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(11)

INTERNATIONAL COOPERATION ADMINISTRATION

EVALUATION OF GUATEMALA PROGRAM

Office of Assistant to the Director for Evaluation

March 16, 1959

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Note on Distribution of Evaluation Reports

The Director of ICA has determined that this Report is to be given limited distribution within the Executive Branch on a strict "need to know" basis, and only with the specific approval of the Director. The Report is not otherwise to be made available.

* * *

Note on Inclusion in the Report of Matters Concerning Other Agencies

It will be noted that this Report in some cases contains observations and recommendations concerning matters which, while they have a bearing on the ICA Program, are the primary responsibility of Agencies other than ICA. It is impossible to ignore all issues which fall into this category and at the same time to make an adequate review and evaluation of the operations and effectiveness of the United States economic aid program in any country. It is for this reason that such items are included in a report made to the Director of ICA.

Their inclusion does not imply any intent by ICA to invade the areas of responsibility of other Departments or Agencies, and the Regional Directors of ICA, in conducting their reviews of the evaluation reports and in developing their plans of action based on these reports, are expected to recognize fully the jurisdictions of other Departments and Agencies.

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May 6, 1959

MEMORANDUM

TO: Mr. Leonard J. Sacco, Acting, D/ICA

FROM: Dr. B. A. FitzGerald, DE/O

FROM: Richard F. F. Tyner, AD/F

SUBJECT: Guatemala Evaluation Report

The Guatemala Evaluation Report, a copy of which is attached, has been reviewed by Dr. B. A. FitzGerald and by Mr. Rollin S. Atwood and we are in agreement that the Report should be distributed at this time to officials of ICA and that at a later date it should be formally transmitted to other agencies. I therefore recommend that you authorize an immediate distribution as follows:

- | | |
|------------------------------|------------------------------|
| Dr. B. A. FitzGerald | - 1 copy (in his possession) |
| Mr. William H. G. FitzGerald | - 3 copies |
| Mr. William A. ... | - 1 copy |
| Mr. James ... | - 1 copy |
| Mr. William ... | - 1 copy |
| Mr. John ... | - 1 copy |
| Mr. J. F. Murphy | - 2 copies |
| Mr. Rollin S. Atwood | - 4 copies |
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| Mr. ... | - 4 copies |
| Mr. ... | - 1 copy |

I also recommend that, as in the past, you ask the Regional Director to make a review and develop a Plan of Action to deal with the conclusions and recommendations of this Report. A proposed memorandum for your signature to accomplish this is attached.

Attachments

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May 12⁹ 1959

MEMORANDUM FOR: Mr. Rollin S. Atwood, O/LA

SUBJECT: Guatemala Evaluation Report

I am authorizing at this time distribution of the Guatemala Evaluation Report to certain officials of ICA. Attached to this memorandum is a list of the names of those to whom copies are being sent by the Executive Secretariat. This Report should be sent to other agencies, particularly to the Departments of State and Defense, at your discretion; i.e., when in your judgment the progress of the ICA review of this Report, which you are to make, has progressed sufficiently to warrant it. The transmittal of the Report to other agencies should be made by letter, signed by me, stating the reasons for the transmittal.

I should like you to undertake a review of this Report and to develop the Plan of Action for the Guatemala program, taking into consideration the conclusions and recommendations of the Report. Your review should be regarded initially as an agency review and any discussions of the Report or of your proposed Plan of Action with other agencies should be conducted only after the formal transmittal which I have mentioned above. You will, of course, send copies of the Report to the WFO and will utilize the comments of the Mission in developing your advice to me. In making your review of the program in the light of the Evaluation Report, you should enlist the help of other elements in IC/W. Your Plan of Action should reach me not later than July 24, 1959.

I would like to see a somewhat different Plan of Action developed on the basis of the Guatemala Evaluation Report from those which have been developed in other countries. The present Plans of Action have been developed in a general way and are responding specifically to each and every country. They are, therefore, too general, and have not been sufficiently oriented to the specific needs of each country. General propositions and conclusions should give better direction to a program. I do not believe that a Plan of Action which merely responds specifically in some fashion to each and every country is the result of an Evaluation Report. A properly oriented Plan of Action, in my mind, should be a statement developed within the office of the Regional Director based on the results of an Evaluation Team, which will provide direction and guidelines for the conduct of a program. Some, of course, of the specific recommendations contained in an Evaluation Report can be made a part of the regular programming work of your office once general propositions and ideas about the program have been established and they need not be discussed at length in your report. Of course, any action taken should be noted.

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Mr. Rollin S. Atwood
Executive Secretariat

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Distribution of Guatemala Evaluation Report

Dr. P. A. Fitzgerald	- 1 copy
Mr. William H. O. Fitzgerald	- 3 copies
Mr. Edwin H. Arnold	- 1 copy
Mr. James P. Grant	- 1 copy
Mr. Walter Schaefer	- 1 copy
Mr. John G. Burnett	- 1 copy
Mr. J. F. Murphy	- 2 copies
Mr. Rollin S. Adwood	- 5 copies
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INTERNATIONAL COOPERATION ADMINISTRATION

Office of the Assistant to the Director for Evaluation

EVALUATION OF

GUATEMALA

PROGRAM

Guatemala Evaluation Team
Daniel V. Anderson
Henry Wiens

Staff Assistant
Henry P. Johnson

Washington, D.C.
March 16, 1959

EVALUATION OF GUATEMALA PROGRAM

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COMPARATIVE DATA - GUATEMALA AND CUBA

	<u>Guatemala</u>	<u>Cuba</u>
Area in Square Miles	42,042	44,000
Land Use (Per Cent of Total Area)		
Agriculture	19%	51%
Forest	60%	11%
Population - 1958	3,600,000	6,466,000
Density per Square Mile	86	147
Annual Growth Rate	3%	2%
Education		
Literacy	28%	76%
Teachers	11,800	42,300
Labor Force (millions)	1.1 (1950)	2.1 (1955)
Agriculture	73%	42%
Industry	13%	17%
Commerce	3%	12%
Services and Miscellaneous	11%	29%

	<u>Guatemala</u>	<u>Cuba</u>
<u>Agriculture and Industry</u>		
Agricultural Production Index - 1957 (1953 - 1955 = 100)	113	117
Industrial Production Index - 1957 (1953 = 100)	129	116
Railroads		
Miles of Track	720	2,987
Units of Rolling Stock	5,744	11,200
Roads, All Types (miles)	8,000	8,290
Registered Motor Vehicles	36,419 (1958)	225,217 (1958)
Installed Power Capacity - 1956	50,000 kw	639,000 kw
Per Capita	15 watts	103 watts
<u>Economy and Trade</u>		
Total Gross National Product, 1958 (in 1957 prices)	\$649 million	\$2,650 million
Per Capita	\$180	\$ 410
Per Cent Growth since 1955	9%	11%
Exports Per Capita - 1958	\$ 32	\$ 116
Imports Per Capita - 1958	\$ 42	\$ 138
Foreign Exchange Holdings - 1958 (September)	\$ 58 million	\$ 430 million
Cost of Living - 1958 (1953 = 100)	105	102

PREFACE

This report is based on information obtained during a month's preliminary work in Washington and a stay of about six weeks in Guatemala. Given the complexity of the U.S. program there, the Team devoted most of its time to discussions with USOM officials and technicians and visits to representative projects. We traveled extensively by road and air, visited both coasts and the Peten, and covered most of the Inter-American, Atlantic and Pacific Highways. U.S. officials in Guatemala were exceptionally cooperative. We are particularly grateful to the Ambassador and the members of the Country Team for their collaboration and feel indebted to the many others, officials and businessmen, with whom we met in Washington, New York and Guatemala.

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MAJOR CONCLUSIONS

Recent crises in the cold war have overshadowed the earlier problem posed for U.S. foreign policy by a Communist-dominated government in our own backyard: the Arbenz regime which controlled Guatemala from 1951 to 1954. Since Colonel Castillo Armas' successful "liberation" movement, the United States has committed its prestige and \$60 million of aid to prevent a resurgence of Communism in Guatemala. With the political and economic instability which followed Castillo's assassination in July 1957, the realization of this objective remains in doubt. The primary purpose of this report, therefore, is to determine how the aid program can best serve this and other U.S. objectives.

Under Castillo the aid program -- albeit necessarily of an emergency nature -- made good progress in supporting his liberal government, which gave promise of satisfying the economic and political aspirations of a people long dominated by dictatorships. Unfortunately, Castillo's death was followed by months of near chaos, cleverly exploited by the Communists. Finally, the regime of General Ydígoras emerged and has now been in power a year.

Today, the situation is unstable politically and economically. The President has been unable to command popular respect or parliamentary control. Despite a long anti-Communist record, his actions against the Communists have been erratic. He has failed to prevent the growth of

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the leftist Revolutionary Party which, however, recently purged itself of many extremists and Communist sympathizers. His administration has been characterized by the spoils system and by a series of headstrong and capricious actions against neighboring countries. Nevertheless, with no clear alternative in sight, the USOM has felt compelled to base its program on the assumption that he will complete his six-year term.

A serious drop of foreign exchange reserves, caused largely by falling coffee prices, is undermining confidence in the currency and in Guatemala's economic future. Government revenues are declining, and wage cuts are beginning to cause serious discontent.

Under these conditions the question arises how aid can be applied most effectively to achieve U.S. objectives that are fundamentally political. In collaboration with the Country Team, these objectives and the means to achieve them were defined. Certain groups particularly susceptible to Communism were identified in order that special attention might be given to influencing them. These factors have been considered in evaluating policies and programs.

In view of the decision to terminate grant aid to Guatemala, we have tried to answer the question "Can loans replace grants?". Will development loans be of a character and in amounts adequate to achieve U.S. economic and political objectives? We conclude that development loans do not necessarily alleviate balance of payments problems and that existing procedures are not designed to select loans to serve political ends. Accordingly, recommendations addressing these two problems

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are made. The United States should hold early consultations with the International Monetary Fund and, if it is determined that Guatemala requires balance of payments assistance, she should first seek IMF help. In order to fulfill expectations aroused by U.S. actions and assure continued economic growth, substantial development loans should be approved to supplement the recent \$5 million DLF rubber loan. To be certain that such loans also serve our political objectives, the Country Team's evaluation of all loan applications should be considered in establishing priorities.

In general, the aid program in Guatemala has been imaginatively conceived and well executed. However, the time has come to consider changes in emphasis and content. For example, the program has been concentrated almost entirely on the development of the Pacific Slope and has purposely ignored the Indians, a majority of the population, who live mostly in the highlands. The social, political and economic implications of geographic concentration should be re-examined. Of special concern is the fact that the landlords have inevitably been major beneficiaries. There is also the danger of uprooting the Indians from the highlands, thereby increasing their susceptibility to Communism. Furthermore, while new production on the Pacific Slope is already contributing to a much-needed increase in the production of staples, quicker results can be obtained from land already under cultivation in the highlands.

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The Indians still live much as they did before Columbus but are now beginning to feel the impact of Western civilization and to aspire to changes, economic and social. A special study to determine what significant changes are occurring and what steps might be taken to forestall their becoming susceptible to subversion was proposed to the Country Team. The Mission has now submitted a project for this purpose.

In discussing specific programs, we have attempted to relate each to U.S. objectives and here mention several examples. First, in the agriculture program the Mission agreed that greater attention should be given to research on crops to replace coffee and to increasing the production of staples. The resulting increases in production will augment foreign exchange earnings and reduce the cost of living, especially for the politically vulnerable lower classes. Second, we are convinced of the utility of both the rural resettlement and housing programs in the development of a middle class -- so important to the realization of U.S. objectives.

Finally, we concur with the view frequently expressed that the major benefits of evaluation derive from the process itself. The ideas and recommendations in this report have been largely developed from the discussions and suggestions of the Country Team, U.S. technicians and ICA officials in Washington. A large percentage of the recommendations and informal suggestions made to the USOM have already been accepted and some of them implemented.

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PART I - INTRODUCTION

The United States has deeply committed its prestige and resources to preventing Guatemala from again falling under Communist domination. As leader of the Free World, the United States simply cannot afford to have this small Central American neighbor -- the only country ever freed from Communist control -- again subjugated. Because of the persistence of the Communist threat and the present political and economic instability, Guatemala will require continuing attention to assure the success of our efforts.

Before describing the basic problems and evaluating the programs through which the United States seeks to reach its objectives, it is pertinent to touch briefly on Guatemala's recent past with special reference to the several phases of U.S. aid.

A. How the U.S. Became Involved -- From Ubico to Ydigoras

With the overthrow in 1944 of General Ubico's lengthy dictatorship, the new regime under President Arevalo preached reform and nationalism but also opened the door to the Communists. Exploiting the rising tide of nationalism and the need for reforms, they pressed for political power and found a most cooperative friend in President Arbenz, who assumed office in 1951. By 1954, the Communists held many key Government posts, controlled the important labor and agrarian movements and dominated the Government's political parties. By June 1954

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the Arbenz regime, ruthlessly suppressing all organized opposition, had overtly identified itself with the Communist bloc, had withdrawn Guatemala's ratification of the Rio Treaty, and had obtained an important shipment of arms from a Polish-controlled port. It was under such circumstances that the successful "liberation" movement was launched by Colonel Castillo Armas, an anti-Communist leader who had been living in exile.

