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The ALLIANCE for PROGRESS:
its FIRST YEAR: 1961-1962

First report on the progress of economic and social
development in Latin America and prospects for the future

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TABLE OF CONTENTS

	<u>Paragraphs</u>	<u>Page</u>
Part I. GENERAL REPORT		
I. <u>Outstanding Aspects of the Economic and Social Situation in Latin America</u>	1-77	1
A. The Product and its Distribution by Sectors	1-11	1
B. Consumption and Investment	12-17	3
C. Export Trade	18-29	4
D. Balance of Payments and the Capacity to Import	30-42	7
E. Monetary and Fiscal Policy	43-50	11
F. Social Problems and Tensions	51-77	13
II. <u>The Development Process</u>	78-451	17
A. Advances Made and Problems Encountered	78-306	17
1. Planning and Project Preparation	78-142	17
a. The Nature of Planning	79-93	17
b. The Present State of Planning	94-142	20
2. Agricultural Development and Agrarian Reform	143-187	28
a. Agrarian Reform	147-151	28
b. Reform Measures	152-153	29
c. Development of Agrarian Reform	154-166	30
d. Reforms in Process	167-187	32
3. Industrial Development and Productivity	188-200	35
4. Public Administration	201-213	37
5. Tax Policy and Administration	214-258	39
a. Fiscal Legislation	224-242	41
b. Tax Codification and Administration	243-254	43
c. Studies and Reforms in Progress ...	255-258	45

	<u>Paragraphs</u>	<u>Page</u>
6. Education	259-276	45
7. Housing	277-291	48
8. Public Health	292-306	50
B. The Internal Financial Effort	307-330	53
C. External Financial Assistance	331-357	56
1. The United States	336-345	57
2. Other Capital Exporting Countries ...	346-349	61
3. International Financial Institutions.	350-354	62
4. Private Foreign Investment	355-357	62
D. Technical Cooperation	358-371	63
1. Intra-Latin-American Technical Coope- ration	360-362	63
2. The United States	363-367	64
3. Extracontinental Countries	368-371	64
E. The Movement toward the Economic Integra- tion of Latin America	372-426	65
1. The Latin American Free Trade Associ- ation (LAFTA)	381-390	66
2. The Central American Economic Integra- tion Program	391-409	68
3. Transportation and Communications ...	410-426	71
a. Transportation	410-420	71
b. Telecommunications	421-426	73
F. Problems Affecting Commodity Exports	427-451	74
1. Inter-American Cooperation in the Ne- gotiation of Commodity Agreements ...	437-440	75
2. Stabilization of Exports Receipts ...	441-442	76
3. Economic Relations of Latin America with the European Economic Community	443-446	76
4. Other Aspects of Cooperation	447-451	77

	<u>Paragraphs</u>	<u>Page</u>
J.II. <u>The Role of International Organizations in the Alliance for Progress</u>	452-525	78
A. The Organization of American States (OAS)	457-502	79
1. The Inter-American Economic and Social Council	457-461	79
2. The Panel of Experts	462-468	80
3. The OAS General Secretariat	469-496	81
a. OAS Technical Cooperation and Training	477-485	83
b. Task Forces and Action Programs ..	486-496	84
4. OAS/ECLA/IDB Joint and Cooperative Activities	497-502	86
B. The Inter-American Development Bank	503-514	88
C. The United Nations	515-525	90
1. The Economic Commission for Latin America (ECLA)	515-517	90
2. The Latin American Institute for Economic and Social Planning	518-520	91
3. Technical Assistance	521-525	92
Part II. THE OUTLOOK FOR THE FUTURE	526-563	93
A. The General Economic Outlook	529-533	93
B. Economic and Social Planning	534-536	94
C. Agrarian Reform	537-538	95
D. Tax Reform	539-540	95
E. Progress in the Social Field	541-548	96
F. Internal and External Financing	549-554	97
G. Economic Integration	555-556	99
H. Stabilization of Basic Products and Export Markets	557-558	99
I. Functioning of the Inter-American System.	559-562	99
J. Final Comment	563	100

	<u>Paragraphs</u>	<u>Page</u>
Part III. REPORTS BY THE COUNTRIES ON THEIR ECONOMIC AND SOCIAL DEVELOPMENT	564	101
ARGENTINA	565-584	101
I. <u>General Economic Developments</u>	565-569	101
A. Gross Domestic Product	565	101
B. Investment	566	102
C. Prices	567	102
D. The External Sector	568-569	102
II. <u>Economic and Social Progress under the Charter of Punta del Este</u>	570-584	102
A. Health	570	102
B. Education	571	103
C. Housing	572-573	103
D. Other Fields	574-575	104
E. Planning	576-578	104
F. Agrarian Reform	579	105
G. Tax Reform	580-581	105
H. Administrative Reform	582	105
I. Economic Integration	583	106
J. Credit Policy	584	106
BRAZIL	585-599	107
I. <u>General Economic Developments</u>	585-587	107
II. <u>Economic and Social Progress under the Charter of Punta del Este</u>	588-599	107
A. Health	588-591	107
B. Education	592	108
C. Housing	593	108
D. Planning	594-595	108
E. Agrarian Reform	596-597	109
F. Tax Reform	598-599	109
COLOMBIA	600-628	110
I. <u>General Economic Developments</u>	600-607	110
II. <u>Economic and Social Progress under the Charter of Punta del Este</u>	608-628	111
A. Housing	608-612	111
B. Education	613-616	111
C. Health	617-620	112
D. Planning	621-623	113
E. Tax Reform	624	113

	<u>Paragraphs</u>	<u>Page</u>
F. Administrative Reform	625	114
G. Agrarian Reform	626-627	114
H. Economic Integration	628	114
CHILE	629-641	115
I. <u>General Economic Developments</u>	629-632	115
II. <u>Economic and Social Progress under the Charter of Punta del Este</u>	633-641	116
A. Health	633	116
B. Education	634	116
C. Housing	635	116
D. Planning	636-637	116
E. Agrarian Reform	638-639	117
F. Tax Reform	640-641	117
ECUADOR	642-715	118
I. <u>General Economic Development</u>	642-656	118
II. <u>Economic and Social Progress under the Charter of Punta del Este</u>	657-715	120
A. Housing	657-666	120
B. Education	667-671	121
C. Health	672-677	122
D. Planning	678-688	123
E. Tax Reform	689-696	125
F. Administrative Reform	697-701	126
G. Agrarian Reform	702-710	127
H. Economic Integration	711-715	128
EL SALVADOR	716-732	131
I. <u>General Economic Developments</u>	716-720	131
II. <u>Economic and Social Progress under the Charter of Punta del Este</u>	721-732	131
A. Housing	721-722	131
B. Education	723	132
C. Other Fields	724	132
D. Planning	725-727	132
E. Agrarian Reform	728	132
F. Tax Reform	729	132
G. Economic Integration	730-732	133

	<u>Paragraphs</u>	<u>Page</u>
GUATEMALA	733-749	133
I. <u>General Economic Developments</u>	733-737	133
II. <u>Economic and Social Progress under the Charter of Punta del Este</u>	738-749	134
A. Health	738	134
B. Education	739	134
C. Housing	740-741	134
D. Other Fields	742	135
E. Agrarian Reform	743-744	135
F. Tax Reform	745	135
G. Administrative Reform	746	135
H. Investment and Resources Surveys	747-748	136
I. Economic Integration	749	136
HAITI	750-764	137
I. <u>General Economic Developments</u>	750-755	137
II. <u>Economic and Social Progress under the Charter of Punta del Este</u>	756-763	138
A. Housing	756	138
B. Education	757	138
C. Health	758	138
D. Other Fields	759	138
E. Planning	760	138
F. Agrarian Reform	761	138
G. Tax Reform	762	139
H. Administrative Reform	763	139
III. <u>Progress toward the Objectives of Economic Integration</u>	764	139
HONDURAS	765-799	139
I. <u>General Economic Developments</u>	765-775	139
II. <u>Economic and Social Progress under the Charter of Punta del Este</u>	776-799	140
A. Health	776-777	140
B. Education	778-779	141
C. Housing	780-781	141
D. Other Fields	782-783	141
E. Agrarian Reform	784	141
F. Tax Reform	785-786	142
G. Administrative Reform	787-792	142
H. Planning	793-796	143
I. Economic Integration	797-799	143

