfortunately, the goals of this resolution have not yet been reached. This delay is partly responsible for the skepticism and frustration existing in many countries with regard to the Alliance. In the Committee's opinion, however, this problem of information is much more a national than an international one. The Alliance cannot make any impression in a country except through the interpretation given to it by the nation's own local leaders. Hence, to a considerable extent, informational efforts become the responsibility of each country.

V. CONCLUSIONS

211. In this Third Part the Committee of Nine wishes to present its general point of view on the Alliance for Progress. Even though, within the strict terms of the Charter's mandate to the experts of the Panel, their only duty is to participate in the functions of the ad hoc committees with reference to the evaluation of national development programs, the performance of this work has enabled the Committee members to observe the general weaknesses of the Alliance.

212. The Alliance is a frequent topic of controversy in the Americas. This means that it has its detractors and its defenders, each group motivated by a great variety of reasons. The controversy has produced great doubt as to the results to be expected from the Alliance, due to three fundamental facts:

- a. Unfamiliarity with its purposes and objectives and, consequently, lack of participation by the people in the Alliance;
- b. Impatience to see results that are impossible to acquire in a year's time; and
- c. The initial difficulties of getting the program under way, which have created a false "image" of its principles.

213. With these facts in mind, the Committee wishes to point out that, in its opinion, the governments and political leaders of Latin America are essentially responsible for creating the public support required to gain the people's participation in the collective effort called for by the Alliance. Only in this way can necessary fundamental changes be made and the fruits of economic and social progress be equitably distributed.

214. The Alliance is fundamentally a Latin American program, both in origin and with reference to the solutions it proposes. Its basic philosophy lies in the equal importance it gives to the social and economic aspects of development efforts. Its measures consist of national programming, attaining the maximum domestic effort through suitable structural reforms, regional economic integration, and the defense of the markets for basic export products. Its purposes are to achieve accelerated economic progress, better distribution of national income, a higher standard of living, and the social benefits to which the people of Latin America aspire. Its action should take the form of a collective, coordinated, and multilateral effort of the countries of the Americas, with the greatest possible cooperation from the developed nations of the world.

215. In order to realize its full possibilities, the Alliance needs not only the support of the leaders and the people, but also a recognized minimum period of time-- "a decade of impatience" as someone has called it -- during which only continuous effort will bring about results. But, in addition, it needs elements of all kinds to plan development, to conceive and create the projects essential to progress,

and to unite the markets set apart by history and geography. It also needs financial resources that cannot come just from domestic saving, which is a sacrifice when income is only enough to cover the bare necessities. Domestic saving must be reinforced by direct participation of foreign capital and finally by world concern with problems affecting basic products, which for more than a century have been the principal source of foreign exchange for the Latin American countries.

216. Also needed is a complete review of the operational tools already in existence or that have been created to carry forward the purposes of the Alliance for Progress. It is not only a question of the organization of the domestic effort, or of the defects noted in the evaluation machinery. After all, the evaluation of a program is just a preliminary step to executing it. But the Committee is convinced that if a new, collective solution is really desired, a review should be made of the Inter-American agencies responsible for the success of the Alliance, which agencies were created under other conditions and for different purposes. Only in this way will it be possible to adapt the system to the new tasks that are being imposed upon it.

217. Anyone who analyzes this program in its entirety will see that it unquestionably constitutes a frontal and integrated attack on Latin America's underdevelopment. In spite of its defects and the contradictory conceptions that must be corrected, in spite of the imperfection of the national and inter-American agencies and the need to revise and adapt them to the new tasks, the Alliance for Progress is undoubtedly capable of reaching its goal and at the same time of preserving the essential values of western civilization. It should be recognized, however, that if the initiative and the maximum effort for this are the responsibility of the Latin American countries, then only when they have demonstrated their determination to carry out the principal part of the program that they freely agreed to in Punta del Este will they be able to obtain sufficient external financial cooperation to reap the benefits that widespread application of the Alliance will produce.