Before the advent of Castillo, U.S. aid to Guatemala had been on a small scale. From 1942 until about 1951 (when Communist influence became significant), it had consisted of minor unintegrated programs in education, health and agriculture. The education program made little progress and was discontinued in 1950. The activities of the Public Health Servicio, established in 1942, were gradually restricted until they consisted solely of work on the Hospital Roosevelt. In agriculture, a cooperative rubber development program was established in 1942 by our Department of Agriculture. Following the creation in 1945 of the National Agriculture and Livestock Institute (Instituto Agropecuario Nacional), specialists of the USDA carried out research in such fields as pathology, soils, coffee and animal nutrition. By 1951, despite valuable work by individual technicians, these small uncoordinated programs had trained few qualified Guatemalans and were having little over-all influence in an increasingly hostile atmosphere.

Between 1951 and the overthrow of Arbenz in 1954, the program was essentially a holding operation, confined to the Hospital, rubber

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development and agricultural research. Expenditures for the entire period totaled less than \$1 million and by FY 54 declined to \$288,000.

Soon after the "liberation" in July 1954, the United States embarked on a major program designed to support President Castillo through "big money" projects that would reduce critical unemployment, provide visual evidence of the achievements of the new government and contribute to long-range economic development. Since the Arbenz regime had made many promises, the United States was convinced that the new president needed the means to fulfill popular expectations. The first year was devoted largely to preparatory work and to beginning one major road project aimed at reducing unemployment. In FY 55 alone -- within one year after liberation -- \$3.3 million was spent by ICA. This was more than total U.S. expenditures during the preceding twelve years.

During the past five fiscal years ending with FY 59, the United States programmed \$60.2 million of economic assistance ^{1/} as follows:

	<u>Millions</u>
Grant Economic Aid	46.2
Technical Cooperation	10.8
Title II, PL 480, corn	3.2 ('55 and '56)

^{1/} The Military Assistance Program in Guatemala has been small and economically insignificant. One infantry battalion has been equipped under MAP and other military equipment sold at low prices.

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A decision was made to end all grant aid as of the end of FY 58, but even today there is a \$13.5 million pipeline.

In addition, construction of the Inter-American Highway was expedited to provide employment and \$20 million was spent. U.S. oil companies were encouraged by the Department of State to hasten the exploratory work they had been considering for some time. A large percentage of their expenditures ^{1/} has been entering the Guatemalan economy.

Other factors were generally favorable for the achievement of our objectives. Political confidence was rising and flight capital returning. Coffee prices reached an all-time high. During the first years, the economy improved remarkably and clearly served to bolster Castillo's prestige. Foreign and domestic investments began to increase; unemployment declined; foreign exchange reserves were augmented and government revenues rose. While all of the credit for these results could not be attributed to U.S. aid, it certainly made a significant contribution.

Unfortunately, Castillo was assassinated in July 1957. Several months of political uncertainty and instability followed during which there were two interim presidents. Many Communist and pro-Communist exiles returned to Guatemala. After two elections, General Ydigoras, a prominent anti-Communist politician, was elected and began his six-year term on March 2, 1958. We are now in a new phase where we are

^{1/} Currently estimated at \$10-\$15 million a year.

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testing our relationship with Ydigoras in the hope he will follow a right-of-the-road anti-Communist policy.

B. The Situation Today -- A Period of Transition

This evaluation takes place at a time of transition. U.S. policy toward Latin America has just been reviewed and revised.^{1/} Guatemala's politics and economy are both characterized by instability. The character of U.S. aid has changed in that grants are being discontinued in favor of a loan program.

Recent events, including Vice President Nixon's Latin American tour in 1958 and Dr. Milton Eisenhower's later visit to Central America, have pointed to the need for a reorientation of our national policy -- a subject of interest and debate within the Government. At the time of our visit, the policy statement available was clearly inadequate and obsolete. Under these circumstances, we devoted particular attention to working with the Country Team to sharpen the definition of U.S. objectives in Guatemala. This we discuss in the next chapter.

President Ydigoras has yet to show his willingness or ability to supply the leadership needed to recoup the losses suffered in the chaotic months that followed Castillo's assassination. Much of the President's time seems to be taken by travels about the country, by wrangles with the Congress (where he lacks a majority), by intervention

^{1/} NSC 5902/1, approved February 16, 1959.

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in labor disputes, and by personal administration of the spoils system. He has sought to play a major role in Central American affairs and has emphasized Guatemala's claims to British Honduras to a dangerous degree. Possibly as a gambit to consolidate domestic political support, he recently ordered Guatemalan aircraft to attack Mexican shrimp boats in Guatemalan waters. As a result, diplomatic relations have been broken and a strong anti-Mexican campaign mounted in Guatemala.

The President has been described as "ambitious, opportunistic and politically astute";^{1/} from what we could observe, we would generally agree. We also gained the impression that he is neither widely respected nor loved. Some of his critics even consider him mentally unbalanced. Nevertheless, there are certainly those who admire his ability to keep his opponents off balance.

With the remnants of Castillo's center party, the National Democratic Movement (MDN), of declining importance, the political left represented by the Revolutionary Party (PR) has been definitely in the ascendancy. Indicative of its strength was the heavy plurality received by its candidate for Mayor of Guatemala City in December. In our travels about the country, we found numerous indications of popular support for this party, even among the beneficiaries of the land resettlement program. While the PR had been infiltrated by Communists, it was heartening to note that at a party convention in December some 75

^{1/} Biography prepared by Division of Biographic Information, Department of State, May 1958.

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extremists and Communist sympathizers were expelled. This action, which the President himself is said to have influenced, was promptly followed by a Presidential order re-exiling eight troublemakers. Thus, at long last, the President seemed to be taking a stronger line against the Communists. But even so, his halfhearted efforts to cope with exiles who have returned clandestinely do not inspire confidence.

Recognizing the political importance of his fellow Army officers, General Ydigoras has resorted to large-scale promotions, mostly of field-grade officers, which have put the rank structure completely out of balance. Since September almost 50 per cent of the officers of the Army have been promoted.

Another characteristic of the regime has been the heavy turn-over of government officials. There have been frequent changes in the Cabinet, and few civil servants of any importance were carried over from previous regimes. In recent months, a great many members of the National Police have been discharged and replaced, largely by inexperienced men. Such large-scale changes throughout the Government have immensely complicated the task of our Mission.

Add to this picture Guatemala's increasing economic difficulties ^{1/} and we have a situation that does not augur well for political stability during the balance of the President's six-year term. With the President convinced that the United States worked against his election, relations particularly at the beginning have been difficult. At the moment no clear alternative is in sight and the USOM has accordingly based its

^{1/} See Chapter II-B, The Foreign Exchange Problem.

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program on the assumption that the President will serve out his term. Nevertheless, his seemingly headstrong action in some fields and indecision in others give cause for concern. And the growing strength of the recently purged Revolutionary Party is a factor that will have to be taken more and more into account.

In short, we are faced with a complex situation in Guatemala that will tax our diplomatic and, no doubt, our financial resources for some time.

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PART II - BASIC PROBLEMS

In this part of the report three major problems of fundamental importance to the economic program of the United States in Guatemala are discussed.

Of first and overriding importance is the Communist threat and the continuing danger of Communist resurgence. We must, therefore, consider how the aid programs can contribute to diminishing and thwarting that threat.

A related but secondary problem is the decline in foreign exchange reserves, which is becoming increasingly critical. Unless the current deterioration can be arrested, its effect on Guatemala's economy will inevitably have grave political repercussions contrary to U.S. interests.

Finally, the financial resources available to the United States must be considered in relation to probable requirements, political and economic. Given the decision to terminate grant aid, an answer is needed to the vital question: "Can loans replace grants?"

A. The Primacy of the Communist Problem

The reduction and neutralization of Communist influence has been clearly recognized as one of our national objectives throughout Latin America. In Guatemala we are convinced that the prevention of a resurgence of Communist domination is of overriding importance. The primacy

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of this objective is recognized in the legislative history of the program, in the State Department's policy papers, in the USOM's Master Program Book and by the Country Team. And it seems superfluous to belabor the magnitude of our commitment in resources and prestige in that small country, or the need for non-Communist unanimity in the Organization of American States, or the strategic importance of forestalling the re-establishment of a Communist bridgehead so near the United States and the Panama Canal. Our commitment in Guatemala, then, is more political and moral than financial. As the leader of the Free World we simply cannot afford to have the only country ever freed from Communist domination again subjugated.

In a positive sense, we are helping Guatemala show how a free country which ejected the Communists can solve its own problems. This is not easy for there are inherent weaknesses in the civilian government and in the society itself. Civilian government, never strong under the dictatorships of the past, was further weakened by the Arbenz regime. And the progress made under Castillo has since been seriously offset by instability and the vagaries of the Ydigoras government.

The fabric of society is also weak. At the top there are the wealthy landlords who, like their counterparts in Spain, are singularly lacking in social consciousness. Aside from a very small middle class and a few businessmen, the rest of society is an amorphous mass of poverty-stricken people, urban and rural. In the cities they are particularly susceptible to Communist propaganda which is often disseminated through the labor unions. In the country-side the peasants are

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poorly paid and usually landless. And the majority of the population -- the Indians -- have been conquered but never assimilated. When one adds the European and other immigrants of tenuous loyalty to their adopted country, the conclusion is that Guatemala is more a geographic expression than a nation-state.

Furthermore, the current deterioration of the economic situation has detracted from the Government's ability to fulfill the "rising expectations" which Guatemala shares with many other countries. The extravagant promises made by Arbenz and his associates raised hopes that could not have been fulfilled. Nevertheless, he was deposed before this could be proved, and the myth thereby created still complicates the Government's task.

Certainly the Communists have not slackened in their interest. The number of exiles they are befriending and training is indicative of their continuing concern.

Our concern, while focused on the Communist issue, must also embrace Guatemala's economic development and the raising of the low standard of living common to all underdeveloped countries. These ends are consistent with our self-interest in the development of a strong free world community.

Definition of Objectives

In view of the political motivation of the program and in the absence of an authoritative country policy paper, we felt it particularly important to define U.S. objectives in Guatemala and the means

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for their achievement. During the time of Castillo, U.S. policy had been aimed at bolstering the prestige of the President, who symbolized the ideals which the United States favored. This relatively simple approach was implemented through big money programs and the stimulation of economic activity. However, since Castillo's assassination, the problem for U.S. policy has become more complex. As the United States is not willing to identify itself unreservedly with the government in power, the safeguarding of U.S. national interests requires a more careful definition of objectives and means for their achievement.

We therefore had numerous conversations with members of the Country Team and a final meeting during which a draft paper on the subject was discussed. A revised draft, including the Country Team's recommendations, was presented at our "debriefing" sessions in ICA and the Department of State and no disagreement was expressed.

The U.S. country objectives were defined as follows:

- a. Generally favorable Western orientation and frustration of Communist subversion.
- b. Orderly political development under a progressive, democratically oriented government.
- c. Economic and social development with a more equitable distribution of wealth.

With reference to objective "a", the Country Team emphasized and we concurred that a generally pro-Western orientation in Guatemala was more

important than a more limited pro-United States attitude. They also pointed out that anti-American attitudes need not be equated with Communism.

In considering the means of achieving U.S. objectives, the Country Team felt that encouraging the growth of an urban and rural middle class is of peculiar importance in Guatemala, where the gap between the proletariat and the wealthy landowners is so wide. We arrived at the following statement of

Means of Achieving Objectives:

- a. Encourage growth of larger and stronger urban middle class with a stake in the capitalist system and with sufficient knowledge of Communism to resist its encroachment. This to be accomplished through more job opportunities, education and broader home ownership.
- b. Encourage growth of a larger and stronger rural middle class with a stake in capitalism and knowledge of Communism similar to those of their urban counterparts (see a). This to be accomplished through land ownership and reform, credit and education.
- c. Assist Guatemala in an orderly transition from a one-crop economy through development of alternative crops and a moderate growth of industries, especially those processing domestic raw materials.

- d. Encourage improvement of public administration and governmental organization.
- e. Encourage improvement of the government's revenue structure, including the imposition of an income tax and enforcement of the tax on unused land for both financial and social purposes.

In an effort to reach an understanding and definition of the groups in Guatemala which should be taken into special consideration in planning U.S. programs, we had early discussions with officers of the Embassy and Mission. It was clear that this factor had been considered in the USOM's programming, especially of late, and that a number of programs such as housing, resettlement and education had been designed to reach certain groups. Nevertheless, we could find no written statement on this subject. Shortly after our arrival, the appropriate section of the Embassy agreed to make a study of the problem and let us have the results before our departure. The following statement summarizes the Embassy's conclusions:

Groups Particularly Vulnerable to Communist Subversion ^{1/}

- a. White collar workers (including government employees and teachers) and students. (Estimated 90 per cent are in Guatemala City with small groups in Quezaltenango, Escuintla and Retalhuleu.)

^{1/} For special attention during next five years; to be re-examined periodically.

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- b. Transportation workers, especially members of the railway union (SAMF), bus, truck and taxi drivers. (Estimated 50 per cent are in Guatemala City with the rest in towns, especially Puerto Barrios, Zacapa, Escuintla, Quezaltenango and Retalhuleu.)
- c. Agricultural workers on large commercial and government-owned farms, chiefly producing coffee and bananas. (Mostly in Pacific Coast departments, with the commercial banana area of Izabal a secondary zone and with poorer commercial farming area in east of third importance.)
- d. Floating, semi-employed urban population (especially in Guatemala City but small and vociferous in Quezaltenango).

In singling out these groups we do not imply that every aid program in Guatemala need be directed at them. Rather we see them as the "targets" of those parts of the program aimed at our primary objective -- the frustration of Communist subversion.

This concept has at least two basic advantages. In the first place, it results in selecting from the mass of the population those groups requiring special attention and in concentrating on important components -- for example, taxi drivers as part of the large group of transportation workers. Secondly, it is easier to reach people through

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their vocational interests and organizations than through a mass or "shot gun" approach.