	<u>Paragraphs</u>	<u>Page</u>
MEXICO	800-825	144
I. <u>General Economic Developments</u>	800-805	144
A. Gross National Product	800	144
B. Development by Sectors	801-802	144
C. Capital Formation	803	145
D. Domestic Prices	804	145
E. Balance of Payments	805	145
II. <u>Economic and Social Progress under the Charter of Punta del Este</u>	806-825	145
A. Health	806-808	145
B. Education	809-810	146
C. Housing	811	146
D. Other Fields	812-813	147
E. Planning	814-815	147
F. Agrarian Reform	816-818	148
G. Tax Reform	819-822	148
H. Administrative Reform	823	149
I. Economic Integration	824-825	149
NICARAGUA	826-848	150
I. <u>General Economic Developments</u>	826-831	150
II. <u>Economic and Social Progress under the Charter of Punta del Este</u>	832-848	151
A. Health	832-833	151
B. Education	834	151
C. Housing	835	151
D. Other Fields	836-37	152
E. Planning		152
F. Agrarian Reform	838-841	152
G. Tax Reform	842-843	153
H. Planning and Administrative Reform	844-847	153
I. Economic Integration	848	153
PANAMA	849-875	154
I. <u>General Economic Developments</u>	850-855	154
A. Balance of Payments	852-853	155
B. Capital Formation	854-855	155

	<u>Paragraphs</u>	<u>Page</u>
II. <u>Economic and Social Progress under the Charter of Punta del Este</u>	856-875	156
A. Health	856-858	156
B. Education	859-863	156
C. Housing	864	157
D. Planning	865-868	157
E. Agrarian Reform	869-870	158
F. Tax Reform	871	158
G. Administrative Reform	872	159
H. Other Monetary Reforms	873	159
I. Economic Integration	874-875	160
PARAGUAY	876-934	160
I. <u>General Economic Developments</u>	876-894	160
A. Gross Product	876-877	160
B. Development by Sectors.....	878-884	160
C. Capital Formation	885-887	161
D. Domestic Prices	888	161
E. Balance of Payments	889-894	161
II. <u>Economic and Social Progress under the Charter of Punta del Este</u>	895-931	162
A. Health	895-897	162
B. Education	898-904	163
C. Housing	905-908	163
D. Planning	909-914	164
E. Agrarian Reform	915-916	165
F. Tax Reform	917-920	165
G. Public Administration	921	165
H. Monetary Policy	922-925	166
I. Availability of Technical Personnel and Possible Technical Assistance Needs.	926-931	166
III. <u>Summary</u>	932-934	168
PERU	935-977	168
I. <u>General Economic Developments</u>	935-951	168
A. Gross Product	935	168
B. Development by Sectors	936-940	168
C. Capital Formation	941-946	169
D. Balance of Payments	947-951	169
II. <u>Economic and Social Progress under the Charter of Punta del Este</u>	952-977	170
A. Health	952-955	170
B. Education	956-958	170

	<u>Paragraphs</u>	<u>Page</u>
C. Planning	959-961	171
D. Housing	962-965	172
E. Tax Reform	966-967	172
F. Agrarian Reform	968-970	173
G. Administrative Reform	971-972	174
H. Monetary and Credit Policies	973-977	174
DOMINICAN REPUBLIC	978-997	175
I. <u>General Economic Developments</u>	978-984	175
A. Gross Product	978	175
B. Development by Sectors	979	175
C. Capital Formation	980	175
D. Domestic Prices	981	176
E. Balance of Payments	982-984	176
II. <u>Economic and Social Progress under the Charter of Punta del Este</u>	985-997	177
A. Health	985	177
B. Education	986-988	177
C. Housing	989	178
D. Other Fields	990	178
E. Planning	991	178
F. Agrarian Reform	992-995	178
G. Tax Reform	996	179
H. Administrative Reform	997	179
VENEZUELA	998-1080	180
I. <u>General Economic Developments</u>	998-1008	180
II. <u>Economic and Social Progress under the Charter of Punta del Este</u>	1009-1080	181
A. Planning	1009-1012	181
B. Agrarian Reform	1013-1022	182
C. Industrialization	1023-1036	183
D. Housing	1037-1042	186
E. Education	1043-1055	187
F. Health	1056-1064	189
G. Community Development	1065-1066	190
H. Economic Integration	1067	191
I. Mobilization of Domestic Resources	1068-1069	191
J. International Cooperation	1070-1080	191
1. Technical Assistance	1070-1074	191
2. Financial Assistance	1075-1080	192

	<u>Page</u>
<u>APPENDIX:</u> CHANGES SUGGESTED BY CERTAIN DELEGATIONS	
Argentina	197
Brazil	197
Honduras	198
Mexico	198
Peru	198

PART I

GENERAL REPORT

I. OUTSTANDING ASPECTS OF THE ECONOMIC AND SOCIAL SITUATION IN LATIN AMERICA

A. The Product and its Distribution by Sectors

1. In view of a population growth of from 2.6 to 2.7 per cent, product and per capita income rose at a rate equal to the 2.5 per cent stipulated in Punta del Este as being the minimum for achieving the objectives of the Alliance for Progress within a reasonable time.
2. Although it is recognized that figures on population and national accounts are seriously deficient and inaccurate in most Latin American countries, it is clear that per capita income increased much less than the 2.5 per cent mentioned above. However, it should be emphasized that, on the whole, 1961 was not "the first year of the Alliance" inasmuch as the Charter of Punta del Este was signed in August. Only subsequent study will make it possible to highlight the changes that took place with the initiation of this new cooperative activity.
3. Notwithstanding, some countries (Argentina, Brazil, Panama, and Peru, for example) showed a considerable increase in total product in 1961. The rate of Brazil's economic development has made the gap separating that country from most of the other Latin American countries in this regard in the last few years particularly noticeable. However, the rate of development in almost all of the other countries did not equal the rates of growth achieved in the first part of the last decade (see Table 1).
4. Manufacturing continued to be the most dynamic sector of production, while the primary industries declined to a certain extent. Owing largely to the rapid rate of industrialization, in some countries, notably Brazil and Mexico, manufacturing activities continued to gain in relative importance. In 1961, for example, manufacturing output increased twice as fast as total product, in contrast with primary production, which lagged behind the rise in total output of goods and services, thus continuing a trend that had begun earlier. The growth of the service sector was also moderate, but a solid increase occurred in construction activity, after a protracted period of depression in many countries.

Table 1

GROWTH OF DOMESTIC GROSS PRODUCT, 1960/1961

	1950-57	1957-61	1961a/
Argentina	2.0	1.9	5.7
Brazil	5.3	6.9	7.2
Chile	4.5	3.5	4.0
Colombia	4.5	1.1	4.5
Ecuador	4.9	4.4	2.9
Honduras	...	3.4	7.4
Mexico	6.0	4.4	3.5
Panama	...	...	7.6
Paraguay	...	...	2.6
Peru	5.4	3.9	5.0
Venezuela	9.4	3.0	1.4
Total Latin America	4.9	4.0	5.0-5.5

a. Preliminary estimates.

5. Agriculture showed the slowest rate of expansion in 1961. While there were moderate increases in the production of many export crops, notably cotton and sugar, output of foodstuffs for domestic consumption remained virtually static despite various official attempts to overcome the institutional and technological obstacles to progress in this sector.

6. The fact that agricultural production has not managed to keep up the same rate of growth as population in recent years is a serious handicap in establishing the balanced developmental pattern the Latin American countries are determined to achieve. In fact, the rather unsatisfactory performance of this sector in recent years has tended to speed up the movement of rural population into urban zones, thereby greatly intensifying economic and social pressures in the cities where employment opportunities are limited and housing, education, and other social welfare facilities do not meet existing needs. This does not mean, of course, that the urbanization process per se is disadvantageous for economic development, despite the fact that in many countries it has been concentrated in one or two very large urban centers.

7. Mining, which until 1957 had been one of the fastest-growing sectors of production, showed only negligible increases in 1961. In part, this reflects the unfavorable market conditions for exports of iron, petroleum, copper, lead and zinc.

8. Production of both petroleum and iron for domestic use, on the other hand, was considerably stepped up to meet the growing fuel and raw material needs of the industrial sector in Argentina, Brazil, Mexico, and other countries. Partly stimulated by the rise in the price of silver, a by-product of many zinc deposits, the output of the latter metal also rose substantially.

9. In the manufacturing sector, the rapid growth of production continued to be accompanied in 1961 by notable changes in composition. While the output of the traditional industries--especially those producing nondurable consumer goods--rose at a lower rate than the gross product, the rate of expansion of some of the newer industries engaged in the production of durable consumer goods, capital goods, and intermediate products, such as steel, chemical products, petroleum, and paper, approximately tripled. This striking contrast is closely connected with the tendency of demand for durable goods and industrial materials to increase much more rapidly than that for many types of nondurable consumer goods. Moreover, the extent to which domestic production can replace imports in the intermediate and capital goods industries is much greater than in the traditional branches of manufacturing, in which the import substitution process has already been carried quite far.

10. Nevertheless, opportunities for industrialization and import substitution will increase when the market--which is small in many of the less developed Latin American countries--and the existing industrial base are broadened. This explains, in part, why the main impetus for transformation and development of Latin American industry has appeared in the last few years in those few countries that have large domestic markets and a relatively highly developed industrial complex.