APPENDIX

Membership of the ad hoc committees responsible for evaluating the national development plans of Bolivia, Chile, and Colombia

AD HOC COMMITTEE FOR BOLIVIA:

Hernando Agudelo Villa	Harvey S. Perloff
Gustavo Martfnes Cabañas	Ibrahim Abdel Rahman
Manuel Noriega Morales	Germánico Salgado

AD HOC COMMITTEE FOR CHILE:

Hernando Agudelo Villa	Flavián Levine
Gerhard Colm	Felipe Pazos
Rodrigo Gómez	Paul Rosenstein-Rodan

AD HOC COMMITTEE FOR COLOMBIA:

Eduardo Figueroa	Harvey S. Perloff
Jorge Méndez	Raúl Saez
Felipe Pazos	Pierre Uri

STATEMENT OF MR. RAUL SAEZ,
ON BEHALF OF THE PANEL OF NINE, AT THE
PLENARY SESSION OF IA-ECOSOC AT THE
MINISTERIAL LEVEL ON TUESDAY MORNING,
OCTOBER 23, 1962

PAN AMERICAN UNION
General Secretariat, Organization of American States
Washington, D.C.

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LEVEL ON TUESDAY MORNING, OCTOBER 23, 1962

Mr. Chairman, distinguished Ministers of the Treasury and Economy,
Ladies and Gentlemen:

"Our goal is not the victory of might but the vindication of right -- not peace at the expense of freedom, but both peace and freedom, here in this hemisphere, and, we hope, around the world. God willing, that goal will be achieved." With these words President Kennedy yesterday concluded his statement on the grave events that affect our future. Perhaps the discussions of this Meeting at the Ministerial Level should be couched in terms different from those in which the peaceful nations of this hemisphere have been studying their problems during the past three weeks. However, these are permanent problems; they affect the future of our countries so vitally that it is our duty to analyze them with equal intensity and care. Perhaps it will not be possible to provide the immediate solutions to some of the problems stressed in this summary that are urged as necessary by the Panel of Nine in its report. Nevertheless, it must be stated that the sincerity of our suggestions is based on our conviction that the Alliance for Progress is the key to attainment of President Kennedy's hope for peace with freedom in our hemisphere.

Technical progress in the last two centuries has made it possible to envisage for all the inhabitants of the world living conditions that may be regarded as materially satisfactory. On the other hand, the persistence of marked inequalities in the distribution of income on the national and international level constitutes a denial of the social justice to which all the peoples of the world aspire.

This is the fundamental problem of our time, and it is manifested most dramatically in the many under-developed regions of the world that together contain three-fourths of the world's population. This is also the situation in Latin America, the only area within the sphere of western culture where under-development is the general condition of the countries it comprises.

In Latin America, 45 per cent of the population under ten years of age is illiterate, life expectancy at birth is much lower than that in the developed countries, and 25 per cent of the population lack minimum acceptable housing facilities. In Latin America in 1961 the national product averaged slightly over \$ 330 per person; income is poorly distributed among countries, and its distribution among individuals is even worse. Furthermore, during the past five years, per capita income has decreased in eight countries of the area, and only two countries have shown a rate of growth of over 2 per cent per annum. This dramatically illustrates the fact that in Latin America -- as our report states -- the causes of social tension are so serious that the latter contains the potential elements and the threat of a violent revolution.

In their awareness of this situation, the governments of this hemisphere have undertaken to advance the program of the Alliance for Progress, which seems to serve to channel a peaceful revolution that, besides accelerating economic development, will permit a more equitable distribution of wealth and social benefits, by modifying, wherever necessary, those parts of the economic and social structure that experience has shown to be inadequate for the attainment of such goals.

The problem is of colossal proportions and there are few precedents for such a task. Thus the peoples of the hemisphere and their leaders will have to work out their own solutions with greatness and imagination.