In addition to the above groups, we believe there are two other important elements in Guatemala which merit particular attention: the Indians and the military. The Indians, who constitute more than half the population, continue to live in their traditional social structure and have not been appreciably susceptible to Communist influence. However, they are coming increasingly into contact with the modern world, and there are indications that they are beginning to aspire to a different way of life. We believe that a careful study should be made of the Indians as potential targets of subversion. Until such a study is made and policy decisions reached, we believe it desirable that such changes as may affect the Indians take place within the traditional structure of their society and social controls. ^{1/}

The Guatemalan military have political and economic importance that transcends their small role in hemispheric defense. In a national emergency or political crisis, the military become the controlling force in Guatemala and wield exceptional influence in determining who holds executive power. Because the military officers are drawn in large part from the upper, wealthy class, they are of special economic importance as well. We believe that it should be our policy to cultivate their good will and use our influence to enlist their support in furtherance of our objectives. ^{2/}

^{1/} See Part III - B for detailed discussion and recommendations.

^{2/} See Appendix A for detailed discussion.

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B. The Foreign Exchange Problem

The importance of foreign exchange to Guatemala's general well-being derives from a traditional reliance on imports for most manufactured products and for a significant percentage of staples. The recent sharp decline in Guatemala's foreign exchange reserves is, therefore, of serious import. During 1958, reserves fell from \$72 million to about \$50 million (see chart), and the USOM estimates that they will be down to \$20 million by December 31, 1960. ^{1/}

The decline in Guatemala's foreign exchange reserves stems from a number of causes. The fall of coffee prices from 64¢ to 44¢ a pound f.o.b. Guatemala from March 1957 to October 1958 is usually cited as the most important cause, as coffee accounts for two-thirds of Guatemala's foreign exchange earnings (see chart). The decline in ICA expenditures has been even more marked, namely, from \$21 million during 1957 to \$10 million in 1958. This problem has been aggravated by a great increase in imports. For example, imports in 1958 were estimated at \$133 million as compared with an average of only \$72 million per year in the period 1951-53. ^{2/}

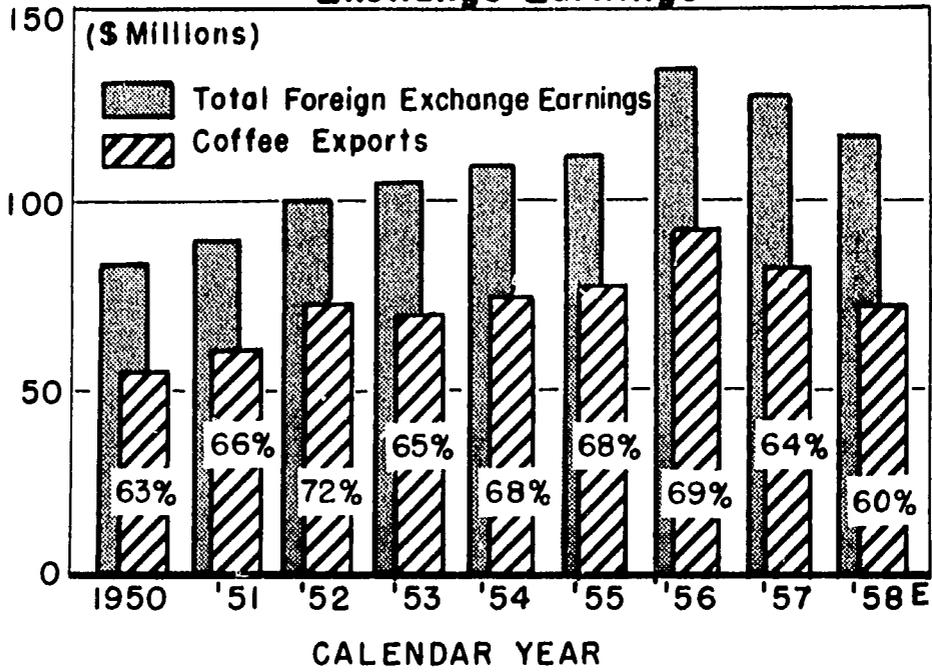
Moreover, the assassination of Castillo and subsequent political uncertainties have had a negative effect on domestic and foreign investments. Flight capital, which had begun to return under Castillo, has become increasingly wary.

^{1/} Master Program Book, C-3, December 31, 1958.

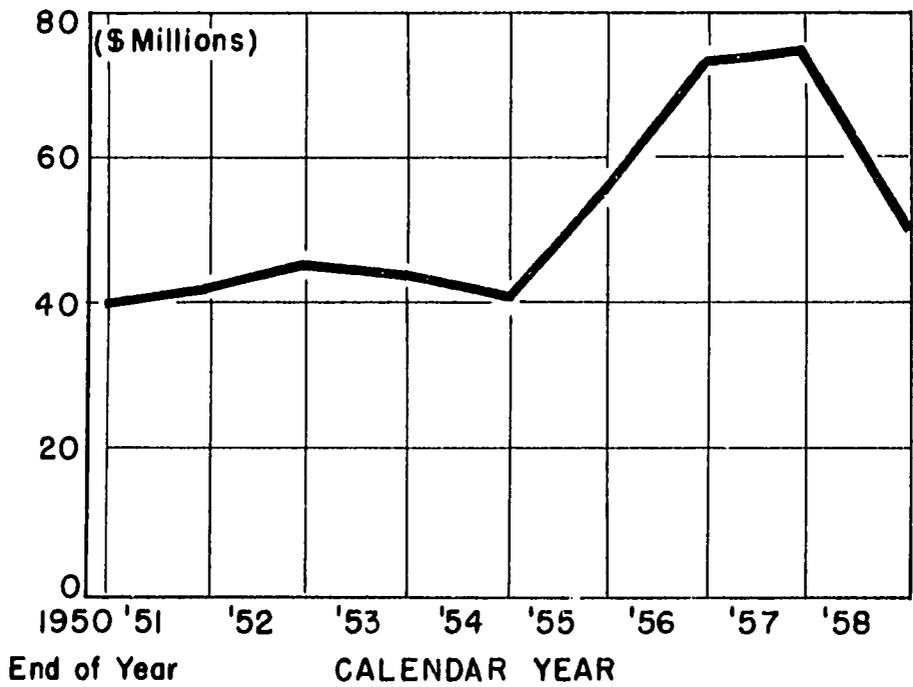
^{2/} From IMF Balance of Payments Yearbooks. According to the Bank of Guatemala, the price of imports rose only about 18 per cent between 1950 and 1958.

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Coffee Exports as Percent of Total Foreign Exchange Earnings



Foreign Exchange Holdings



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The fall of coffee prices is having a further negative effect on the economy. Government revenues, which depend heavily on an ad valorem-type tax on coffee exports, have been shrinking, thereby constricting the Government's operations and economic programs. The fall in coffee prices is also being used as a reason to reduce wages on the large coffee plantations. ^{1/} This development will almost certainly have a generally depressing effect on wages throughout the country. The phasing out of the highway program, together with a general reduction in purchasing power throughout the country, might well result in increased unemployment unless the slack is taken up in other ways.

Thus, unfortunately, the U.S. Government's decision to phase out grant aid has been followed by a number of unfavorable factors affecting the economy.

The picture, however, is not completely unfavorable. The ICA pipeline of \$13.5 million ^{2/} will continue to be pumped into the economy for perhaps another 18 months. Oil exploration expenses are at a high level and will probably continue for several years. Economic benefits are beginning to flow from the ICA and other projects already completed. This particularly applies to the roads, with traffic increasing, freight rates declining and nearby land values booming. The resettlement projects and the agricultural programs are beginning to increase

^{1/} While wage cuts tend to reduce foreign exchange needs, they increase the risks of subverting this important group of workers. (See Part II-A.)
^{2/} Grant aid and TC as of December 31, 1958.

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the availabilities of staples. The new enterprises of private domestic and foreign investors are also beginning to pay off. As late as December 1958 the manager of the Bank of America in Guatemala reported to us that, despite predictions of an internal business recession, he had not yet seen evidence of it.

But even with such favorable factors, the situation is clearly serious. What, then, are the prospects of a solution?

With a vast world surplus of coffee and the prospect of even larger future surpluses, the probability of restoring Guatemala's foreign exchange earnings through coffee is not bright. The discovery of oil in exploitable quantities would certainly relieve and perhaps solve the problem, but it is hardly prudent to stake the country's future on such an obvious gamble. Other means for solving Guatemala's foreign exchange problem must be sought.

The USOM pins high hopes on the contribution which rubber production can make. The large-scale program for rubber planting in the blight-free area of the Pacific Slope ^{1/} should begin to pay off substantially within five to six years and increase annually thereafter. Since the competitive advantage of rubber produced in this area over most Far East rubber is appreciable, these hopes appear justified. The Mission calculates that annual foreign exchange earnings from rubber should reach \$30 million by 1971. However, these estimates should be regarded with some reserve, especially in view of the development by Shell of polyisoprene, a "man-made duplicate of tree-grown rubber"

^{1/} See Part IV - Agriculture.

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currently being produced for 30¢ a pound.^{1/}

The potential foreign exchange earnings of forestry products, including pulp and tropical hard woods, are impressive. Guatemala's forests are in need of selective cutting to avoid trees becoming over aged. In the pine forests alone the annual deterioration is conservatively estimated as more than 125 million board feet, yet only about 20 million board feet are being cut.^{2/} American investors have sought authorization to exploit these forests for pulp exports and paper making in Guatemala. They have also been interested in exploiting the extensive hardwood forests. They have had no success. The possibilities of producing dramatic results by a careful program of combined exploitation and conservation seem so apparent that it is most discouraging to learn from the USOM how these proposals are being frustrated by politics, red tape and inhibitions against foreign investors in this field. The USOM has repeatedly urged the Government to tackle this problem but wholly without results. We believe that the Embassy and the USOM should continue their efforts in this direction. Perhaps the severity of Guatemala's foreign exchange difficulties may influence the Government to change its attitude.

Other factors could help relieve the exchange problem. Increased production of agricultural staples, to which the USOM and the Government

1/ See Appendix B for article from The Wall Street Journal, March 11, 1959, page 24.

2/ No accurate figures exist on this subject but these were the more conservative estimates of U.S. technicians in Guatemala.

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are giving serious but perhaps inadequate attention, ^{1/} would lower prices and reduce imports of such products as corn, cereals, beef, and poultry. Reduction in prices would also improve Guatemala's competitive position, thus facilitating exports.

Guatemala's progress toward modest industrialization should be. For example, the production of cement, ceramics and other building materials, the new tire factory, a number of foundries, and textile and flour mills should contribute toward reducing import requirements. Alternatives to coffee are being sought in the hope of finding new foreign exchange earners. Progress has been made with cacao, and the possibilities for livestock, fibers, macadamia and others are being investigated.

Lastly, measures to restrict imports have recently been taken but we lack information as to their effectiveness. On September 30, the Government decreed a temporary licensing system for 55 items reducing imports up to 75 per cent for a few items. On January 15, a new tariff act, aimed at the same objectives and apparently intended to replace the temporary licensing system, became effective. This selective reduction of imports appears wise. Increasing the costs of items used exclusively by the wealthy upper classes would appear justified while trying to hold down the prices of staples. If imports are not effectively controlled by the above measures, additional steps may have to be taken.

^{1/} See Part IV - Agriculture.

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Despite the favorable factors, a solution of the foreign exchange problem is not likely to occur soon enough to obviate the need for additional aid. In recognition of this, the Government of Guatemala, following discussions with the mission of Dr. Milton Eisenhower, submitted to the Development Loan Fund (DLF) four loan applications totaling \$33.5 million: 1) for rubber development, \$9 million; 2) for government-guaranteed housing mortgages, \$12 million; 3) for an expansion of the resettlement program, \$7.5 million; and 4) for industrial loans, \$5 million. Thus far, the rubber loan has been authorized for \$5 million at 5 3/4 per cent interest. ^{1/} The housing loan has been rejected as not falling within the DLF's criteria. The resettlement proposal has been returned to Guatemala for redrafting. The \$5 million industrial loan application is now being actively considered by the Export-Import Bank.

It would now seem appropriate to approve additional development loans, even though individual loans would not necessarily alleviate the balance of payments problem. ^{2/} Guatemalan expectations for such assistance have been raised by the public statements of U.S. leaders, discussions with the Eisenhower Mission (which included the heads of the DLF and the Eximbank), the publicity surrounding the establishment

^{1/} There are already reports that the Guatemalans consider this rate and other conditions of the proposed loan unduly onerous.

^{2/} See next section.

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of the DLF, and the fact that Guatemala was specifically encouraged to make loan applications as a substitute for the grants previously received.

Loans would also help offset the feeling of political uncertainty. The U.S. Government's strong support of Castillo and its failure to provide substantial new funds since the inauguration of the present regime have raised questions as to our attitude toward President Ydigoras. The \$5 million DLF rubber loan is a step in the right direction but politically it is the least attractive of the applications.

The Government itself needs to be reassured. President Ydigoras remains highly sensitive in his belief that the U.S. Government attempted to prevent his election. Since then, our Government has encouraged him to deal effectively with subversive elements, but he has been slow to respond. The Embassy believes that concrete indications are needed to reinforce our repeated oral assurances of friendship and interest in the success of his regime and in the future of Guatemala.

C. Can Loans Replace Grants?

The third problem facing the U.S. Government in Guatemala is whether financing will be adequate to achieve U.S. objectives. It is assumed that funds for a continuing TC program will be available.

1/ While rubber is important for augmenting Guatemala's export earnings, the loan will of necessity be used to assist the large proprietors who own most of the potential rubber-growing lands on the Pacific Slope.