11. This also provides the basic reason for economic integration in Central America and in the countries belonging to the Latin American Free Trade Association (LAFTA). The efforts that have been made for a number of years by national governments with the support of international institutions--especially the Economic Commission for Latin America (ECLA), the Organization of American States (OAS), and recently, the Inter-American Development Bank (IDB)--to promote the establishment of a Latin American common market reached their peak in 1961 with the ratification of the Treaty of Montevideo (which created LAFTA, to which nine Latin American countries¹ belong) and the General Treaty for Central American Economic Integration, together with the Agreement and Protocols on the Equalization of Import Duties and Charges. In addition, the Central American Bank for Economic Integration, established to promote the development of industries of regional scope, began operations in September 1961. Increased efforts toward economic integration will obviously speed up Latin American industrialization to a considerable degree.

B. Consumption and Investment

12. Gross domestic fixed investment in Latin America increased by about 3 per cent in 1961. Thus, the downward trend of the total investment coefficient in the three previous years continued, inasmuch as while it was more than 17 per cent of the gross product in 1957, it amounted to only a little more than 15 per cent thereof in 1961. Therefore, it seems clear that consumption and compulsory accumulation of exportable stocks have tended to absorb increasing proportions of available goods and services.

1. Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, and Uruguay.

13. In recent years--including 1961--there has been a certain downward trend in the investment coefficient of Brazil and--until 1960--of Venezuela. On the other hand, in Chile and Panama, where this coefficient had been relatively stable in recent years, there was a notable rise during 1961.

14. The reasons for the decline in national coefficients vary in nature. In the case of Brazil, investments in manufacturing, particularly in the automobile industry, were considerable and by the middle of the preceding decade reached a point where they were so large that, when many of them were completed in the following years, there were large decreases in total investment disbursements, which were only partly compensated for by increases in other sectors.

15. In Mexico, the annual growth of private investment was slow--averaging one per cent between 1959 and 1961. However, as in some previous periods, the large increases in public investment (20 per cent in 1961) served to compensate for this, and so it was possible for the total investment coefficient to hold its level.

16. The contribution of the public sector to domestic capital formation increased from 25 per cent in 1958 to 31 and 32 per cent in 1959 and 1960 in the eight countries for which there are available figures and whose gross domestic product amounts to almost 90 per cent of the total of Latin America. Available data indicates that in 1961 this ratio reflected another increase.

17. Because of the special difficulties affecting statistics on consumption, in Latin America it is only possible to speak of "apparent consumption". Between 1957 and 1961 apparent consumption increased at an annual rate of about 4 per cent compared to more or less five per cent between 1950 and 1957. A very important fact emerges from this: improvement in the living standards of the Latin American people through increased consumption, which was already modest in the previous period, was even less during the last five years. To the extent that stocks have been increased during this period, the increase in real consumption has been less than that indicated in the calculation of apparent consumption.

C. Export Trade

18. The relatively static condition of the value of exports in the past few years was primarily due to the unsatisfactory level of export prices, which had remained low ever since 1957-58. The slight improvement in 1961 was mainly a result of the larger volume exported and, in certain cases --Peru among others--of the changes in the composition of exports. Bolivia was the only country that was able to increase its export receipts, thanks to a simultaneous rise in the price and volume of tin exported.

19. Brazil, Chile, Mexico, and some of the Central American countries also recorded higher export receipts, but in the rest of the Latin American countries those remained at the same level or declined.

20. It should be pointed out, however, that exports showed a rising trend in the first quarter of 1962 in nine of the fifteen countries for which information is available (see Table 2).
21. As to the commodity composition of Latin American exports, among the major mineral products only tin and silver enjoyed substantially increased demand in 1961 and the first quarter of 1962. Low prices and import quotas continued to limit the market for lead and zinc in the United States in 1961, although exports of both metals to Europe increased. Copper shipments were down somewhat, while exports of crude petroleum showed a slight increase, despite a fall in intra-Latin American sales and despite the increasing competition of the USSR in world markets. Exports of refined petroleum and derivative products increased faster than those of the crude products, a tendency that has been noted for several years.
22. Coffee continued in oversupply in 1961 and market possibilities remained restricted, especially in certain European countries. As both the price and the volume of sales fell, those countries that were unable to expand exports of other products were faced with a sharp decline in total export receipts.
23. In Brazil and some of the Central American countries, an expansion of cotton sales helped to offset the adverse conditions prevailing in the coffee market. Other countries also benefited from the increased demand and relatively stable prices for cotton.
24. Wool prices, on the other hand, declined in the face of unchanged world consumption at a time of rising production. Uruguay, nevertheless, increased its sales substantially, partly at the expense of stocks.
25. Uruguay's meat exports were affected by a prolonged strike in the main packing plant and declined substantially. In Argentina, although the volume of meat exports increased, the 8 per cent price decline kept receipts at the low level of 1960.
26. In the sugar market, world supply also rose more than demand and prices were depressed, while political events continued to affect the normal trade pattern.
27. The geographical distribution of Latin America's total export trade changed during 1961. Exports to the United States declined, principally because trade relations between Cuba and that country had ceased. Sales to Western Europe increased less than 2 per cent, while exports to Japan increased approximately 45 per cent.
28. For its part, intra-Latin American trade dropped sharply owing in particular to the greater degree of self-sufficiency in petroleum achieved by Argentina--which previously imported fuel from Bolivia, Peru, and Venezuela--and to the stopping of Cuban imports of Venezuelan petroleum, and to the reduced exports of Argentine wheat to the rest of Latin America.

Table 2

LATIN AMERICA: EXPORTS BY COUNTRIES, 1960-62

(Millions of dollars)

	Annual Data		Quarterly data expressed in annual rates			
			1 9 6 1		1 9 6 2	
			I	II	I	II
Argentina	1079	964	1096	1068	1087 _a /	...
Bolivia	50	60	50	60	54	...
Brazil	1269	1403	1198	1289	1106 _a /	...
Chile	488	506	461	582	...	...
Colombia	465	433	404	454	397	...
Costa Rica	84	79	100	92	118	...
Dominican Rep.	180	143	163	161	...	...
Ecuador	144	127	126	112	115	...
El Salvador	117	119	159	136	158	217 _a /
Guatemala	122	115	131	157	137 _a /	...
Haiti	33	32	34	35	55	...
Honduras	63	72	76	94	57	...
Mexico	765	826	813	841	984	...
Nicaragua	56	62	92	90	...	...
Panama	30	31	22	35	34	...
Paraguay	27	31	20	37	22	37 _a /
Peru	430	494	419	442	526	...
Uruguay	129	175	197	231	178	170 _a /
Venezuela	2432	2415	2563	2270	2578	...

Source: International Monetary Fund, International Financial Statistics, August 1962

a. Preliminary estimate or one based on two months.

29. The available figures indicate that during the first half of 1962 the declining trend of intra-Latin American trade noticed in 1962 has been reversed, thanks to the negotiations conducted in LAFTA and following the entrance into effect of the concessions agreed upon at the first meeting of the contracting parties. In Central America, intraregional trade continued to grow notably in 1961 thanks in large part to the progress made by the Central American Economic Integration Program, which had culminated in the establishment of the common market in December of 1960.

D. Balance of Payments and the Capacity to Import

30. In 1961, the deficit in the balance of payments of Latin America was estimated, for the third consecutive year, at between 300 and 400 million dollars (see Table 3).

31. Although figures are not yet available with which to make a complete breakdown of the elements of the deficit in 1961, it seems probable that it was made up of a deficit in current account of approximately one billion dollars and a net capital inflow of 600-550 million dollars, mainly of official origin.

32. Foreign private direct investments in Latin America apparently increased in the first half of 1961 and then dropped sharply in the second half and the first half of 1962. At any rate, this is what seems to be indicated by the figures on investments from the United States, which is the only capital-exporting country that publishes such data. This contraction is partly due to the deterioration of the investment climate in some countries because of measures adopted or about to be adopted. As in previous years--except for 1957, when the bulk of foreign investment went into oil concessions in Venezuela--most of the foreign private capital went into the countries that have a relatively developed economic infrastructure and a large national market. It should be pointed out that recently foreign investors have been most interested in the manufacturing sector, in view of the depressed condition of the markets for basic products.

33. The movement of speculative and short-term capital was a disturbing element during 1961. In several countries, the monetary stabilization measures taken in recent years encouraged a substantial inflow of foreign funds and some repatriation of domestic capital. By the end of the year, however, the reappearance of inflationary pressures, the poor export prospects, and balance-of-payments strains contributed in part to a flight of short-term capital from a number of countries. In Venezuela, the large-scale flight of capital that had been occurring since 1958 was virtually halted in November 1960 thanks, among other factors, to changes in the exchange system. The reduction in the exchange rate applicable to financial transactions in 1961 also helped.