All revolutions, including peaceful ones, require considerable boldness, which entails the risk of making partial mistakes. Those who wish to have everything carefully estimated and determined in advance of participating in this peaceful revolution, in order to avoid errors, might be proven right in the long run. Excessive caution or care, however, may imperil the success of this venture, as there is little time left for satisfying the urgent demands of society.

The Alliance for Progress is a basic tool for achieving the objectives of the peaceful and democratic revolution in which we are involved. The future is always conditioned by new and unforeseen facts,

which modify the structure of our economic and social world and work profound changes in the very basis on which events transpire. We believe that the Alliance for Progress is one of those new and original efforts. However, it is up to each and everyone of us to use it properly in order to perform the task that we must carry forward.

During its first year of life, the Alliance has revealed certain defects that must be corrected, and has created doubts and impatience among our peoples, which have in turn resulted in serious misgivings regarding the merit of the idea of the Alliance itself.

The Alliance for Progress seeks to accelerate the economic and social development of Latin America. To achieve this purpose, in addition to identifying the specific projects to be carried out and the means available for doing them, definitive objectives should be established and the obstacles to their attainment eliminated. Its objectives are to increase the general wealth of the countries more rapidly than in recent years, and to bring about its more equitable distribution among the various sectors of the national community, while preserving and perfecting the system of representative democracy. The principal obstacles are found in the forms of society that do not adapt themselves to the new conditions to be attained. If that structure must be reformed in accordance with the circumstances and conditions in each country, such reformation should be effected rapidly in order to enjoy its benefits. Every social change brought about in accelerated fashion and not in the normal course of evolution constitutes a revolution. The greater the content of such social changes, the more important the revolution.

The Latin American leaders have not informed their peoples of the revolutionary significance of the Alliance. If it seeks to be a democratic revolution, and if revolutions must be popular in order to be effective, then the Alliance will not progress in the countries of Latin America unless its importance as a transforming force is explained, and it obtains popular support and cooperation.

The Alliance, like all revolutionary movements, requires an ideological content that, at least in Latin America, cannot be expressed simply through general concepts of freedom and representative democracy, which are too far removed from the needs of the impoverished masses in most of the countries of the hemisphere to suffice of themselves. True freedom and representative democracy must be preceded by freedom from want.

In order to impart the required vigor to the ideological content of the Alliance conceived in such terms, it is essential to integrate all sectors of society in the collective process of transformation, giving them an opportunity to participate in the planning and implementation of the national development program.

At some state some aspects of the program are of direct interest to all sectors of society: government, management, labor, producers and consumers. If they participate in the establishment of the goals and objectives, they will feel responsible for the attainment thereof.

But, above all, in order that the peoples may come to regard the Alliance as a popular undertaking, it is urgent that basic organizations such as labor unions, cooperatives, student federations, rural leagues, etc., be associated with this program and its goals in such a way that the people will not feel that they have been merely invited to participate in the task of development, but will feel personally responsible for the economic and social transformation that is being sought for their own benefit.

The Punta del Este Charter clearly establishes who will be responsible for taking the initiative and undertaking the most important part of the task: the Latin American countries. They must prepare action programs and mobilize their national resources to the maximum, carrying out desirable structural reforms, in accordance with the characteristics and circumstances of each country. In the program, possibilities of shortening the time required for achieving results depend essentially on those who are responsible for taking the initiative,

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inasmuch as the program is not an "aid" program, but a cooperative effort. No one can claim that he is not receiving the cooperation to which he is entitled if he fails to initiate his own efforts, which are the most important ones.

Nothing demonstrates the importance of self-help better than the hitherto approximate estimate of the total amount of gross investment required of Latin America for achieving an annual rate of growth of the order of 2.5 per cent per capita. This estimate varies between 140 and 170 billion dollars over the next ten years.

In the Punta del Este Charter, the cooperation expected from abroad in the form of investments and loans has been estimated at a minimum gross figure of 20 billion dollars, to be contributed over the decade. This would leave a net balance of approximately half of that amount, depending on the economic-financial concepts used for defining such a net balance.