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The question is whether loans of the character currently proposed and in amounts that might be approved will meet the needs of U.S. objectives. The decision to terminate the grant program clearly was based on the assumption that they would and the USOM continues to make this assumption.

However, in our opinion the prospects are not entirely favorable.

First, the foreign exchange situation is becoming more serious than had been foreseen.

Second, the loan applications now under consideration are for development projects. While an adequate rate of investment is essential for the achievement of U.S. objectives, it is not certain that the proposed loans will also help alleviate the balance of payments difficulties. Most such loans would probably be inflationary and affect the balance of payments unfavorably. Consequently, the economic effects of each loan can be determined only by a careful analysis of many factors, such as the purposes for which the foreign exchange is to be used, the import pattern, the rate of investment and the levels of consumption. No such studies have been made.

Third, loans will probably not serve the political purposes we believe essential unless special procedures are established to set up priorities.

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Recommendations:

1. That the U.S. Government have early discussions with the IMF and, if the situation warrants, the Government of Guatemala should be encouraged to seek aid from the IMF. (One of the few Latin American countries which has never drawn on IMF, Guatemala could certainly draw beyond her \$5 million quota, and such funds, together with a further draw-down of reserves, should see Guatemala through FY 60.)

2. That, meanwhile, every effort be made to rectify the balance of payments situation along lines the IMF might propose. (However, it is important that stabilization not be achieved at the expense of the economic growth needed to realize U.S. objectives.)

3. That at the earliest possible date a senior financial economist appraise Guatemala's total economic and financial situation. (The basic data available in Guatemala are not sufficiently reliable to provide a clear picture without substantial and careful evaluation. The Mission indicated that because of other requirements and a lack of staff it has been unable to make this kind of comprehensive study.)

4. That the USOM in consultation with the economist survey potential loan applications to determine their contributions to solving the foreign exchange shortage.

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5. That the Country Team be requested to evaluate the political importance of the various projects and establish priorities to be used by the Department of State in making recommendations to the lending institutions.

6. That Guatemala be included among those countries to be given priority by the DLF.

If the above steps do not prove effective and adequate, the United States may have to resort again to grant aid.

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PART III - PROGRAM POLICY PROBLEMS

The purpose of this part of the report is to analyze three program policy problems related to the formulation and execution of the program as a whole: 1) Concentration on the Pacific Slope; 2) The Indians; and 3) The Difficult Role for Private Enterprise.

A. Concentration on the Pacific Slope

In developing the program, the USOM decided to concentrate on a single geographic area, the Pacific Slope, in line with a concept frequently advocated in ICA. This policy has guided not only the agricultural and resettlement programs but also those in public health, education, and other fields. There have been exceptions, such as ICA's efforts in Guatemala City, on the Atlantic Highway and in the Zacapa Valley.

The choice of the Pacific Slope as the area for concentration was dictated by a variety of factors. During the Arbenz regime, Communism had gained influence with the agricultural workers of the coffee plantations and of the United Fruit Company, making a program in this area imperative. With excellent climate and soil and a sparse population, it was the only area in Guatemala where a dramatic demonstration could be made of how to raise living standards. The central highlands have historically been the most highly cultivated area, but soil fertility is depleted, the area is overpopulated, and development

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possibilities are limited. The Atlantic area and the Peten are mostly jungle and for the time being largely unsuitable for agriculture.

The problems which formerly restricted cultivation of the Pacific Slope for other than tropical fruits at lower levels and coffee at high levels are now in the process of being overcome by modern science. It is now becoming feasible for individual settlers to use this area for horticulture, row crops and animal husbandry. Malaria is being eradicated; earth-moving equipment is facilitating clearing of the jungle; highways and feeder roads are opening the area; agricultural research is revealing effective methods of controlling weeds, insects, and plant diseases; and the soil, when leached by torrential rains, can be restored through crop rotation and fertilizers.

The USOM also wanted this area developed in order to attract settlers from the overpopulated, depleted highlands. And the area gave promise of helping to increase the national production of staples and earners of foreign exchange.

While we generally agree with the emphasis given the Pacific Slope, we believe two caveats need to be observed.

First, most of the land is in large estates. Development inevitably enhances land values, thus making the rich richer. Already cheap land is growing scarce, thereby jeopardizing purchases of land for the resettlement program. ^{1/} The Government will have to take vigorous steps such as enforcing the tax on unused lands, to reduce excessive speculation.

^{1/} See Part IV.- Rural Resettlement.

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Second, there is danger in attracting too many prospective settlers, especially from the highlands, without their being able to obtain land. A study financed by the U.S. Government immediately after the fall of the Arbenz regime concluded that the strongest factor in making people susceptible to Communism in Guatemala was their movement from one part of the country to another. The resulting destruction of social controls would appear to be a special danger in the case of the Indians. ^{1/} Unless land can be obtained and divided among small settlers, the tragic result of concentrating this development effort on the Pacific Slope might be that the jungle lands will be developed as "factories in the field" by the landlord class. Indeed, this is already beginning to happen. The further growth of a rural proletariat in this area could stimulate the growth of Communism and thereby jeopardize the principal objective of U.S. policy in Guatemala.

As this is a period of general transition in Guatemala, a re-examination of the policy of geographic concentration in the light of the changed situation would seem appropriate. Initiated in connection with a crash effort, the program has in our judgment shown real progress. But it would now seem well to consider whether a bit more attention might also be given to other parts of the country.

An important ICA objective is to increase the country's total agricultural production. Yet most of the country's staples are grown in the highlands. It is usually true that increases in production can

^{1/} See following section.

THE DEPARTMENTS OF GUATEMALA

(The Percentage of the Population Which is Indian)



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be achieved more rapidly on cultivated land than by bringing new lands into production, particularly if land clearance, resettlement and training are involved. Therefore, attention should be given to increasing the agricultural productivity of the highlands. At the same time, another ICA objective, that of relieving population pressure in the highlands, would be served.

Specifically, we make two recommendations:

First, that greater support be given to the Guatemalan Indian Extension Service (SFEI) in its efforts to increase production in the highlands and to other aspects of its activities, as described in the next section.

Second, that agricultural research be increased in the highlands and initiated on the Atlantic side and in the Petén. ^{1/} Since meaningful answers require years of effort, this work should begin now.

B. The Indians

The Indians of Guatemala (see map) deserve special attention as a group potentially susceptible to Communist subversion. They are a majority of the total population, and any change in their attitudes should be reviewed on a continuing basis. Their economic importance is substantial, as they produce the bulk of the country's staples.

^{1/} Heretofore, the USOM has strongly opposed extending research to these areas. But as we complete the report, we note the Mission's new project "Survey of Developmental Possibilities in the Petén." (No. 20-99-094)

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The ICA program has deliberately ignored the Indians. The program was designed to influence the politically articulate, which the Indians clearly were not. Nor have they thus far been susceptible to Communist subversion. Desiring an impact-type program, the ICA decided to concentrate its efforts on the Pacific Slope, as described in the preceding section. Admittedly any program dealing with the Indians would have been complex and would have required much careful preparation. The USOM also recognized the dangers of attempting to change the Indians too fast thereby freeing them from their traditional social controls and making them susceptible to subversion.

As the highlands were overpopulated and the soil depleted, the USOM felt that the Indians should be encouraged to resettle voluntarily in the Pacific lowlands. An arrangement was made with the SFEL, the Guatemalan Government's agency for helping the Indians, whereby the USOM would not directly concern itself with the Indian provinces. From a short-term point of view, the USOM's approach seems to have been essentially correct but, in the longer view, should be reconsidered.

While the rate of change among the Indians has been negligible for 350 years, it has been rather marked during the last decade. With the construction of roads, the presence of tourists, and the introduction of radio and schools, ferment is beginning. Some of the young people are becoming dissatisfied and seeking employment elsewhere. To some extent they are leaving their traditional way of life to become ladinos (westernized).

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Destructive types of change might well result from: (a) a careless policy of introducing new ideas and creating dissatisfaction or (b) the improvement of conditions elsewhere while leaving the Indians without hope for betterment within their traditional society. We fear that a continuation of the policy of neglecting the Indians while emphasizing the Pacific Slope development could cause this very result.

It is suggested that the answer is to be found in improving the lot of the Indians -- to the extent possible -- within their own social structure by using community development methods. A modest program for this purpose, undertaken by SFEI, has been hindered by the lack of funds and staff. SFEI has received a slight amount of help from the USOM through the Agriculture Servicio. In the hope of getting greater support, it has been proposed that SFEI be integrated into the Servicio.

Just before our departure, we learned of a possible alternative to encouraging the Indians to settle on the Pacific Slope. We were told that already many Indians are voluntarily moving northeast into the unoccupied jungle of Alta Verapaz and the Southern Peten. The significant feature of this movement is that it is being undertaken by the Indian municipios (municipalities) with their social organizations and controls remaining intact. We suggest that the USOM study this alternative and consider whether the Government and SFEI should be encouraged to facilitate this migration by building minimal roads

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from the highlands and by assistance of the community development type.

We wish to make the following specific recommendations:

1. That a special study be made of the Indians in Guatemala to determine what steps should be taken in the interest of U.S. objectives. Such a study, preferably by an American foundation, should include determination of the rate of change and factors stimulating change, the means of raising the standard of living without destroying existing social controls, and such other measures necessary to prevent the Indians from becoming susceptible to subversion. The Country Team endorsed such a study. ^{1/}
2. That any integration of SFEI into the Agriculture Servicio not prejudice SFEI's autonomous status or basic approach to the Indian problem.
3. That more effective support be provided SFEI in all phases of its work, especially through agricultural extension and research.
4. That the USOM consider whether ICA's Community Development Division could help SFEI. Such help would not necessarily imply the assignment of additional U.S. personnel to Guatemala. Perhaps SFEI's imaginative and dedicated director, Senor Jaime Wild, might be invited to observe successful community development programs, as in India, Pakistan or the Philippines.

^{1/} We note that the USOM recently proposed such a study. Project No. 20-99-095, dated December 31, 1958.

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C. The Difficult Role for Private Enterprise

Promoting private enterprise in Guatemala is complicated by a half century of experience with large American firms, which have been regarded with suspicion and dislike. They have frequently embarrassed U.S. relations with Guatemala and prejudiced Guatemalans against private enterprise. This is especially unfortunate since private investments, foreign and domestic, are urgently required for the country's economic development.

Of the three major U.S. private companies, the International Railways of Central America (IRCA) has the largest investment ^{1/} and the worst reputation. Its management has been tactless in dealing with the Government as well as with labor. Wages have not been raised in over ten years, and demands for wage increases are publicly equated with pro-Communism. The Company's antiquated equipment provides a caricature of American efficiency and progress. Currently the railway is being operated by the Army because of union threats to shut down operations.

The Empresa Electrica, a subsidiary of American & Foreign Power, is trying to improve its position. Its labor relations are notably better than the Railway's. Its proposed investment program of over \$30 million could make a substantial economic contribution but hinges on a new agreement with the Government. Its rate structure, which has not been altered in many years, is considered by Guatemalans to be excessively high, and even company officials privately

^{1/} Book value: \$70 million.

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admit that it must be revised. Public relations have been poor.

The United Fruit Company (UFCO), originally a [^]bête noire, has tried hard to improve its position. Its wage scale is now the highest in the country, and workers receive substantial fringe benefits. Despite constant efforts to improve public relations, the Company continues to be a target of the nationalists, who resent its bigness and the fact that its extensive lands were originally acquired by what they regard as dubious means. The Company still has a few lessons to learn. Its company-sponsored union has been kept from affiliating with ORIT, the inter-American labor federation of which AFL and CIO are members. ^{1/} And the Company's paternalistic welfare activities so encompass the lives of its employees as to create resentment.

The Company is currently investing \$15 million on its Atlantic ^{2/} properties and is considering large-scale cattle raising on the Pacific Slope.

UFCO representatives informed us they are considering the construction of a Pacific port, thereby eliminating banana shipments from the Pacific Slope to the Atlantic. Recognizing the rising tide of nationalism, the Company would prefer to make this investment cooperatively with the GOG and permit the port to be of general use. Company officials suggested that the U.S. might consider a loan to GOG to finance its share.

^{1/} See Part IV - Labor

^{2/} During a three-year period.

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The Embassy is encouraging these three companies to improve their relations with the Government, labor and the public. It is also seeking to facilitate the negotiations necessary for these companies to continue their investments.

A number of smaller companies with U.S. capital participation have been established and are in fact demonstrating how progressive management operates. These are engaged in manufacturing (tires, soluble coffee), mining, construction, rubber growing, and petroleum exploration. But despite several attractive offers by American firms in the cutting and processing of forestry products, the Government apparently considers this area too sensitive to permit foreign investment.

The USOM is particularly eager to see private companies invest in Guatemala in order to provide examples of progressively managed American enterprise. Such companies might also encourage a more competitive spirit among Guatemalan industrialists, who lean toward monopoly and protection.

While the USOM has no investment officer, it has been the Mission's policy to use all of its divisions to encourage foreign investments and stimulate domestic private enterprise. We saw a number of examples where these efforts had been successful.

Recommendations:

1. That the USOM reinforce its efforts along the above lines.
2. That the Embassy and USOM continue their efforts to permit foreign investors to exploit Guatemala's forest reserves. ^{1/}

^{1/} For discussion, see Part II - B, The Foreign Exchange Problem.

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PART IV - IMPORTANT ASPECTS OF AID PROGRAMS

The more important aspects of the USOM programs, with particular reference to their contributions to the achievement of U.S. objectives, are next discussed.