34. Medium-term credit from foreign banks and exporters continued to play a significant part in the financing of Latin American imports. But the extensive use of this type of credit in previous years and the consequent accumulation of debts have made it more difficult for some countries to continue to resort to this source of credit. Official and commercial lenders, which had granted substantial medium-term credits to Latin America

Table 3

LATIN AMERICA: BALANCE OF PAYMENTS 1957-1961

(Millions of Dollars)

	1957	1958	1959	1960	1961
Exports of goods	9 138	8 538	8 428	8 657	8 682
Imports	9 748	8 919	8 284	8 660	8 864
Goods balance	- 610	- 381	144	- 3	- 182
Services balance	- 1 274	- 832	- 788	- 834	...
<u>Balance in current account</u>	- 1 884	- 1 213	- 644	- 837	...
Private capital, net	1 826	195	279	22	...
Government capital, net	- 27	228	- 25	448	...
<u>Balance in capital account</u>	1 799	423	254	470	...
<u>Balance of payments position</u>	- 85	- 790	- 390	- 367	- 356
Financed by:					
Fluctuations of gold and foreign exchange reserves	105	- 695	- 219	- 130	- 75
Net increase (-) of debt to the IMF	- 157	- 58	- 38	- 82	- 259
Other compensatory accounts	- 119	- 349	- 219	- 300	- 87
<u>Errors and omissions</u>	86	312	86	145	65

Source: OAS/ECLA, Economic and Social Survey of Latin America, 1961.
The figures differ slightly from those of the source because certain statistical adjustments were made.

in earlier years to alleviate severe balance-of-payments difficulties and to assist monetary stabilization efforts, continued their support in 1961 and took the lead in consolidating debts of the countries most heavily burdened by rising amortization payments. For example, large credits were available to Argentina and Brazil by groups of creditors from the United States, Western Europe, and Japan, which groups included not only government agencies but also private banks and commercial creditors.

35. The net flow of official capital from the United States and the international financial organizations rose sharply in 1961. A comparison between the fiscal year 1961/62 and the preceding one shows that the net increase amounted to approximately 865 million dollars which came almost entirely from the United States Government (see Table 4). Because of the commitments entered into by the Agency for International Development (AID), the IDB and other financing institutions, it is expected that this flow of capital will continue.

36. The contribution of Western Europe, and especially the Federal Republic of Germany, to the flow of official capital to Latin America increased somewhat in the past two years, although in absolute terms it was still small, except in the area of export credit guarantees and the consolidation of medium-term trade debts incurred in earlier years.

37. With regard to international institutions, the International Bank for Reconstruction and Development (IBRD) increased the amount of its disbursements to Latin America in 1961. Moreover, Latin America received 45 per cent of the first 60 million dollars of new loan commitments made during the year by the International Development Association (IDA), recently created to supply development financing on relatively easier terms to countries already burdened with heavy foreign debt repayments.

38. Finally, of particular importance was the beginning of operations in 1961 of the Inter-American Development Bank (IDB). This Bank has made a number of loans both from its own funds and those of the Social Progress Trust Fund, which by agreement with the United States Government the IDB administers, on terms specifically geared to the solution of some of the most urgent economic and social problems of Latin America. The IDB's own resources have been used chiefly for the financing of industrial and infrastructure projects, while most of the Social Progress Trust Fund was committed for housing and public health programs.^{2/}

39. In 1961 the International Monetary Fund (IMF) was more important as a source of financing of the balance-of-payments deficit than national gold and foreign exchange reserves. This reversed the trend of recent years when the latter source was more widely used and the expansion of the resources of the IMF increased the gross monetary reserves of Latin America. However, in 1961 these reserves decreased by about 300 million dollars and thus came to constitute less than 50 per cent of total Latin American imports.

2. For changes suggested by the Mexican delegation see Appendix, p. 198.

Table 4

Flow of Official Capital to Latin America by Principal Sources, 1961-62
(Millions of Dollars)

		Official Capital from the United States ^{a/}			International Bank for Reconstruction and Development			International Financial Corporation	Inter-American Development Bank ^{b/}
		Disbursements	Amortizations	Net flow	Disbursements	Amortizations	Net flow	Net flow	Net flow
Fiscal year (July-June)	1960/1961	296	167	129	...	...	36.2	...	--
	1961/1962	1 141 ^{c/}	178 ^{c/}	96 ^{c/}	...	...	53.7	...	14.4
Calendar year (Jan.-Dec.)	1960	351	199	152	65.1	36.5	28.6	14.5	...
	1961	804	165	639	95.4	41.0	54.4	5.2	...
1960	I	...	...	...	...	...	...	...	...
	II	...	...	...	...	...	...	...	...
	First half	236	116	120	...	...	15.8	...	...
	III	64	39	25	...	...	...	...	...
	IV	51	44	7	...	...	...	...	...
	Second half	115	83	32	...	...	12.8	...	...
	I	68	33	35	...	...	...	...	...
	II	117	51	66	...	...	...	...	...
1961	First half	185	84	101	...	...	23.3	...	...
	III	166	31	135	...	...	...	...	...
	IV	476	50	426	...	...	...	...	...
	Second half	642	81	561	...	...	31.1	...	...
1962	I	(123)	52	(71)	...	...	...	...	...
	II	...	...	...	...	...	...	...	...
	First half	...	...	...	42.7	20.1	22.6	4.7	...

Sources: OAS/ECLA, Economic and Social Survey of Latin America, 1961; US Department of Commerce, Survey of Current Business, June 1962 and Foreign Grants and Credits of the United States, July 1962; International Monetary Fund, International Financial Statistics, August 1962; The Alliance for Progress: Its first year. OEA/Ser.H/X.3.

a. Excludes military aid. Data taken from the balance of payments of the United States. These differ slightly from those of AID, owing to differences in concept and definition.

b. Includes the Social Progress Trust Fund, disbursements from which of 6.3 million should also be included in the total for the United States.

c. Preliminary estimates based on data for nine months.

40. The slight improvement in export receipts and net capital inflow experienced in Latin America in 1961 led to a small increase--two or three per cent--in the capacity to import. In general, except in a few countries, the capacity to import has now more or less recovered from the set-back of 1958 and 1959 when export prices declined and capital inflow was reduced. Up to 1957 total export receipts had been on the increase.

41. However, taking the 1957-61 five-year period as a whole, no net progress was made in the capacity to import, even excluding Venezuela, where the failure of exchange receipts to recover their exceptionally high level of the 1956-57 petroleum boom period must be considered as a special case. In 1961, increases of imports took place in some countries such as Panama and Peru, where the capacity to import had risen substantially. In Argentina and Chile, on the other hand the capacity to import did not increase and a considerable strain was placed on the balance of payments.

42. On the whole, the obstacles to the satisfactory adjustment of import demand to the level of the capacity to import continued to be considerable in most parts of Latin America. Despite a significant slowing down of price inflation in many of the Latin American countries, where it had prevailed for years, excess demand pressures continued to pose serious problems in some countries. In addition, specific shortages and bottlenecks in domestic productive structures contributed to the determination of a practically irreducible minimum in total import requirements, which can be expected to increase rapidly in the next few years if the pace of Latin America's economic development quickens to the extent contemplated in the Charter of Punta del Este.

E. Monetary and Fiscal Policy

43. In 1961, weakness in the external sector and internal institutional and structural rigidity continued to dominate monetary and fiscal developments in many countries. The cost of living rose 19 per cent in Argentina, 44 per cent in Brazil, 10 per cent in Chile and Uruguay, 7 per cent in Bolivia, and 5 per cent in Colombia. There was less change in the other countries and in some the cost of living dropped. These trends were not modified significantly in the first quarter of 1962.

44. However, it should be pointed out that an analysis of the five-year period 1957-1961 as a whole shows that pressures on prices increased in some countries in comparison with the years 1951-56, while the opposite took place in other countries. Argentina, Brazil, Colombia, and Uruguay are in the first group and Bolivia, Chile, Mexico, and Paraguay in the second.

45. A large increase in the public debt to the banking system was characteristic of a number of the countries that underwent strong inflationary pressures in 1961: it amounted to 20 per cent in Argentina, 18 per cent in Chile, 30 per cent in Paraguay, and almost 200 per cent in Brazil.

46. Some countries have not undergone any special inflationary pressures in the last five years and, as a result, their monetary and fiscal policy has not required any special adaptation. The Central American countries fall into this category as do, except for certain years, Ecuador and Venezuela. Other countries--Argentina, Bolivia, Brazil, Chile, Colombia, Paraguay, Peru and Uruguay--have adopted stabilization policies to offset strong domestic and foreign imbalances, with varying degrees of success. In the case of Mexico, which suffers less inflationary pressures, monetary and fiscal policy permitted only a moderate rise in prices.