The report of the Panel of Nine explains the important reasons that exist for hoping that, if the Alliance actually gets underway, greater amounts may be obtained abroad, particularly if one considers the economic efforts that developed countries are now obliged to make in the backward areas of the world, including Latin America, in order to defend themselves against the dangers and consequences of underdevelopment, among other reasons. However, the principal responsibility will still rest with the Latin American countries themselves.

However, the Alliance for Progress is what its name signifies: a partnership in which the partners mobilize their common resources to carry out the task of accelerating progress.

Therefore, if, on the one hand, the best means and instruments must be found and developed for giving concrete form to the internal efforts of the countries in their national development programs, on the other hand, parallel external assistance must be crystallized

promptly and in sufficient quantities to complement the internal efforts envisaged for the respective programs. In this sense, within the dynamics of the Alliance, it is essential that the governments submitting their plans for evaluation, as well as the members of ad hoc committees, be assured that their recommendations on external financing of programs will receive timely and appropriate consideration. Although the Committee of Nine recognizes that high officials of the Government of the United States have clearly set forth their ideas on the importance which they attribute to the recommendations of the ad hoc committees in deciding to grant the assistance required for the development of a given country, there is an evident need to demonstrate through specific and immediate action of sufficient importance and impact the effectiveness of that support over and above the moral support evident in such statements.

The cases of Colombia and Chile, which prepared their respective programs, had them evaluated by several ad hoc committees, and launched a series of reforms that were discussed and accepted by the governments themselves, within the spirit of the Punta del Este Charter, offer an excellent opportunity for a vigorous and precise statement on the cooperation those countries may expect from the United States in accordance with its undertaking "to allocate resources which, along with those anticipated from other external sources, will be of a scope and magnitude adequate to realize the goals envisaged in this Charter". This would be the most effective way to establish, unequivocally, the value of the reports of the ad hoc committees, which summarize the obligations of the countries entitled to receive international cooperation. This would also be the most effective means of convincing the peoples of Latin America that the conditions governing assistance are limited to those contained in the reports, which are the result of technical and impartial studies, and are not the result of other requirements that would deprive the Alliance of its character as a cooperative and multilateral effort. The important thing is to provide timely financial support for programs that have been favorably evaluated, and to establish the responsibility of the governments and their peoples for carrying out the series of reforms to which they have committed themselves.

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The members of the Panel of Nine are deeply grateful for the confidence that has been placed in them and the courteous attention with which countries whose plans have been evaluated have received their opinions. However, they do not wish to be converted into an agency whose reports will serve only to fill space on the shelves of libraries. The existence of the Panel of Nine and the will and efforts that its members devote to the task assigned to them can only be justified if the countries and the entire region derive positive results that will quickly overcome the inertia that is holding up the program.

It is important to recall that of all the undertakings that make up the Inter-American system, and of all the collective efforts within the hemisphere, the Alliance for Progress, when seen as a whole, reveals the most constructive character, inasmuch as it is designed to solve the economic and social problems of the Latin American countries. History abounds with examples of the fact that progress can only result from positive action that seeks to build something new, and not from the activities of the "anti-s", whose sole desire is to obstruct movements that are heading in a definite direction, instead of offering alternative solutions that would permit progress. Only those paths that lead to new possibilities will effectively arouse the interest of the peoples in the great tasks that lie before them. The Alliance for Progress shows us what our great and immediate task should be, as well as the results that could be expected of it. It points to the possibility of accelerated economic development accompanied by definitive progress in the social field. The Alliance is at once a hope and an opportunity to preserve the values of western culture and progressive democracy. We must devote the maximum resources of this hemisphere to this noble undertaking.

The report of the Panel of Nine expresses the need for an agency capable of physically representing the image of the Alliance vis-a-vis the numerous problems with which it is confronted and which it will

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have to tackle as a joint program. This impression was clearly evident to those of us who participated in the discussions on a wide variety of subjects that took place in the First Committee of the Meeting at the Expert Level.