The character of these programs is now in process of change. Through FY 58, most programs have been financed from a combination of EC and grant aid. The only exception was public administration, supported solely by EC funds. Beginning with FY 59, the entire program, excluding public safety which is financed from Special Assistance, has become exclusively EC, although a \$13.5 million pipeline of grant aid and EC remains as of December 31, 1958. This pipeline consists principally of funds for rural resettlement, housing, highways, and education, in that order.

A. Highways

The highway program has been the largest single element in our aid program. It has involved \$24 million of grant aid, primarily to help Guatemala build the Atlantic and Pacific Highways now nearing completion.^{1/} These funds have been used for local currency costs inasmuch as the World Bank had lent Guatemala \$18.2 million to finance import requirements, including the cost of American supervisory

^{1/} As of December 31, 1958, \$1.1 million for access roads remained to be spent.

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engineers hired by the Government of Guatemala. ICA funds have not been used for technical supervision since the services of the Bureau of Public Roads as advisers to ICA were made available.

The program has in our opinion been generally effective and successful. It did much to alleviate the serious unemployment of Castillo's early days, and it has since provided employment and training to thousands of workers. The highways are obviously of good quality and make an excellent impression; they should constitute a lasting monument to our efforts. There were, to be sure, delays and cost increases but not of such proportions as seriously to hinder the end result.

The new roads have already had a notable effect in cheapening transportation, especially of crops and essential commodities, such as petroleum, to consumption areas in the interior. They should also help the export trade. Land values have risen markedly in the areas through which highways have been built, and substantial private development is visible. The Pacific Highway has been an essential element in our program to develop the Pacific Slope. It is hard to conceive of a successful resettlement program such as we are attempting without a major road of this kind. If the Zacapa Valley develops into a large truck-gardening area for Guatemala City and for exports to Salvador, the highway program will be in large part responsible.

The major highways are of course in direct competition with the American-owned railroad, IRCA, and the Atlantic Highway has been

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specifically cited by railroad officials as a factor that will make profitable operations even less likely in the future. However, even these company officials admitted that, from a Guatemalan point of view, the highway was justified. Moreover, U.S. assistance demonstrates that our policy in such matters is not dictated by the profit motive of an American company.

We are not making recommendations in this field as the program has been virtually completed. However, we wish to point out two factors that may become important. First, the major roads have in large part been cut through difficult terrain that will require some years to stabilize.^{1/} Consequently, the maintenance of these roads will place a heavy burden on Guatemala in the next few years and may give rise to requests for further U.S. assistance. Second, if the situation in Guatemala should deteriorate seriously and unemployment become a critical problem, highway construction might again be used as a means of employing large amounts of labor quickly and productively.

B. Rural Resettlement

The second largest USOM program in Guatemala, rural resettlement, was undertaken in 1955 as a means of coping with the legacy of the Arbenz regime's chaotic agrarian reforms and the problems posed by some 80 to 100 thousand landless farmers, many of whom had settled as squatters on lands of the United Fruit Company. This program, for

^{1/} Also true of the Inter-American Highway.

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which \$12 million of grant aid was authorized, ^{1/} has been the principal instrument by which we have sought to enlarge and strengthen a non-Communist rural middle class.

Given the political sensitivity of such a program, it was decided that private contractors rather than ICA itself should be used. After an early survey, a contract was signed with the International Development Services, Inc. (IDS) of New York which, under the general supervision of the Mission Director, quickly undertook a rural program involving regional development, project development and colonization, and supervised credit. IDS assisted in the drafting of a new land reform law which formed the basis of the program. Today IDS employs some 19 technicians in Guatemala.

Initially six tracts, consisting of five Government farms and one large area (Nueva Concepción) deeded to the Government by the United Fruit Company, were selected for development, which has now been essentially completed. In 1957, 23 additional properties were made available by Castillo's government, but 12 of these were later withdrawn when only half of the money available for the development of the 23 had been spent.

Since the assassination of Castillo, the program has encountered increasing difficulties. No new lands have been offered, and no one in the Government has assumed responsibility for guiding rural resettlement.

^{1/} From the USOM's Summary of Program Funds as of October 31, 1958.

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There has been a reluctance to accept the USOM's position that settlers should have enough land (about 50 acres) to improve their standard of living rather than tracts so small as to provide only a bare subsistence. It seems quite clear that some conservative elements in the Government, fearful of the political and social implications of fostering an independent rural middle class, are finding excuses for delaying the program. Even so, the Government, while unwilling to relinquish public lands, ^{1/} seems prepared to move ahead with the purchase of lands adjacent to older projects. The application to the DLF for a \$7.5 million loan is designed for this purpose.

The Team visited several resettlement projects, including the major tract at Nueva Concepcion. In general, we were favorably impressed by the magnitude of the job done in a short time. Some 3,800 families had been resettled and most of them provided with decent housing, community facilities and credit. Guatemalans have been trained in many fields including mechanization, road building, land clearing, credit supervision, extension work and rural medicine. Perhaps most important, the settlers themselves have a chance to become independent middle class farmers rather than landless peons.

But despite these accomplishments, with \$8 million for this project still unexpended, a resolution of the current impasse with the

^{1/} This involves a complicated question of whether the Government has clear title to the lands seized from German citizens during the war.

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Government cannot be postponed indefinitely. Certainly the Embassy and Mission are more competent than are we to counsel action and timing.

In the event the impasse is resolved and the program continued, we feel that the close identification of IDS with the Mission should be re-examined. Certainly one of the reasons for using a contractor was to prevent ICA's direct involvement in these operations. In practice, this objective has not been realized as the IDS, in accordance with the Mission's wishes, has offices with the USOM and operates as though it were a USOM division.

We believe that this program as originally conceived was sound and that Castillo needed support in a field where the Communists had been so active. The program was designed to settle 25,000 farm families by 1962. On the basis of an estimate that there were 85,000 rural families in need of land, it was determined that perhaps 50,000 should be settled on their own property and that industrial expansion would absorb the remaining 35,000. In fact, it has been possible to resettle only 3,800. It seems clear that hopes have been raised which, if left unsatisfied, could be dangerous.

Recommendations:

1. That every effort be made to move forward with this program, now blocked by the Government's unwillingness to provide additional lands.
2. That the close identification of the contractors (IDS) with the USOM be examined since it is inconsistent with the original reason for hiring contractors.

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C. Agriculture

The major importance of agriculture in Guatemala needs little elaboration. It accounts for about 95 per cent of Guatemala's exports and employs roughly 75 per cent of the labor force. About half of the farm land is in large tracts owned by 1,100 families with the balance consisting of 105 large national farms or fincas and many thousands of small subsistence units. The problems of Guatemalan agriculture are compounded by the wide range of soil and climatic conditions and the great variety of products. In general, operations are inefficient, farmers are slow to diversify, wages are low and production costs high due to low productivity. Under these conditions, it is not surprising that prices of basic foods are too high. The political effects of such high prices on the lower classes, including the groups mentioned in Part II-A, are obvious.

Following thirteen years of small-scale cooperation with our Department of Agriculture, a jointly-administered Agriculture Servicio (SCIDA) was set up in January 1955 with each country contributing equally to an operating fund. The GOG provides land and most of the buildings and the United States covers the salaries and most expenses of 23 U.S. technicians.

The program encompasses: 1) Research, 2) Extension, 3) Sales of agricultural supplies and equipment, 4) Training, 5) Operation of the Forestry School, and 6) Administration of the University of Kentucky contract for improving organization and instruction at the College of Agriculture.

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The total TC program in agriculture for FY 59 is \$1.15 million compared with \$1.2 million in FY 58.

As pointed out by the USOM itself, the fundamental problem has been that the Servicio "has embraced a too extensive group of functions," some of which should be carried on by the Government using U.S. consultants where necessary. ^{1/} Plans envisage the gradual transfer to the Ministry of financial and operational responsibility, with U.S. advisers retained where needed. For example, by July 1, 1960 all research activities, except on rubber and possibly cacao, are to be transferred to the Ministry.

Agricultural Research

Research has been carried out in a great variety of fields including -- to mention a few -- coffee, rubber, cacao, corn, wheat, potatoes, forage crops and livestock. We visited most of the experimental stations where this work is being done and in general were impressed by the caliber of our technicians.

Coffee. Very successful work has been done in enhancing the productivity of Guatemalan coffee, cutting production costs, and disseminating technical information to farm managers. An example of successful experimentation is the development of "sun-hedge" techniques by which as much as a tenfold increase in yield has been obtained.

^{1/} Master Program Book -- Comment on Project 20-10-900.

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While we were favorably impressed by the results and the apparent competence of U.S. technicians, we have reservations as to the wisdom of the United States continuing to finance such work.^{1/} With world-wide overproduction and with production increasing more rapidly than consumption, it seems inappropriate for the United States to help finance programs that are, in fact, compounding a world problem. This situation is of course not confined to Guatemala and needs to be considered on a global basis. We realize that our participation in this particular project may be difficult to phase out, given the GOG's understandable interest in its principal export crop. Nevertheless we believe that as soon as feasible this work should be taken over and paid for entirely by Guatemalan interests, perhaps employing American technicians.

Rubber. The problem of finding alternative crops so that marginal coffee land can be taken out of production is a serious one. Rubber is one of the most promising for lower altitudes (600 to 2,000 feet). This is especially true in a belt of some 200,000 acres on the Pacific Slope where climatic conditions reduce the destructiveness of the South American leaf blight to negligible proportions.^{2/} High yielding clones (varieties), which are not resistant to the blight, are grown there. Goodyear has recently bought a 3,000-acre tract, and extensive

^{1/} In FY 58 the U.S. contribution was \$125,000.

^{2/} It is this blight which makes it unprofitable to grow rubber in most of South America. There are only two or three other small blight-free areas in the Americas.

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plantings are in progress in this area. Conditions for rubber production also exist in the Atlantic Coast area, parts of Alta Verapaz, and undoubtedly large parts of the Petén, but only trees resistant to the leaf blight can be grown in those areas and such trees produce low yields. Given favorable market prospects for natural rubber and the current interest of American rubber companies,^{1/} we agree with the USOM that rubber is promising as a replacement for coffee in some areas and a potential earner of foreign exchange. Since production per acre in this area is approximately four times as great as the average for the Far East, there would appear to be a substantial competitive advantage.

The political and sociological aspects of rubber development are less attractive. Most of the suitable land belongs to big landowners. The benefits of the \$5 million DLF loan recently authorized will necessarily go primarily to these large landowners who have continued to pay their laborers as little as possible.^{2/} However, in view of the substantial economic advantages in terms of foreign exchange earnings, the risk seems worth taking.

The primary purpose of the experimental work conducted in Guatemala for well over a decade and a half has been to develop a high-yielding clone resistant to the leaf blight. This experimentation can only go forward in an area, such as described above, where the blight exists but in a form not sufficiently virulent to destroy the young

^{1/} Firestone also has an experimental farm there.

^{2/} With this in mind, the DLF has placed a \$100,000 ceiling on credit to any one applicant.

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plant. If the program eventually proves to be successful -- and its success appears assured -- it will mean that high-yielding clones can be grown in many parts of Guatemala and elsewhere in the Americas. It could also be a boon to rubber producers the world over who fear that the South American blight might reach the Far East and destroy production there.^{1/}

The work being supervised by American technicians is impressive, with experiments involving selection, budding and pollination being conducted on a vast scale and with apparently great competence. Improved seedlings are also being produced as nursery stock for plantings in the blight-free area.

This work is to be turned over to the Government of Guatemala together with all other agricultural research by the end of FY 60.^{2/} Yet there is not one competent Guatemalan to take over this work. The U.S. Government has in its possession the most promising clones, but much U.S. investment of time and money would be lost if the experiments were not continued in Guatemala for some years. Since this work, in our judgment, is as much in the interests of the United States and other countries as in Guatemala's, we suggest that the normal Point IV

^{1/} Far Eastern rubber experts visiting plantations in the new world are reported to be so fearful of this that they destroy their clothes before returning.

^{2/} We have just learned that the Mission now plans not to transfer rubber research to the Ministry as previously planned (TOICA A-851, Feb. 5, 1959).

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principle of phasing out our participation not be rigidly applied. Only by good fortune have our scientists been able to obtain continued access to plantings at the old experimental station on privately-owned land, the lease on which expired before the results were fully available. Since the ICA agreement covering work at the new station at Los Brillantes will expire in July 1960, we believe steps should be taken now to provide suitable protection for our research investment there.

Other Research Problems. Particularly impressive is the need to reduce prices of staples, especially those such as corn and beans, of such importance in the diets of the poorer classes. We discussed this problem with the Mission, which agreed that even greater emphasis should be given to work in this field.

We also noted the potential for further development of livestock production. Some experimental work is being done on hogs, poultry and dairy cattle. However, we gained the impression that there is a wide scope for livestock development, certainly to fill the domestic deficit and possibly for export. We were repeatedly told that at altitudes between 2,000 and 5,000 feet livestock appeared to be the most promising replacement for coffee.

One of the problems noted was the lack of reliable long-range estimates of world-wide production and consumption of tropical crops. While such information exists in Washington, it is not readily available in a form useful to most field technicians, especially generalists.

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Agricultural Extension Service

The goal in this field is to develop a nation-wide network of 60 extension offices with supporting activities in the fields of information and visual aids, youth clubs and home demonstration. We visited several of the 28 offices now in operation and concluded that progress has been very good and that extension services are beginning to be widely used.

The sale of equipment and materials has posed some problems, since there have been cases where sales have continued after the establishment of normal retail outlets. We believe effective steps have been taken to stop this practice. Plans call for termination of all sales by 1960, except in the most remote areas.

The Service has cooperated with the Indian Extension Service (SFEI) which works only in areas over 80 per cent Indian. We found that this relationship has been fruitful, but perhaps greater support could be given to SFEI, as indicated in our discussion of the Indian problem.