47. Stabilization programs varied in details and in their specific applications but their basic characteristics were the same. In general, devaluation and unification of multiple exchange rates, elimination of direct restrictions on imports and, as a rule, their replacement by requirements for prior deposits were called for in the foreign sector. In the domestic sector, reduction or elimination of fiscal deficits and decrease of the rate of monetary expansion was sought. Various measures were taken to achieve the latter: increases in the average legal margin for bank cash reserves; direct maximum limits on bank credits and rediscount operations of the central banks; increases in discount rates; and, with a view to absorbing liquidity, the already mentioned system of prior deposits for imports. In the fiscal field, in the majority of cases, increases in income were achieved through taxes and special surcharges on exports and/or imports. Indeed, taxes on foreign trade provided an increasing share of fiscal revenue in the majority of countries that adopted stabilization programs, a situation for which the above mentioned devaluations were also responsible. Additional revenue was also sought through increases in minor taxes and excises and, more important still, in public service rates. In relation to outgo, current expenditures were generally reduced, but in various cases, it was not possible to prevent a decline in real public investment.

48. In 1961, the severe monetary controls imposed in earlier years were relaxed in some countries, and in ones in which there had been a measure of success in overcoming balance-of-payments difficulties, public investment increased. In general, except in those countries where new balance-of-payments pressures arose, fiscal measure began to take on increased effectiveness in 1960 and 1961, making possible thereby a certain relaxation of monetary restrictions.

49. In Brazil--a country in which inflationary pressures in recent years have exceeded those of other Latin American countries, yet which surpassed the rest of Latin America in regard to the rate of growth of its production--the same measures of monetary restrictions were not adopted nor was it possible to prevent the deficit of the federal government from increasing progressively. In 1961, the deficit rose to 42 per cent of federal budgeted income and 3.8 per cent of the gross national product, compared with 28 and 2.2 per cent, respectively, in 1958. This occurred in spite of the fact that the taxes collected kept pace with the rise in prices during the last decade. Expenditures--the basic cause of the increasing deficits--were highly varied: they represented investments, services, and transfers. The latter almost doubled between 1956 and 1960, while investments tripled; and consumer expenditures, mainly salaries, increased 70 per cent.

50. The annual rate of monetary expansion of Brazil, which ranged from 15 to 22 per cent between 1951 and 1956, accelerated in 1957 and reached 50 per cent in 1961 and the first half of 1962. Since 1955 responsibility of the public sector for the monetary expansion that took place has risen proportionately more than that of the private sector, growing from 26 to 38 per cent of the total. An appreciable part of the total monetary expansion resulted from financing the stocks held by the Brazilian Coffee Institute. The principal mechanisms of the increase consisted in a loan to the federal government from the Bank of Brazil and the sale of treasury bonds to commercial banks. With regard to the distribution of credit, suffice it to point out that the Bank of Brazil followed a deliberate policy of channeling private-sector credits toward sectors directly producing goods. The total proportion extended for trade between 1953-54 and 1959-60 decreased from 27.0 to 18.5 per cent. The corresponding figures for credit given by commercial banks were 45.5 to 42 per cent and 31.5 to 36.5 per cent, respectively. Hence, one of the characteristics of the above mentioned monetary expansion was the channeling of an increasing proportion of resources toward the sector that showed the most rapid growth.

F. Social Problems and Tensions

51. In Latin America the objective determination of social problems through research and scientific analysis lags behind the study of economic phenomena.

52. The statistical basis for the analysis of most social problems is found in decennial censuses, in insufficient samplings, and in inadequate statistics, a situation that permits measurement of certain phenomena only over long periods of time, or in percentages insufficient for adequate interpretation.

53. The needs created by the Alliance for Progress, especially in connection with the preparation of national economic and social development plans, require not only better, more regular, and abundant social statistics but also specialized personnel who can use these data to good advantage and formulate the questions that should be answered by means of the censuses and samplings.

54. The nature and the magnitude of the social problems of Latin America, as recorded in the Charter of Punta del Este, indicate clearly that the Latin American societies require structural and institutional changes as urgently as the respective economies. In other words, the social policy enunciated by the Latin American governments cannot be reduced to, or confused with, a series of partial and fragmentary social welfare measures, no matter how necessary or urgent they may be, just as economic policy is not limited to a series of disjointed and partially effective measures.

55. This integral process of accelerated economic and social change which aspires to modify the structures of Latin America could constitute the peaceful revolution of greatest proportions in the history of mankind.

56. Regardless of how close and intimate the relationship between economic and social structures, historical experience shows that profound economic changes can occur without basic changes taking place in social structure and vice versa.
57. The reciprocal changes that arise spontaneously as a result of the interaction of economic and social factors are not always foreseeable or beneficial and, therefore, do not constitute an adequate response to the problems and needs for social change posed in Latin America.
58. For the same reason, what is needed in the social sphere is planning that delimits problems, sets goals or time limits, and establishes policies and machinery, similar to what is being done in the economic sphere. Nevertheless, it is obvious that this work is not being carried out with the necessary speed and intensity within the framework of the Alliance for Progress.
59. In general terms, the social structure continues to consist of two extremes: a minority which obtains most of the wealth and an immense majority sunk in poverty. In some countries, however, the progress of the middle sector of the population has been of certain significance.
60. Since statistical information on the real distribution of national income and its long term evolution is incomplete, the indexes of economic growth and income distribution are of little value in the examination of social problems.
61. Under the present circumstances, it is impossible to estimate precisely to what degree the policies employed to produce a better distribution of income are acting as additional spurs to economic development.
62. Without adequate information on consumption habits, the aspirations of the various groups and the values they hold, it cannot be said how an increase in the purchasing power of one sector of the population will effect demand and stimulate the production of goods and services. These gaps in information constitute one of the major obstacles to national planning of economic and social development.
63. The extraordinary population growth and the mobility of population, though not limited to Latin America, take place in this hemisphere within a general context of slow industrialization and agriculture still primitive in many regions. This concurrence of circumstances in Latin America are indicative of the growing conflict between the needs and aspirations of the population and the means available to satisfy them.
64. At the same time, the relative abundance of farm land indicates the possibility of helping to reduce the tension and pressure on urban areas by the utilization of available lands while speeding up the process of industrialization and the modernization of agriculture.
65. From this standpoint, a study of the spontaneous colonization that is occurring in certain parts of Latin America brings out an important possibility with respect to its planning and organized support in combination with agrarian reform plans.

66. As long as there are reserves of public or private lands that are idle or partly utilized, and the other productive sectors are, at the same time, not in a position to absorb the excessive rural population, it seems reasonable to tend to use this labor force in its traditional occupations, supplying it with land and the means of cultivating it efficiently. From a strictly social point of view, this would tend to decrease social disorganization and cultural disintegration brought about by an excessively rapid and massive process of change.

67. The horizontal mobility (spatial) of the Latin American population frequently acts as a precipitating factor in vertical mobility (social). The magnitude of the former phenomenon is manifested principally by the urban growth that can be traced to migration, although there are less familiar indicators, such as migration from one rural area to another and the temporary emigration of agricultural workers to other countries.

68. Horizontal and vertical mobility are associated more frequently where the urban and rural sociocultural systems are more highly differentiated and less integrated. In such cases, horizontal mobility becomes the only possible way to rise socially. From this viewpoint, internal migration is a very important factor in social change.

69. Nevertheless, the possibilities offered by this situation will not be utilized to full advantage until procedures are established for the reception of migrants in urban areas. There is an urgent need to undertake activities for facilitating the integration of this shifting population, particularly through educational, intensive training, and employment programs.

70. There are no regular statistics that indicate the volume, direction, and make up of the internal migration. However, it is possible to conclude from the fragmentary information available that urban unemployment and underemployment as well as the frequent changes of employment are closely connected with internal migration.

71. There appears to be a correlation between the institutional and professional difficulties in finding jobs in the cities and the hypertrophy of the so-called service sector in the occupational distribution of the urban population, a phenomenon that is very far from constituting a favorable factor in the development process.

72. The generally inadequate integration of the urban and rural sectors and of the rural and Indian sectors, as well as sociocultural disparities, pose a problem having special characteristics in the field of planning. Programming should look to this situation not only to adapt plans to sociocultural reality, but also to obtain the greatest possible acceptance and cooperation on the part of the people by offering them better opportunities. The possibility of obtaining the cooperation of the people in the execution of development plans depends largely on the study and appreciation of the values peculiar to each sociocultural system.

73. The powerful influences that affect the country as a whole, originate in urban centers, for these act as foci of attraction and absorption of population and are, at the time, the areas having the greatest concentration of social problems.