Furthermore, if the Alliance for Progress is a cooperative program that is multilateral in its action, revolutionary in its methods and results, which seeks an integral solution to the problem of underdevelopment, one may wonder whether perhaps its dynamic content will not require a revision of all the agencies of the inter-American system, in order to adapt them to this new phase. Along these lines, the Panel of Nine has suggested that the governments should consider the establishment of a commission consisting of persons of unquestionable stature in the hemisphere, which would be advised by experts at the highest level, and, within a period of less than six months, could propose the modifications that should be made in all of the existent machinery for the purpose of adapting it to tasks that are related to the Alliance for Progress. If this is not done, it is possible that we will find ourselves trying to accelerate economic and social progress with instruments that are geared to other purposes and other speeds.

Some of those modifications should be identified through a clear inter-American understanding of the Alliance for Progress. They should also produce adequate machinery to permit coordinated knowledge of the activities of all the agencies of the inter-American system that are actively concerned with development problems, and that today have any over-lapping activities.

If this were done, a center for discussion of the problems of the Alliance vis-à-vis the rest of the world would be available, and it would be possible to consider many matters of general interest that today are brought to the attention of financing agencies and the Government of the United States in an isolated manner and on the basis of individual initiative. This would also permit timely consideration of certain basic problems of the development of Latin America that at present are very difficult to deal with through agencies only indirectly concerned with them. Furthermore, we believe that the

most effective way to advance the programs of the countries is to have confidence in their leaders and their peoples, while simultaneously entrusting responsibility for supervision of the programs and the appropriate use of external cooperation to an agency that would effectively coordinate and represent the Alliance.

Today, the Alliance is a topic of considerable controversy in our hemisphere. It has its detractors and its defenders, each inspired by widely differing motives. This controversy has not yet dissipated doubts and skepticism regarding the results that may be expected. This is due to three fundamental facts: ignorance of the purposes and objectives of the Alliance, and hence a lack of participation by the peoples; the impatient desire to see immediate results, which could not possibly have been achieved in the single year that has elapsed; and the initial difficulties encountered in launching the program.

But there cannot and should not be any reason for doubt or skepticism if the necessary public support for achieving participation by the peoples in the collective endeavor inherent in the Alliance is obtained, and if it is explained and developed in accordance with its original concept. That concept envisages an essentially Latin American program, whose basic philosophy gives equal importance to the social and economic sectors in development efforts -- an action program which should be implemented as a collective, coordinated and multilateral effort of the countries of the hemisphere, with the maximum possible cooperation of the developed countries of the world. That original concept of the Alliance calls for a hemisphere policy expressed in national programs, maximum internal efforts through appropriate structural reforms, regional economic integration and the defense of basic export products on world markets. It constitutes a program that will result in accelerated economic progress, a better distribution of national income, and improved standard of living, and greater social benefits, in keeping with the aspirations of the peoples of Latin America.

Your Excellencies: For many years we have kept books on our poverty, taken a census of our ills, and have publicly shown in figures and statistical tables the abysmal proportions of our backwardness. But, over and above all, we have become aware of the enormous inequalities among the various sectors of our society. Several countries and organizations, ECLA in particular, have studied these problems and made valuable contributions by suggesting possible solutions. With the Alliance for Progress, we have offered a remedy to our peoples that is much more than a hope. We have acquired the commitment and assumed the obligation of proving that, without irreparable social traumas, it is possible to attain well-being and necessary to narrow gaps.

The existence of a developed world offering very high standards of living and constant access to the sources of culture has aroused in backward peoples a desire, often manifested by impatience and even anger, to achieve a better life. The natural pressure produced by the sharp contrasts in social and economic levels has been stimulated in Latin America, through the enunciation, first of all, of the principles of "Operation Pan-America" and later of those of the Alliance for Progress.

That is why the responsibility of all the leaders of this hemisphere is incalculable: The peoples of the Americas may be able to forgive us for maintaining a normal rhythm in overcoming underdevelopment, but they will never forgive us if, after having promised a considerable acceleration of that rhythm, we fail to live up to this historic commitment.