Training

Agricultural training has been given some 75 technicians and has varied from short courses in Guatemala to study tours and academic work abroad. Twenty-five trainees have done, or are doing, academic work in the United States and Puerto Rico.

A fundamental problem is that many participants have not had adequate basic training. It was therefore suggested that both the Agricultural School at Barenas and the College of Agriculture of the

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University need up-grading. With respect to the College, we were informed that effective work is being done under the University of Kentucky contract. However, as nothing has apparently been done to up-grade the School, we suggest that this problem be examined to determine the feasibility of assistance from the Servicio. We understand that the USOM has been reluctant to assist the School because of the lack of discipline and organization there.

Forestry School

Although Guatemala has tremendous timber resources,^{1/} there is not one graduate forester among the 300 employees of the Forestry Service. The Forestry School at Amatitlán, now in its first year, is designed to provide trained foresters both for the Government and for private industry. This, the only school of its type in Latin America, will have places next year for ten students from other Latin American countries. Entrance is gained by competitive examination followed by the weeding out of marginal students. The school gives the impression of efficient management and excellent morale. It seemed to us an outstanding example of what can be accomplished in a short time by a servicio. The phasing out of U.S. participation at the end of FY 60 seems premature, especially since the school is to be used for third country training.

^{1/} The problem of using these resources is discussed in Part II-B -- The Foreign Exchange Problem.

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Recommendations:

1. That the emphasis already given to the production of staples be increased to reduce prices, primarily in the interests of the lower classes. Specifically, greater attention should be paid to increasing productivity in the highlands.
2. That greater emphasis be placed on specialty crops to replace coffee.
3. That research and extension be oriented as far as possible toward the small farmer rather than the large landowner.
4. That, given the heavy world coffee surplus, ICA phase out its participation in coffee research.
5. That steps be taken now to protect U.S. interests in rubber research after this activity is turned over to Guatemala.
6. That the possibility of up-grading the Agricultural School at Barcenas be examined.
7. That ICA/W collaborate with the Department of Agriculture in publishing an annual world-wide report on tropical crops with long-range estimates of production and consumption specifically designed to assist field technicians. Such reports might include suggestions about new crops and warn against encouraging others.

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D. Housing

Reporting recently to the President on U.S.-Latin American relations, Dr. Milton Eisenhower pointed out "housing is high on the agenda of nearly every inter-American conference and in all discussions such as I was privileged to have this summer."^{1/}

The situation in Guatemala is no exception with high rents for generally inadequate housing often absorbing as much as 40 per cent of the incomes of the lower and middle classes. In Guatemala, the difficulties are compounded by high interest rates, the unavailability of long-term capital and the absence of building and loan facilities.

After a review in 1955 of earlier housing investigations, a team of U.S. consultants proposed a demonstration housing project in Guatemala City and a project agreement was signed in June 1956 to build 1,000 units of "aided self-help housing" in the Capital, using a development agency, Inter-American Houses, activated by the GOG in October of that year. This program was expanded in April 1958 to cover 500 additional units in the Capital and 2,500 to 3,000 in selected urban centers of political importance. Total U.S. grant funds programmed have been \$3.8 million,^{2/} of which about \$2.8 million has been obligated. The number of U.S. technicians, financed with TC funds, is to be increased from 3 to 7 to cover the needs of the expanded program.

^{1/} Report to the President by Dr. Milton S. Eisenhower on United States-Latin American Relations, January 4, 1959.

^{2/} Including \$1 million in local currency, (Master Program Book, revision dated December 31, 1958).

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This program was aimed at both political and economic goals. Politically, it was intended to broaden the base of home ownership, raise standards of living and health, and develop community interests in areas of unrest. Economically, it was designed to lower family expenditures for housing (thus broadening purchasing power) and encourage private enterprise and investment capital to undertake the financing of housing developments.

The program envisaged three special facilities:

- 1) Government-owned land to be made available at original cost rather than current market value;^{1/}
- 2) Twenty-year amortization at 4 per cent instead of repayment in five years at 8 per cent; and
- 3) Duty-free importation of materials and equipment.

The monthly payments are designed to cover all actual outlays except the salaries of U.S. technicians.

An essential feature of the project was that a prospective owner's down payment would, in effect, consist of his contributing 20 hours a week of work on units to be finished in about 18 months.

After more than two years, the first 28 units were inaugurated in December 1958. We were present at the ceremony attended by the President and the American Ambassador. Based on observations then and during previous visits, we were impressed by the psychological impact

^{1/} Government-owned land may not be available for all future projects.

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and success of this program. However, we feel that it has been entirely too slow and agree with plans to shorten construction time but without too great a dilution of the important self-help ingredient.

After examination of the project agreements and discussions in Washington, we have concluded that the continuity of this important project has not been adequately assured since no arrangements have been made with the GOG to provide for the use of mortgage repayments in a revolving fund. It was originally intended that such a revolving fund be set up, and when we were in Guatemala we understood that this was being done. Senator Ellender had this same understanding.^{1/} However, we have now learned that a decision had been reached by ICA/W that the inclusion in the project agreement of specific language to this end would be without meaning since the United States would be unable to enforce its implementation.

We feel this misses the point, as it is even more in the interests of the Guatemalan Government to see that this program continues than in our own. But in the absence of any concrete arrangements the temptation will be strong for the officials receiving the funds simply to enter them as general treasury receipts. It seems to us that what is needed is a semi-autonomous institution or, if this is not possible, then the reorganization of the present governmental unit so that it can

^{1/} "The laborer pays a monthly note of \$15, which amortizes the purchase price over a period of 20 years. The proceeds will be used to create a revolving fund which will be used to erect other homes." A Review of United States Government Operations in Latin America by Honorable Allen J. Ellender, 1958, p. 48.

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administer a revolving fund which, hopefully, could be augmented. If a semi-autonomous or even a semi-private institution were established, it might attract private capital by raising the interest rates. Almost certainly the houses will increase in value, and higher interest rates should not prevent the success of the program.

We therefore believe that the USOM should enter into negotiations with the GOG to obtain the commitments envisaged in both existing project agreements. Similar arrangements already existing in Chile, Taiwan and Korea might be useful precedents. We are convinced that such a written agreement, even though lacking enforcement provisions, is a much better safeguard than no agreement at all.

Recommendations:

1. That this important program be accelerated as proposed by the USOM but without losing the self-help ingredient in the process.
2. That the USOM negotiate arrangements with the Government of Guatemala to use mortgage repayments as a revolving fund.
(See Part IV-Labor for recommendation on possible self-help housing for members of labor unions.)

E. Education

This program emphasizes teacher training, rural and urban education, vocational training and a project for providing vocational and special training for Guatemalan Army recruits. The present staffing

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pattern includes 25 technicians. For the fiscal years 1955 through 1959, \$1.8 million was programmed from TC funds and \$1.4 million from Special Assistance funds.

The political significance of education is demonstrated by persistent Communist efforts to subvert teachers, students and intellectuals. The degree of Communist success in Guatemala has aroused the USOM, which rightly considers education a primary means for supporting over-all U.S. political objectives. From a longer viewpoint, there is also a need to emphasize the educational role in citizenship and training of skills.

The full implications of education are clearly understood by the leadership of the Embassy and USOM, but not by all subordinate ICA technicians. Some parts of the program appear to be only vaguely related to basic U.S. objectives. For example, while the rural program appeared to be an effective program per se, its political significance appeared blurred and the ramifications of the Indian problem ^{1/} were not understood.

The program for training empiricos (uncertificated teachers), of whom there are 3,000 of the 8,000 teachers, is impressive for method and content. Each teacher gets two years of training prior to certification: two full summers at a normal school and on-the-job assistance during the school year by expert "helping teachers." This approach is widely used in the United States.

1/ See Part III - The Indians.

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The USOM cooperative urban education program is to be concentrated initially on seven cities which were selected in collaboration with the Embassy principally because of the success of Communist efforts in them. The program seeks to elicit the interest and cooperation of local organizations and of parents in a community-oriented school program. We felt that the basic approach was proper but that more careful planning of this program was required.

Reforming the 17 normal schools is another important project. As the only secondary schools in the country, they are inadequate both in that capacity and as teacher-training institutions. The USOM has wisely urged transforming three or four into genuine teacher-training high schools, the rest into high schools. This proposal has run into resistance from those normal schools to be changed into high schools. A bit more attention needs to be paid to Guatemalan sensibilities in handling such matters.

The new emphasis on vocational education requires little explanation. Clearly the country needs these skills for its economic and political development.

The proposed program for vocational training of military recruits is already being partially implemented by the Guatemalan Army. ICA's participation would be aimed at up-grading and enlarging this effort. The program appears to have run into some difficulties of Guatemalan origin. The significance of this program lies in the fact that it would provide vocational and citizenship training in a country thus far

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unable to give elementary and vocational education to all of its young people. It would give new meaning to service in the armed forces.

Recommendations:

1. That the program be continued generally along present lines.
2. That the new urban program be more carefully planned.

F. Public Health

In a country as backward as Guatemala and with a population predominantly Indian, it is not surprising that most Guatemalans are not healthy. There is a high death rate from such preventable diseases as malaria, intestinal parasites, influenza, pneumonia and dysentery. A Pan American Sanitary Bureau (PASB) report shows that the death rate in 1952 from diarrheal diseases was higher than in any other American country. With more than half the population barefooted, there is a heavy incidence of hookworm. Other conditions contributing to very low health levels are poor housing, lack of potable water, inadequate sewage disposal, and a diet low in animal protein.

Although the Public Health Servicio (SCISP) was created in 1942 and carried on a successful program for its first six years, its activities between 1948 and 1955 were limited to projects for the Hospital Roosevelt and National Nursing School. Since 1955 the program has been broadened and expanded to include the training of doctors, sanitarians and nurses; the development of water supply and latrine installation in

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the Pacific Slope area; and assistance to the GOG in development of its sanitation program, including health education training.

The bulk of the U.S. funds programmed for public health consists of \$1 million of grant aid for environmental sanitation. The TC program for FY 59 calls for an expenditure of \$435,000, of which the U.S. contribution of \$200,000 to the Servicio is a part. Nine U.S. technicians are on the staff, including the three nurses mentioned below.

On June 15, 1958, SCISP at the request of the Government assumed responsibility for an enlarged malaria eradication program that had been operated directly under the Ministry with technical assistance from the PASB and with UNICEF supplying vehicles, equipment and insecticides.

Late in November, we learned that the program had reached a serious crisis for lack of funds to meet payrolls and costs of equipment and vehicle maintenance. The problem had been caused primarily by the discovery that more frequent and more costly applications of DDT were needed to replace dieldrin, to which the Guatemalan anopheles had built up an immunity. We brought this situation to the attention of the Mission which, while aware of the problem, had apparently not been fully informed of its gravity. The Mission is to be commended for the prompt and imaginative action it then took to obtain the funds necessary and to sharpen its planning, which had been rather inadequate.

Another problem that came to our attention involves the Hospital Roosevelt, a 1,050-bed installation for the construction of which the United States has contributed \$1.6 million. Work was started in 1945

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and the building was completed and turned over to the Government a year ago. Only limited funds had been made available during the Arbenz regime but work had been greatly accelerated after Castillo came to power. Today the Hospital is still more than half empty, and there is a serious question where the money will come from to equip and run the rest of the installation.

At present we are providing the services of three American nurses as consultants. We were most favorably impressed by these young ladies as representatives of the United States, by their keen knowledge of the local situation and by the friendly attitude of Guatemalan personnel toward them.

Contrary to expectations, we found the Hospital building in excellent condition and there was evidence that it was being competently administered.

Three problems of importance came to our attention with respect to: 1) maintenance of equipment; 2) overcrowding of out-patient departments; and 3) public relations.

Although Guatemalan personnel have apparently been well trained to operate the sophisticated equipment in the Hospital, there is a lack of personnel trained to service and maintain it. We also learned that the Hospital had not been designed to take care of a large volume of out-patient work and we observed that the out-patient departments were seriously overcrowded, even when such services were provided only in pediatrics and obstetrics. Since many of these patients no doubt look

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upon the Hospital as an American-sponsored institution, it might be worthwhile to offer our help to the Guatemalans in seeking a solution of this problem which might be accomplished by relatively minor structural changes. Perhaps a limited amount of grant aid could be provided for this purpose.

We were informed that there are a great many popular misconceptions about the Hospital. Some believe it is available only to gringo patients, while others believe it is open only to the rich. In fact, with the exception of a small section reserved for paying maternity cases, the entire Hospital is used for charity work. Therein lies one of the reasons for the financial difficulties, and we wonder why it would not be possible to charge fees, however nominal, based on ability to pay. To correct the popular misconceptions mentioned, it might be worthwhile to enlist the help of USIS. We do not believe that the United States, having committed its funds, its prestige and the name of one of its Presidents to this institution, can wisely wash its hands of the whole thing as some have suggested.

Finally, we must express concern over the almost complete lack of Guatemalan participation in SCISP. Under the project agreement,^{1/} U.S. personnel are responsible for the Servicio administration, budget and fiscal work, procurement of equipment and materials, and management and training of administrative and technical personnel. We were

^{1/} Project 20-50-906.

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informed that staff meetings were attended solely by American personnel. We were unable to discuss this situation with the Director of the Servicio, who was absent during our stay, but we commend it to the Mission's attention in the hope that it will be feasible gradually to put this operation on a truly cooperative basis.

Recommendations:

1. That steps be taken to increase Guatemalan participation in the Health Servicio.

2. That a concerted effort be made to insure that the Hospital Roosevelt be a public relations asset to the U.S. rather than a liability.