74. Meanwhile, rural areas--particularly the Indian communities--are limited in their ability to generate rapid processes of change by their own efforts. In view of this situation, it is especially important to ascertain the real obstacles to change in order to act upon them as part of development programs. This is precisely the context in which there must be a test of the efficacy of community development techniques, the techniques of directed cultural change, and the like, taking into account the institutions and practices employed by other countries.

75. The characterization of urban centers as foci of attraction and change, with their surrounding rural and Indian communities, may provide an important basis for the planning and execution of regional development programs to complement purely sectorial programming.

76. Within the context of these systems and in order to obtain better results, agrarian reform presupposes an integrated regional development program based upon the techniques of community development and directed cultural change. Also implicit in this concept are the need and the urgency of putting an end to the semifeudal and peonage systems that persist in some rural and Indian areas of Latin America.

77. It must be pointed out that discontent intensified by the limitation of opportunities may lead to dangerous resentment when there is no willingness to make certain sacrifices in order to attain general progress. It is essential to the success of the Alliance for Progress to raise the sights of workers' groups and rural peoples so that they will identify themselves with planning objectives and take part in development programs.

II. THE DEVELOPMENT PROCESS

A. Advances Made and Problems Encountered

1. Planning and Project Preparation

78. The requirement to formulate short- and long-term development plans is a basic element of the Alliance for Progress, stated in Title II of the Charter of Punta del Este. The essential purpose of planning is to allocate limited resources in the most efficient manner possible and in accordance with a set of priorities that conform to the countries' economic and social aspirations and their obligations under the Charter of Punta del Este. Given the objectives to be attained by the Latin American countries under the Alliance on the one hand, and the maximum available domestic resources on the other, the planning process serves, among other purposes, that of indicating the margin of external assistance required to achieve the stated goals.

a. The Nature of Planning

79. Planning is not a mechanical calculation of resource availabilities and allocations. It is a problem requiring a conscious, resolute, continuous effort and the collaboration of the active forces of the nation in order to bring about important structural changes--such as agrarian and tax reform--and to achieve sustained growth and a better distribution of income. Such an undertaking involves heavy responsibilities for the government and for businessmen at all stages, and it implies not only preparing macroeconomic projections, but also selecting, drafting, and proposing specific projects, to be undertaken either by the public or by the private sector. The national planning effort must be accompanied by appropriate wage policies in the various economic sectors. However, planning entails a search for policies in all fields--industrial, agricultural, fiscal, social, etc.--which lead to established objectives.

80. It is important to emphasize that the Latin American countries participating in the Alliance are not all equally well prepared to formulate and execute suitable economic and social development plans. Planning is a complicated undertaking, for which there are certain basic prerequisites.

81. Primarily, it requires highly comprehensive and up-to-date knowledge of the country's physical, human and capital resources, in both their qualitative and quantitative aspects. Such knowledge depends on the availability of economic, financial, and social statistics, and on the existence of maps or surveys showing the country's physical features, geological structure, natural resources, population clusters, and other pertinent data.^{3/} Next, it requires technical personnel. In a large number of

3. In the last year, as a result of promotional work, twelve Latin American countries took censuses in accordance with previously agreed standards, and still others are planning similar undertakings. (Cont.p.18)

countries, many of the specialists will have to be supplied from abroad or by international organizations. This, however, can only be a stopgap measure; in the long run the development planning effort will be sustained only if it is in the hands of a group of well-trained local technicians. Finally, the success of planning lies in the existence of an efficiently functioning public administration for putting the programs into practice.

82. The need for a mechanism to translate general plans into specific projects and programs has been underestimated. The creation of an effective public administration is not merely a matter of altering the structure of the present apparatus by reforming the civil service or redefining the spheres of competence of government agencies for example, but also, and perhaps primarily, it is a matter of creating a stable and democratic political environment. Where these conditions are absent, either partly or entirely, there is need to "plan the planning", i.e., to simplify the planning process, concentrating on fundamentals.

(Cont. from p.17)

The Inter-American Statistical Training Center started its activities in March 1962, and about 150 students from all the American countries are attending its courses. An Inter-American Program on Basic Statistics for Economic and Social Development Programs is being prepared.

The central topic of the agenda of the Fourth Inter-American Statistical Conference, which will be held in Washington in November 1962, will be a study of the factors preventing the development of statistical activities from satisfying regional needs in matters of economic and social planning. As a part of that study, an examination will be made of deficiencies in the structure and functioning of national statistical services, of national compilation of statistics, of the relations between national and international statistical services and of factors affecting coordination of international statistics which are reflected in the aforementioned national services.

Progress by the American countries in the field of statistics is a national problem, the satisfactory and final solution of which will only be possible through uninterrupted, long-term action that will permit of:

- a. Recognition by the governments of the importance of statistics;
- b. Establishment of a solid institutional foundation, through a group of statistical services acting in a coordinated manner;
- c. Giving those services the means for carrying out the tasks entrusted to them;
- d. Formation of a nucleus of trained personnel to guide and stimulate national statistical work.

83. In some cases it is necessary to begin with a preliminary diagnosis of the factors retarding economic and social progress, utilizing mere approximations of long-term growth projections. Properly speaking, even before such rudimentary planning can be initiated, population data and information on physical and human resources must be available. In addition, the administrative apparatus for a sustained development effort must be installed or modified. Regardless of how primitive this initial planning may be, it must embrace those programs and measures for immediate action which will serve as the foundation for more refined planning and programming, and fill the most obvious deficiencies in the economic and social spheres.

84. These goals need not necessarily be expressed in precise quantitative terms. There must, however, be a clear idea as to the type of economic system to be developed: the participation expected from the private and public sector; the type of industry contemplated; the future location of population clusters and nuclei of economic activity; and what kind of institutional framework--legal, political, financial, social and economic--must be constructed to give substance to the development objectives.

85. Planning, as the foregoing suggests, is a complex decision-making process. It involves the evaluation of potentials, the translation of aims into concrete programs and actions, the formulation of criteria for choosing among alternative programs, and the coordination of activities within the entire governmental complex. The difficulties of this process can be better appreciated when it is remembered that it affects the very foundation of a nation's structure.

86. Within the economic systems of the countries participating in the Alliance, development plans may take a variety of forms with different degrees of comprehensiveness and exactness, depending upon national traditions, institutions, inclinations and capabilities. Because of these variations, the terms "planning" and "programming" are not defined in the Charter of Punta del Este.

87. In a mixed economy, planning should be accompanied by a set of mutually consistent tax, credit and incentive policies designed to give a strong impulse to the private sector and to orient its activities in the most economically and socially beneficial directions.

88. No matter how precise or sophisticated the plans may be in their macroeconomic aspects, there can be no effective planning without the selection of concrete programs and projects, carefully prepared in their economic and technical aspects. Nor can planning be effective unless it is accompanied by a set of mutually consistent policies in the economic, financial and social spheres that facilitate the mobilization and allocation of resources and shape the course of economic development.

89. At Punta del Este the Latin American countries were given an 18-month period for preparing their plans because many lacked the experience or the means and prior research needed for long-term programming. It is becoming increasingly apparent, however, that this "pre-planning" stage is in many

cases a most difficult one. Owing to the difficulties encountered in the formulation of long-range plans, it may be possible that for the first two years of the Alliance countries may frequently present relatively simple, short-term, rather than complex long-term development programs.

90. In short, the first year of activity in the field of planning has brought to the fore a number of the crucial problems confronting the Latin American countries in the preparation and execution of development plans: the need to reorganize and expand statistical data and information on natural resources; a shortage of technical personnel, even after taking into account the growing technical assistance from abroad; technical difficulties and insufficient funds, which have slowed down the preparation of specific investment projects; and the complex conditions established by national and international credit agencies which have delayed the financing of such projects.

91. Furthermore, most Latin American countries have experienced difficulties in developing satisfactory mechanisms for translating plans into action. Cooperative relationships between the planning agency and other governmental agencies--particularly the budget bureau--must be improved in order to speed up the execution of national plans.

92. A number of countries are thus preparing short-term plans for the public sector, based upon the assignment of priorities among programs and projects and within the framework of overall long-term development. Obviously, these short-term programs can only provide stop-gap measures until the basic conditions for more comprehensive programming are established.

93. Despite these difficulties, the planning process has been launched in nearly all countries. While the start may have been slow, as the first year of the Alliance ran its course, the pace has been gaining momentum.

b. The Present State of Planning

94. During 1961 and 1962, practically all the Latin American countries which had not done so before established a central planning agency, although some are still in the early stages of organization, and almost half of all the countries have completed or are about to complete an integrated short or long-term development program.

95. These planning agencies all have similar responsibilities. Their basic function is to prepare development programs--national, regional, and sectorial--that reconcile the objective of growth with the maintenance of price stability and balance in international payments. In some countries, the planning agencies coordinate foreign financial and technical assistance and provide general guidance to the government on fiscal and economic matters.

96. The mere establishment of planning agencies is not a guarantee that plans will be prepared; nor does the preparation of a plan guarantee its implementation. The planning agency must be at the highest level of the executive branch. Further, it must have the personal support of the chief executive of the republic and the drive that only he can give for a comprehensive development policy.

97. Planning organizations require support from, and the cooperation of, the ministries and departments, particularly in the area of programming and project preparation. Unfortunately, in quite a number of cases the relationship of the planning organizations with the chief executive, executive departments and autonomous public institutions has not yet developed enough to accelerate the preparation of plans and facilitate their implementation.

98. In a mixed economy, the planning body can program for the public sector with a certain degree of preciseness; but planning for the private sector usually consists of laying down broad targets, supported by policy incentives, financing, and other forms of governmental cooperation with private enterprise.

99. Of particular importance is the relationship of the planning organization with the budget bureau. Success in the public sector is possible only if the programs and projects are made a part of the annual budget. This, of course, requires that the planning agency work closely with the budget bureau, and, at the same time, that the latter furnish the former with the needed data.

100. In some countries of Latin America, this harmonious relationship has been achieved, but in others, there is notably little interchange between the two bodies, thus undermining economic and social planning as an effective instrument for national development. A serious problem is that plans are often prepared in isolation without taking into account and attempting to reconcile the wishes and needs of individual ministries and agencies. The latter, in turn, are sometimes not fully aware of the importance of planning and fear the interference of the planning agency in what they consider to be their own responsibility.

101. Since the ministries must concern themselves with the more urgent day-to-day problems, thus diminishing their involvement in the over-all planning effort, they should create or strengthen their planning machinery or establish their own planning units in close cooperation with the proper national body.

102. It should be noted that although most of Latin America's planning agencies are new, they have had positive results and their faults are being corrected. As progress is made in the planning process, it will be necessary to establish methods for evaluating the success or identifying the difficulties of the planning process itself and also for measuring development and showing how closely the plans respond to real needs.^{4/} At the present stage no complete evaluation on comparable bases can be made, but experience will make it possible to establish useful norms for that purpose.

103. There is a need to engender greater public awareness of both the importance and the aforementioned significance of planning in relation to economic and social development. In order to secure broadly-based support

^{4/} See the draft instrument for measuring development, presented by the Delegation of Peru (OEA/Ser.H/X.3, Doc. 118 and Doc. 118 ANEXO).

of, and participation in, the national planning task, it is therefore necessary to establish instruments of cooperation and consultation with representative sectors of public opinion--such as unions, cooperatives, producers' and businessmen's associations, farmers' societies, universities, and student groups--through which the needs, interests, and aspirations of the various segments of society can be articulated.

104. Planning bodies in Latin America take a number of different forms, reflecting the traditions of the country. The brief survey that follows indicates the organization and the methods that have been employed by some Latin American countries that have completed, or are about to complete, their economic and social development plans, and the basic content thereof.

105. In Bolivia, the Junta Nacional de Planeamiento, a staff agency with the Vice President of the Republic as its chairman, was established by executive decree on October 11, 1961. Its executive vice chairman is a presidential appointee, at present the Minister of Rural Affairs, who also takes part in the deliberations of the Consejo Nacional de Desarrollo, the highest policy-making body on social and economic matters. The Consejo is presided over by the President of the Republic and includes various members of the cabinet as well as the heads of the Corporación de Fomento, Yacimientos Petrolíferos Fiscales, and the Corporación Minera.

106. The Junta Nacional de Planeamiento, with the assistance of the Economic Commission for Latin America, the United Nations Technical Assistance Administration, and the Food and Agricultural Organization of the United Nations, has prepared a plan for the period 1962-71. The plan contemplates average annual growth rates of production of 9.2 per cent over the first five years, and 7.5 per cent over the second five years. (As the increase in population is estimated at 2.7 per cent a year, the growth in per capita output would be 6.5 and 4.8 per cent, respectively.) This ambitious program is expected to involve higher investment levels and a more effective use of capital. Total investment is to increase from 15 per cent of gross domestic product in 1958, to 20 per cent in 1966, and to level off thereafter. The plan sets overall and sectoral targets, but detailed project studies are still to be prepared. It was submitted to an ad hoc committee of the Panel of Experts, which has already rendered its preliminary report to the Government of Bolivia.^{5/}

107. From 1939 to 1960, an autonomous agency, the Corporación de Fomento de la Producción (CORFO), was in charge of the preparation of development plans in Chile. Since then, a new committee at the ministerial level, the Comité de Programación Económica y de Reconstrucción (COPERE) has been entrusted with the supervision of planning. Under this reorganization, CORFO has become the secretariat of COPERE and its larger, well-trained technical staff continues with the preparation of the details of the plan and its execution.

5. See OEA/Ser.H/X.3, Doc. 17.

108. Chile's national program of economic development for 1961-70, prepared by CORFO, contemplates an average annual rate of growth of 5.5 per cent in total output, equivalent to a per capita growth of 3 per cent. The plan will call for a total investment of approximately 9.5 billion escudos at 1960 prices, of which 20 per cent will be foreign financing. The success of the plan will require a substantial increase in gross domestic savings, from 10 to 18 per cent of the gross national product. It is hoped to achieve this through reforms in tax policy and administration and by establishing saving and investment incentives. A number of these reforms have already been approved by the legislature.

109. In March 1962, Chile's economic development plan was presented to the OAS for consideration in accordance with the Charter of Punta del Este. The ad hoc committee drawn from the Panel of Experts has already reported its conclusions to the Government of Chile.^{6/}

110. In Colombia, the Consejo Nacional de Política Económica y Planeación was created on November 25, 1958, but planning activities date back to 1951. The Consejo has five voting members: the President of the Republic, who acts as Chairman, two presidential appointees, and two members selected by the National Congress. The ministers of finance, development, public works and agriculture, and the presidents of the Central Bank and the National Federation of Coffee Growers are nonvoting participants in council meetings.

111. The Consejo has the responsibility of preparing programs, setting priority guidelines for public investment, and suggesting measures to channel this capital into high-priority activities. In addition, the Consejo aids in the promotion of economic stability; establishes investment criteria; helps to stimulate the inflow of foreign capital; and, finally, supervises the government agencies implementation of the program.

112. The planning department of the Consejo has already prepared a general economic and social development plan for Colombia for the 1961-70 period, including a more detailed four-year investment plan for the 1961-64 period. The general plan was presented to the Secretary General of the Organization of American States for consideration by an ad hoc committee, whose report has already been rendered to the Government of Colombia. The plan is now in the process of implementation.^{7/}

113. In Ecuador, the Junta Nacional de Planificación y Coordinación Económica was created by decree in 1954. It was recently reorganized and placed directly under the Presidency of the Republic. The Junta Nacional is composed of representatives of the Consejo Nacional de Economía, the Banco Central del Ecuador, and the Banco Nacional de Fomento; the ministers of economy, development, finance, and public works; and three presidential appointees.

6. Ibid.

7. Ibid.

114. The Junta Nacional de Planificación formulates the economic and social development plans, evaluates their results, and revises them year by year. The Secretaría de Planificación--the technical staff of the Junta--is responsible for carrying out the aforementioned plans and revisions.

115. In 1961, the Junta Nacional completed the preparation of a short-term development plan consisting of a number of projects, of which some are already in the process of execution and others are to be initiated very shortly. The Junta Nacional is now preparing the country's first overall development program, which is to cover the 1964-68 period.

116. In Honduras, planning for economic and social development is the responsibility of the Consejo Nacional de Economía, which has been in existence since 1955. Its membership consists of the Minister of Finance and Economy, who acts as chairman, the Minister of Communications and Public Works, the Minister of Natural Resources, the presidents of the Banco Central and the Banco Nacional de Fomento, and two government-appointed representatives of the private sector. The Consejo Nacional has a technical secretariat, headed by a Secretary General who generally attends Cabinet meetings. In order to give greater weight to the programming and execution of economic development plans, studies are underway for the purpose of giving the Consejo Nacional de Economía cabinet rank, as the Ministerio de Planificación.^{8/}

117. The Consejo Nacional has prepared an overall four-year investment program for the 1962-65 period, as well as sectorial programs of industrial and agricultural development, transportation and communications, and education and health. Social investments are an important part of the program, and special emphasis has been placed upon hospital service, potable water and adult literacy.

118. The Consejo is now re-examining its public investment programs with a view to preparing a shorter, more operational two-year plan. This plan would double public investment from its present level of 39 million lempiras in 1962 to 77 million by 1964. The Government of Honduras has already stated to the Secretary General of the OAS its intention to present this plan for consideration in the latter part of 1962, as provided in the Charter of Punta del Este.