3. That the following recommendations be considered in connection with possible negotiations with the GOG for a more effective use of the Hospital:

a. Training might be provided in the servicing and maintenance of imported equipment, especially that obtained from the United States.

b. Limited grant aid might be made available for structural changes to prevent overcrowding in the out-patient departments.

c. The feasibility of charging fees might be investigated to help finance the Hospital's operations.

G. Public Administration

The administrative organization of the GOG, both for planning and operations, clearly requires strengthening. The lack of adequate governmental machinery is a serious obstacle to orderly political processes, increases susceptibility to subversion and encourages corruption. As noted above, assistance in this field was listed by the Country Team as one of the more important means of achieving U.S. objectives. In view of Guatemala's present economic difficulties and need for careful planning, special attention should be given to the Government's administrative apparatus.

ICA's efforts in public administration began in 1955 when a contract was signed with Klein & Saks, a private firm which had done public administration work in Peru and elsewhere. The contract was designed primarily to affect the economic planning of the Castillo regime, a major objective of the U.S. at that time. Lesser emphasis was placed on public administration per se. The contract device was chosen because it was thought best not to have the U.S. directly involved in this kind of program.

However, Klein & Saks failed to make much progress with their primary objective, as they were unsuccessful in making their influence felt in the National Economic Planning Council, established at the suggestion of the IBRD. In fact, they paid more attention to the secondary objective of giving advice in public administration. They drew up elaborate plans for reorganizing the Executive Branch, designed an accounting system, and drafted civil service reform legislation.

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ICA's contract with Klein & Saks, which carried through December 1957, was at the urging of USOM taken over by the Government of Guatemala. Under this new arrangement, the firm believes that its influence with the Government has increased. However, the Embassy and USOM have expressed disappointment with the caliber of the firm's present personnel and consider that their effectiveness continues to be limited. The Embassy and USOM also reported some jealousy by Klein & Saks personnel of USOM's modest activities in public administration.

These reports are disturbing in view of the key role the firm could play in helping to achieve U.S. objectives, e.g., strengthening the Government's administrative structure, improving and liberalizing the revenue system and taking specific measures to alleviate the balance of payments problem.

Since FY 56, ICA has had a small TC program in public administration which in FY 58 amounted to \$80,000 and in FY 59 to \$60,000. The present program, with a staff recently increased to three U.S. technicians, is designed to give advice on improvement of management techniques in the Government and to develop and operate in-service training at the secretarial, clerical, and lower supervisory level.

A successful feature of the program is the excellent clerical training school inaugurated in September 1957. Typing, shorthand, filing, and related subjects are taught to Government employees on official time. Using the most modern U.S. techniques, this school is making a favorable impression on Government clerical help and their superiors.

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It is being operated by Guatemalans with the advice and help of an ICA technician, a Puerto Rican woman experienced in similar work in the United States.

Direct participation by the U.S. Government in public administration is often considered sensitive, particularly in a small Latin American country such as Guatemala which fears domination from the Colossus of the North. Under these circumstances, the clerical training school is proving to be an effective means of entering this field. Initial success in this type of uncontroversial program builds confidence in in-service training which may later be translated into other programs for higher civil servants. Already a course on human factors in personnel relations is being given for middle management, and programs for top management are being planned.

An ICA public administration consultant has also assisted in drafting a civil service law and has made plans for reorganization of the Ministry of Public Health. A management study of the Agriculture Servicio is now in progress, and plans are under way for a similar study of the Government's agency for rural resettlement and agrarian policy and development.

The participant training program has been limited. For the calendar years 1957-1959 only ten participants have been sent to the United States, ten to Puerto Rico and ten to Bolivia. Most of these participants have been drawn from the middle and lower levels of

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government. We recognize the difficulties caused by the rapid turnover of government personnel, the lack of candidates with a knowledge of English, and the fact that participants trained in the United States are often regarded as excessively "pro-Yankee."

The above efforts on the part of ICA have not produced substantial results. This is understandable in view of the sensitive and delicate character of technical advice in public administration.

A UN public administration institute for Central America located in Costa Rica makes basic studies, provides some training, and arranges professional conferences. The USOM Director in Guatemala believes it more desirable for the ICA to sponsor its own regional public administration school. We are convinced that additional training facilities in public administration, however sponsored, are required in Central America.

Recommendations:

1. That, as the situation permits, greater attention be given to the public administration program, with special reference to coping with Guatemala's economic and financial problems.
2. That the U.S. consult with Klein & Saks in an effort to improve the quality of the firm's personnel in Guatemala, including professional competence in public administration and economics.
3. That, while Klein & Saks should not be identified with the U.S. Government, they should be kept informed of the means through which they can contribute to U.S. objectives.

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4. That every effort be made to expand participant training.
5. That the feasibility of expanding public administration training in Spanish, both in the U.S. and Latin America, be studied by ICA/W and include some training in Central America.

H. Public Safety

This program provides three U.S. advisers to the Police Department, now paid from Special Assistance funds. Through FY 59 almost \$700,000 had been made available from TC and grant funds, including modest sums for equipment and participant training.

The importance of a police program in a country as politically unstable as Guatemala needs little elaboration. Like the military, the police can help hold the country on an even course during emergencies and restore order if subversive violence erupts. Some relationship of our program to this group can therefore be fruitful. But seen solely in this light, a police program serves only a negative function.

In Guatemala, the Country Team and the Public Safety Division clearly understand the positive aspects of the program even though they were not articulated in the Master Program Book. Emphasis is being placed on the development of normal police functions. Police are being taught that their primary function is to serve the people, not suppress them. Generally, the attempt is being made to give Guatemalan police some idea of their appropriate role in a free society. It is important that these positive aspects be constantly emphasized lest the U.S. be accused of aiding a repressive arm of the Government.

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This program, which had been making good progress, has encountered grave problems since the inauguration of Ydigoras, who has concentrated his patronage efforts on the police with Jacksonian vigor. This department has experienced with demoralizing effect a greater turnover during the past few months than in the preceding three decades. Happily recent reports indicate that the situation is improving, and that previous favorable working relationships are again being established.

Recommendation:

That the program be continued along present lines.

I. Industry

Industry in Guatemala is of relatively minor importance. It employs only about 13 per cent of the labor force and produces mainly for domestic consumption in such fields as foodstuffs and beverages, tobacco products, shoes, clothing, textiles and chemicals. The development of heavy industry is unlikely because of the lack of coal, iron and known petroleum deposits.

Most factories in Guatemala are small inefficient family enterprises, often owned by persons of European descent. In general, management is untrained and content to make high profits from a low turnover of goods of poor quality. Expansion and new enterprise are inhibited by the high cost of capital and lack of long-term credit. Labor is plentiful, poorly paid, untrained and inefficient.

Despite these conditions, the good opportunities for investment, especially in processing domestic products, have recently been realized by foreign capital participation in the production of such products as soluble coffee, fruit juices, flour, paint, tires, cigarettes and ready mixed cement. Another important potential, the tourist business, has been largely neglected but is now attracting attention; we can personally testify to the need for modern, well-run hotels!

In a few cases investment guarantees against expropriation have been put into effect, and the Eximbank has provided loans to aid cement and mining enterprises.

As in most underdeveloped countries, there is a lack of long-term investment capital at reasonable interest rates. While we do not wish to recommend any specific loan application, we support in principle an industrial loan program. A loan for this purpose might be made to help establish a private industrial development bank for which there is a real need. The World Bank, which has had vast experience in this field, might be consulted. It has provided guidance for such institutions in several countries and might even supply some capital, once Guatemala's difficulty over the British loan has been resolved.^{1/} Such an institution might eventually be able to attract private

^{1/} Guatemala has refused to recognize the validity of the unpaid part of a sterling loan equivalent to \$1.197 million -- a question which has aroused nationalistic emotions. The IBRD has refused on principle to make further loans to Guatemala until this is settled.

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Guatemalan capital, as has been true of similar institutions in other countries. It is suggested that the institution follow the pattern of the Industrial Development Bank of Turkey or the ICICI of India.

Given the magnitude of Guatemala's industrial problems, we were impressed by the accomplishments in many fields of our one-man Industry Division.^{1/} These include feasibility studies for new industries, technical advice, assistance to the new Chamber of Industry and the Industrial Development Center, the organization of seminars and study teams sent to the United States and the importation of American consultants. We noted the Division's contribution to educating industrialists and businessmen that good labor relations are in their own self-interest. During visits to a foundry, a saw mill and a textile mill, we observed improvements that had been recommended by our consultants. We noted that the use of these consultants had been coordinated with other Central American missions. In fact, we saw a considerable amount of voluntary regional effort of this type which probably does not come to the general attention of ICA/W.

The Industry Division has assisted in planning and promoting private contributions for the vocational school to be established in Guatemala with U.S. technicians and assistance.

In accordance with our policy of helping Guatemala achieve "a moderate growth of industries, especially those processing domestic raw

^{1/} TC funds for FY 58 totaled \$100,000 and for FY 59, \$45,000.

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materials,"^{1/} we favor continuation of the industry program along the modest lines already followed. Substantial results, material and psychological, have already been achieved. The rational development of Guatemalan industry should help reduce unemployment and underemployment, rural as well as urban, and eventually create a situation where there will no longer be a superabundance of labor. A much-needed increase of real wages should then become a reality.

The USOM should continue to be alert to any tendency to invest in overambitious schemes (Guatemala does not need a steel industry) or to build up national monopolies requiring excessive protection. Hopefully, the new enterprises in which American capital is participating will set a needed example of the brighter side of U.S. private enterprise.

Recommendations:

1. That an industrial loan program be supported.
2. That a private industrial development bank be established, preferably with advice from the World Bank.
3. That the industry program be continued along present modest lines.
4. That the Industry Division continue to be alert to any tendency toward investment in overambitious projects.

^{1/} See Part II - A, Definition of Objectives.

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J. Labor

ICA has no labor program in Guatemala. A \$20,000 program for participants proposed in the Congressional submission for FY 59 was subsequently eliminated by the USOM for lack of funds. This seems strange in view of the strong case made for a labor program in the Master Program Book.

Since organized labor is of great importance in Guatemala, especially in the light of the Communist threat, we discussed this matter with all appropriate U.S. officials. It was agreed that something needed to be done, but there were serious misgivings about the feasibility of most specific proposals.

During the Arbenz regime the unions were organized as political instruments to promote Communism. Castillo disbanded all unions and exiled most of their leftist leaders. Later attempts to organize effective free unions met with little success. American observers generally believe that the attempts may have been made too soon.

The problem remains a difficult one. Leftists are again penetrating unions and gaining leadership in the absence of other competent leaders. The Embassy and USOM have tried to support ORIT, the inter-American labor federation with which AFL and CIO are affiliated. With headquarters in Mexico City, ORIT's attempts to help Guatemalan unions have met with only modest success. It is suspected of being dominated by the United States, as many of its leaders are drawn from U.S. labor organizations.

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U.S. efforts to get the Government to develop an adequate labor program are complicated as many labor problems involve the three large American companies, IRCA, Empresa Electrica, and the United Fruit Company. On occasion the Guatemalan Government has suggested that U.S. efforts could be directed more profitably toward changing the attitudes of the American companies, against which the Guatemalan Government has frequently sided in labor disputes.

In the past, the American companies were uniformly reactionary. Today only IRCA remains openly anti-labor; the Empresa Electrica and the United Fruit Company have genuinely attempted to improve their labor relations. UFCO apparently prevents its company union from affiliating with ORIT. The Embassy fears that the rank and file membership might eventually revolt against its leadership and join a pro-Communist labor federation if the company persists in this attitude.

U.S. efforts to deal with labor leaders have met largely with frustration, as few understand either the functions of a union or of leadership. Since almost none of them speaks English, it is difficult to find candidates for participant or exchange programs.

Some constructive efforts have been made by the USOM. The Industry Officer has attempted to get Guatemalan businessmen to understand that good labor relations are good business. Progress has been slow as most businessmen are reactionary and oppressive toward labor.

It is suggested that the USOM, under the leadership of the Ambassador and in collaboration with the Labor Attaché, devote more

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attention to this problem. Certainly, a labor program should not be eliminated simply for lack of funds, as clearly more marginal programs are now included. While we do not regard it appropriate to outline a specific program, we discussed a number of suggestions with the USOM and the Labor Attache, and believe that some of the following elements might be included:

- a. Modest participant or exchange-of-persons programs could be initiated whenever appropriate candidates could be found.
- b. A self-help housing program could be undertaken in collaboration with some of the unions, particularly the transport unions. (Giving the unions a constructive purpose other than merely seeking wage increases should strengthen both their organizational effectiveness and leadership.)
- c. An automotive driver and mechanic school could be established, possibly in Escuintla. This might be run somewhat along the lines of the Olivera School in Mexico City supported by ICA. It might even be sponsored jointly with the transport unions.
- d. Vocational training generally should be stressed.
- e. An occasional lecturer or prominent industrialist might be invited through the Industry Division to discuss problems of labor relations with management groups. A prominent Latin American leader in this field might be included.
- f. Labor seminars similar to those in Honduras might be conducted by short-term specialists from the U.S. Department of Labor.

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PART V - PROGRAM EXECUTION AND RELATIONSHIPS

In this last part of the report we comment on several aspects of the Mission's operational relationships, point out certain areas where improvements might be made, and include a few suggestions which might prove helpful.

At the outset we commend the Mission for its perceptiveness and understanding of the issues at stake in Guatemala and its resourcefulness in programming under difficult and rapidly changing conditions. We were impressed by the close working relationships the Mission has established with Guatemalan officials, including members of the Cabinet.

A. Relations with ICA/W

It was gratifying to learn of the exceptionally fine support the Mission has been receiving from ICA/W. Policy guidance and decisions were almost always in line with the Mission's desires, and the only general shortcoming mentioned was that action in Washington was often delayed.

During the course of our stay, a few cases did come to our attention where we felt the Mission had been unwisely overruled. For example, the recommendations of the Mission and the Embassy on an important matter had been turned down by ICA/W in a communication cleared at a low level. ^{1/} In important cases which might involve

^{1/} This case has been brought to the attention of the appropriate office in ICA/W.

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relations between the two countries, and particularly where a USOM recommendation has been supported by the Embassy, we recommend that the concurrence of the Regional Director or higher official be required to overrule such a recommendation from the field.^{1/}

There were also a few instances where technical recommendations of the Mission had been overruled by ICA/W. We recommend that, unless there are overriding policy considerations or unless ICA/W has lost confidence in a certain technician (in which case he should be removed), ICA/W should accept the Mission's judgment once the problems and difficulties foreseen are brought to the Mission's attention.

B. The Country Team

The Country Team normally meets under the chairmanship of the Ambassador each working day. Such meetings are usually attended by the DCM, the Director of USOM, the senior Political Officer, the Public Affairs Officer, the CAS Representative and the Army and Air Attaches.

Although the holding of daily meetings of this kind is unusual, they are generally short and we heard no complaints that they were burdensome. All attending the meetings except the PAO have offices in the Embassy. Given the unstable political situation and the frequency of over-night developments of importance, it seems that these meetings provide an excellent means of exchanging information and coordinating action.

^{1/} Although required by M.O. 512.7 of February 10, 1954, this procedure needs to be observed more carefully.

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C. Integration

The Director of the Mission reluctantly accepted a second hat as Counselor of Embassy for Economic Affairs and Chief of the Economic Section. In practice, the Director's attention and time have been concentrated almost exclusively on a large and complicated USOM program requiring major attention to policy formulation, negotiation, and supervision. His activity as Chief of the Economic Section has been limited to the review of outgoing material prepared by the two or three Embassy officers engaged in economic reporting.

In the long run this situation needs to be corrected. Perhaps the completion of certain major projects, e.g., highways, and the transition from grants to loans, will free the Director so that he will be able to devote more attention to his Embassy functions. Perhaps integration in Guatemala would be more workable if the two functions were performed by the Deputy Director. With the program in transition as it is today, we see no point in attempting to force a solution of this problem in the immediate future. But we do recommend that it be given attention at an opportune time when the Ambassador's and Director's views should be sought.

D. Coordination

The Mission Director holds a series of separate weekly meetings in his office with the heads of each USOM division. The Deputy Director is usually present. These meetings enable the Director to keep in close

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touch with the progress of the various programs and to impart his instructions and guidance to each division chief. However, general staff meetings with representatives of all divisions are seldom held and usually only for specific purposes. There was some feeling within the Mission and Embassy that weekly staff meetings would provide a desirable means of coordinating the work of the several divisions and of keeping division chiefs informed of Mission activities. We believe it would be advantageous for the Embassy and USIS to be represented at such meetings.

In discussing this matter with the Mission Director, we were informed that weekly staff meetings had been tried but had not aroused sufficient interest to warrant their continuance. Although it is not our function to say specifically what should be done under these conditions, we found a need for a more adequate coordinating mechanism between the various elements of the USOM. It might be feasible to include not only the ranking subordinate from each division but, from time to time, the business managers of the Servicios.

E. USOM-USIS Relations

The relationship between USIS and USOM is of particular importance in Guatemala if the overriding political objectives of our aid program there are to be achieved.

Throughout the Castillo Armas regime, it was our policy to play down the U.S. role in the interest of building up the President's

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prestige. Now our policy is different. The Country Team has decided that the role of the United States in assisting Guatemala should be made known to the Guatemalan public. This is difficult because those in control of Guatemala's information media are in general uninterested and incapable of casting our program into proper perspective. Furthermore, some politicians among them are not disposed to give credit to any foreign government for the assistance received.

While the role of USIS under these conditions is not easy, it is giving major attention and support to the work of ICA. USIS estimates that it devotes about 65 per cent of its funds and resources to the promotion of the ICA program. This represents about \$50,000 of its \$80,000 budget. In the radio, television and press fields, USIS efforts on behalf of ICA have been extensive. In motion pictures, the entire USIS budget for local production has been devoted to ICA pictures.

Coordination between USOM and USIS presents some problems, in part because technicians are often either not public relations conscious or are too busy to pay attention to potential publicity materials. There has also been a lack of adequate liaison between USIS and the Servicios, although admittedly the bi-national character of the latter does present special problems. There is no focal point within the USOM where information of value to USIS is assembled, and in the past most contacts at the technician level have apparently been on an ad hoc basis.

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However, steps have been taken to improve liaison. A USIS information officer has been assigned to make daily contacts with the complex of USOM operations in order to maintain a steady flow of material to the various media. In addition, two officers of the press section are devoting about half their time to ICA projects. We hope that these steps will be effective but we believe the situation warrants periodic review to determine whether the best possible liaison is in fact being maintained.

F. Personnel Policies

1. Length of Assignment and Delayed Recruitment

There is real need for more rapid recruitment and greater flexibility with respect to lengths of tours, now generally of either two or four years. Even in such a desirable post as Guatemala, key positions in such fields as housing, public health and servicio business management have remained vacant for many months. The Mission was woefully short of American secretaries. Guatemalan officials pointed out to us the difficulty of promptly obtaining needed technicians. They also stressed the problem posed when a technician, after a stay of a few months, was clearly unable to do the job adequately and yet had been hired for a two-year assignment. It seems clear that means should be found both to recruit more promptly and to remove or transfer unsatisfactory employees with reasonable dispatch.

Another problem that came to our attention was the premature transfer of technicians before their normal tours had expired and

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without the concurrence of the Mission Director. It would also seem that ICA/W has sometimes been too rigid in applying the four-year rule and should, in any case, seek the Mission Director's opinion, especially before removing an employee in a key position where the future of an important program might be seriously jeopardized.

We also heard complaints regarding the lack of flexibility in adapting extension of tours and home leave to the rather unusual school year in Guatemala where the vacation period corresponds with our winter.

While we realize the difficulty of administering a world-wide personnel system, we are convinced that factors such as these merit consideration and remedial action.

2. Medical Examinations

In connection with the medical services provided to personnel overseas, we favor a program making annual physical examinations mandatory for all American personnel. This is especially important where tropical diseases are prevalent as they are in Guatemala. "An ounce of prevention is worth a pound of cure," and we believe such examinations, which for years have been a matter of routine in our Armed Forces, are equally important to ICA and its personnel.

3. Importance of Spanish

Finally, our experience in Guatemala pointed up the importance of a working knowledge of Spanish as a qualification for personnel in Spanish-speaking Latin America. This was particularly stressed by Guatemalan officials who obviously place a knowledge of Spanish high

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on the list of factors used to evaluate the effectiveness of our technicians.

We agree with the world-wide emphasis being placed on languages by ICA/W. Given the large number of Americans who have a working knowledge of Spanish and the intrinsic ease of that language, it should be feasible to apply a special policy in Latin America:

At the end of the first two-year tour in Spanish-speaking Latin America, every employee should demonstrate by examination a reasonable working knowledge of Spanish. In the absence of such demonstration, his services should no longer be used in the area.

We believe such a policy is altogether feasible and that it would reduce appreciably the number of misfits and enhance the effectiveness of our programs throughout Spanish-speaking Latin America. We hope it will be given a trial.

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APPENDIX A

The Role of the Military

Guatemala's role in hemispheric defense is small. Indeed, some have questioned whether a military aid program there can be justified on military grounds. We believe that there is another function our military aid program serves -- and should serve more deliberately -- namely, that of exerting influence on the Guatemalan military because of their political and economic significance.

Politically, this significance derives from a tradition of military interference and influence in civilian affairs. In times of national emergency or crisis, the military constitute the supreme arbiters. If a government gets into real difficulty because of loss of the confidence of the people or severe unrest, the military are always waiting in the wings.

In normal times also, the military exercise considerable influence. A large percentage of the presidents have been drawn from their ranks. Most Cabinets contain a number of officers and a significant number of high administrative positions are occupied by colonels. For example, two important developmental positions, the directors of the resettlement program and the program for the development of the Peten, are held by officers.

Economically, the influence of the military is exercised in several ways. The officer class is recruited largely from the same few wealthy families who own the fincas and conduct most of the nation's business. Indeed, many officers find time to conduct their own businesses or run their own farms. With an extremely small educated class, the military constitute a substantial component of it. A natural alliance has developed between the military and the businessmen.

The number of officers who have taken over the reins of government in various underdeveloped countries in recent years is indicative of the military's political importance, to which we should pay special attention.

In order to achieve the kind of influence we want, we should identify those components of the military in which we are most interested. Heretofore, we have tended to concentrate on a few at the top, Chiefs of Staff, etc. However, in many countries it is the middle grade officers who have made the revolutions, and it is important that they be included.

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In sending U.S. officers to work with the Guatemalan military, we should select persons who have a broad understanding of world and economic problems rather than those with a narrow military viewpoint. 1/ These officers should understand clearly what their objectives are and how to seek them. The military exchange program should be expanded to include a larger number of the promising young officers. Training in the United States should not be exclusively of a military nature. It should include the type of work done at the National War College and other staff schools which emphasize international affairs, national policies, economics, etc. To the extent possible, we should seek to inculcate a better understanding of democratic ideals within the Army and reduce the totalitarian orientation so often characteristic of officers in the less developed countries.

At lower levels, it would appear desirable to proceed with the ICA program already planned for vocational and literacy training for all recruits. Specific skills, secretarial and others, might be taught. Indeed, this is already occurring in the clerical school established by ICA for all government officials and in which the Ministry of Defense is a prominent participant. 2/

In undertaking this kind of program, we have several distinct assets. Our American observers report that the Guatemalan military already have a basically favorable attitude toward the United States and the West. We, therefore, would simply be strengthening by deliberate policy a position we already hold instead of letting this asset be an unnoticed and indeliberate by-product of our efforts.

1/ The statements in this paragraph are based primarily on conversations with our MAAG and political officers.

2/ See Part IV, - Education and Public Administration.

24 THE WALL STREET JOURNAL, Wednesday, March 11, 1959

Shell Starts Output of 'Natural'-Type Rubber; U.S. Rubber Puts It in Tires

Shell's 30-Cents-a-Pound Price On Polyisoprene Competes With Natural Product

By a WALL STREET JOURNAL Staff Reporter

NEW YORK — Commercial production of polyisoprene rubber billed as "the man-made duplicate for tree-grown rubber," has been started by Shell Chemical Corp., a subsidiary of Shell Oil Co., and U.S. Rubber Co. is using part of the output in making truck tires.

Shell Chemical said it will sell the rubber at a price competitive with that of the natural product.

The announcement was made by John W. McGovern, president of U.S. Rubber, and Richard C. McCurdy, president of Shell Chemical. It was described as highly significant for the rubber industry and vital from a military standpoint.

Other companies, such as B. F. Goodrich Co., Goodyear Tire & Rubber Co., and Firestone Tire & Rubber Co., in the past have announced the synthesis of polyisoprene but it has not been produced commercially because of doubt that it could compete commercially with natural rubber.

Goodyear, Goodrich and Firestone have pilot plants for the production of polyisoprene. Earlier this year Firestone said it planned to build a plant in Orange, Texas, that can be used to turn out either polybutadiene or polyisoprene rubber, though the company said it probably will start out producing polybutadiene.

The current price of the Shell isoprene rubber is 30 cents a pound, f.o.b. Torrance, Calif., a figure described as approximately equivalent to that for the better grades of natural rubber.

Initial Production

Initially production of the isoprene rubber will be in a range averaging five tons a day in order to furnish a supply for U.S. Rubber's current usage and for other customer evaluations, it was said. As installation of various plant additions progresses during the year, the effective capacity is expected to increase to 15,000 to 20,000 tons annually on a steady basis.

The United States last year used 485,000 long

tons of natural rubber.

Using the new rubber, U.S. Rubber currently is producing somewhat under one hundred 7.50-20 truck tires a day at its Los Angeles plant. This is the most popular truck size. The company, it was said, will expand production to additional truck tire sizes, off-the-road tires, aircraft tires, white sidewall passenger tires and other products currently requiring natural rubber after further tests are made, and as the supply of the new synthetic increases.

The announcement said the synthetic rubber is expected to have a strong stabilizing effect on natural rubber prices and will allay doubts as to whether the supply of plantation rubber can keep pace with growing world demands. Mr. McGovern said it would not alter U.S. Rubber's plans for development of its natural rubber plantations.

Shell Chemical's Plans

Shell Chemical will sell the new material under the trade name, Shell Isoprene Rubber, Mr. McCurdy said. It is currently being produced by part-time utilization of commercial equipment located at various Shell Chemical and Shell Oil Co. installations in the Los Angeles area.

Mr. McCurdy said he did not know whether Shell will license the product or go it alone. He added that they would try to make as much for Shell stockholders out of it as possible.

The greatest present use of natural rubber in this country is in the production of large truck tires, where natural rubber better meets the strains of heavy loads and heat build-up. Passenger car tires which carry lighter loads and generate less heat are made mostly of GR-S synthetic rubber.

The new polymer has been thoroughly tested in the laboratory and on the road where truck tires made of polyisoprene have proved to be equal and in some cases superior to those made with natural rubber, the announcement said.

Mr. McGovern and Mr. McCurdy cautioned against undue concern as to the impact of the development on growers of natural rubber. Actually, they said, if the availability of this synthetic has the effect of reducing some of the unpredictable fluctuations on the rubber market, as is expected, then rubber fabricators can lay plans for its use with more confidence, thus broadening the market for both grower and synthetic producer.