119. For a number of years Mexico has followed a development policy of giving impetus to the basic economic sectors through government and corporation investment and through monetary, credit, fiscal, and tariff policy measures designed to favor directly the expansion of private investment. The purpose of this policy therefore is to achieve an adequate growth rate and a better distribution of income.

120. Since March 1962, a Comisión Intersecretarial of the Secretaría de la Presidencia and of the Secretaría de Hacienda y Crédito Público, was entrusted with the preparation of short- and long-term national plans for

^{8/} For changes suggested by the Honduran delegation see Appendix, p. 198.

economic and social development and with estimating the amount, structure, and financing of the national cost and investment. This new planning stage involves taking into account, in relation to economic projections, not only the investment program of the public sector, but also the probable volume and make-up of private investment, and considering the means of financing together with the balance-of-payments outlook.

121. The Comisión Intersecretarial recently prepared an "Immediate Action Plan for 1962-1964", which has been presented to the Secretary General of the OAS for consideration, under the terms of the Charter of Punta del Este. The Plan includes a detailed program of public investment and an estimate of private investment by sectors and by branches of industrial activity. It also incorporates the basic guidelines of economic policy, particularly in regard to tax, tariff, and monetary affairs, designed to stimulate private investment, and increases in agricultural and industrial production, exports and tourism. The "Immediate Action Plan" has been prepared within the framework of the overall and sectorial projections of the Mexican economy to 1965 and 1970.

122. The Dirección General de Planificación y Administración of Panama began functioning in January 1961, with the inauguration of the new administration, which attached great importance to the establishment of a planning mechanism having the stability necessary to undertake long-term planning and, at the same time, the required responsibility to aid the President in his task of establishing government policy.

123. The Dirección General de Planificación y Administración consists of the departments of planning, budget, administrative organization, and personnel administration. It is required by law to prepare a national plan, regional plans, and general guidelines for the development of urban areas and their zones of influence. The "Economic and Social Development Program of the Republic of Panama" is to be completed in December 1962. The Government of Panama has officially stated its intention to present its program to the Panel of Experts for consideration.

124. In Venezuela, the Oficina Nacional de Coordinación y Planificación (CORDIPLAN), created in 1958, is the central planning organization. CORDIPLAN prepares a four-year plan that is revised annually. Close cooperation with the Ministry of Finance makes it possible for the planning agency to assemble the investment portion of the government budget.

125. A general plan for the period 1963-66 is about to be completed. The plan contemplates achieving an annual development rate commensurate with the requirements and potentialities of the country. With a view to attaining the proposed objectives, the rate of development in industry and agriculture will undergo some change in relation to the rates which were established by the previous plan.

126. The prementioned development plan emphasizes the need for diversification of the economy. The Government of Venezuela has already requested the formation of an ad hoc committee for the consideration of its plan.

127. The countries discussed above have made considerable progress in the preparation of short- or long-term economic and social development programs. In other countries, national planning agencies have already been formed and steps are being taken to prepare a development program.

128. In Argentina, for example, the Consejo Nacional de Desarrollo was created in August 1961 at the level of the Presidency of the Republic. The council is composed of seven members, with the Minister of Economy as chairman. The principal responsibilities of the council are to define the country's long-term development objectives; to prepare annual programs of investment in the basic sectors of the economy, as well as special or sectoral projects; and to compare the actual results of economic policy with the objectives of the development program. Headway has already been made in sectoral programs in the fields of transportation and power.

129. The enormous area of Brazil and the considerable variations in geographic, economic, and social conditions have tended to encourage planning that focuses on regional conditions and seeks to incorporate them into the national plan. Regional planning has made great progress with the creation and operations of the Superintendência do Desenvolvimento do Noroeste (SUDENE). The states of Paraná, Santa Catarina, and Rio Grande do Sul have organized the Conselho do Desenvolvimento do Sul (CODESUL), which is supported by a regional development bank. Other states, such as São Paulo, Minas Gerais, and Guanabara, have also set up their planning bodies. The last two have established development banks.

130. In 1961, the Comissão Nacional de Planejamento (COPLAN) was established as an agency for over-all development planning. COPLAN has (a) the short-term objective of assembling the elements necessary to define an initial national development plan for execution during the period 1963-67 and (b) the long-term objective of establishing a planning organization that will ensure national development planning continuity and constant improvement.

131. Macroeconomic data on the country are now being reviewed while sectorial studies are completed, mainly those dealing with such critical areas as power, transportation, food, and basic industries.^{9/}

132. The first outline of the general long-term plan will probably not be completed for another few months. Nonetheless, a number of specific projects are included in a plan of action for 1962-63.^{10/}

133. In Costa Rica, the new administration recently sent to the Legislative Assembly a bill for the creation of the Junta Nacional de Planificación Económica. Legislative approval is expected shortly.

134. In the Dominican Republic, the Junta Nacional de Planificación y Coordinación was established in 1962. The planning agency is still in its organizational stage.

9. For changes suggested by the Brazilian delegation see Appendix, p. 197.

10. Ibid.

135. The Junta de Planificación of El Salvador has been in existence only since April 1962. One of its functions is to work toward economic integration of Central America. It is being assisted by a group of consultants who are helping to prepare a basic development program.

136. Guatemala's Consejo Nacional de Planificación Económica came into being eight years ago. The Consejo Nacional prepared the first five-year plan in 1955. In 1960 it prepared a four-year plan. Since the investments contemplated for the first two years of the plan, i.e., 1961 and 1962, were not made, the program for the remaining two years is being revised.

137. A permanent budget commission was recently created to coordinate budgeting with planning and programming. Another interdepartmental group of eleven technicians was created to help prepare plans or programs and to promote coordination between the Consejo Nacional and the implementing departments.

138. In Haiti, economic planning is still in a very early stage of organization. The creation of a specialized agency in this field is expected to take place within a short time.

139. In Nicaragua, the central planning agency was established in 1962 at the level of the Presidency. The director of the agency is appointed by the President. The agency is responsible for the preparation of a long-term national plan subject to short-term programming within this plan and in regional and sectoral plans as well.

140. In Paraguay, the Secretaría Técnica de Planificación del Desarrollo Económico y Social was set up in March 1962 at the level of the Presidency of the Republic. This agency maintains close contact with all parts of the administrative mechanism. Also, through an agreement with the OAS/IDB/ECLA Committee of Cooperation, the services of a group of planning specialists will be provided. To date, Paraguay has received two of these specialists. Furthermore, committees for sectoral planning have been created. Paraguay has initiated health, education and public works programs and completed some specific projects.

141. In Peru, the Oficina Central de Estudios y Programas (OCEP) was established in August 1961 within the Ministry of the Treasury and Commerce. A preliminary analysis of fourteen sectors of the economy has been initiated, as has a comprehensive survey of investment projects. In addition, national budget procedure has been reorganized to permit application of the budget by programs in 1963.

142. Finally, in Uruguay, the Comisión de Inversiones y de Desarrollo Económico, originally established as an entity responsible for the coordination of the investment policy of the various autonomous governmental agencies, is gradually emerging as an actual central planning body of the country.

2. Agricultural Development and Agrarian Reform

143. More than half of Latin America's population derive their livelihood from the soil, and more than 50 per cent of that number is composed of landless farmers and workers. Some estimates of land holdings made in 1950, indicate that 1.5 per cent of the number of farms exceeding 1 000 hectares covered 65 per cent of the total cultivable land area. In contrast, of the total number of farms ranging up to 20 hectares each, 73 per cent covered a total land area of only 4 per cent. Even if these data suffered substantial error, because of the lack of cadastral surveys, faulty census data, and the uncertainty of land titles, the facts would be no less shocking.

144. Related to the maldistribution of cultivable land are the low educational level of the rural population, antiquated methods of cultivation, and the lack of implements and credit. All these conditions have held down productivity in the agricultural sector and retarded overall economic and social development in the majority of the Latin American countries.

145. The coexistence of "latifundism" and "minifundism" gives rise to a Janus-headed agricultural economy in certain areas of some countries: on one side, export crops and those for domestic consumption are cultivated in a highly efficient manner on enormous states or plantations while, on the other, subsistence foodstuffs are grown on small, uneconomic plots of land. The rest of the latifundia, which cover most of the farm land of those countries, have unsatisfactory forms of tenure, low levels of productivity, and systems of work representing inadequate use and conservation of natural resources. Poor distribution of income is characteristic of all of them, as is the high degree of immobility of the working force on the large plantations. Coexistent with these forms of agriculture in most of the countries are considerable numbers of small landowners on marginal plots, individuals in precarious situations, and landless farmers. For the most part, the rural populace thus lacks the minimum necessary for a decent existence while his concomitantly low purchasing power places him on the side lines of the dynamic process of development.

146. During 1961 agriculture showed the slowest rate of growth of any economic sector in Latin America. In spite of moderate increases in the production of export crops--notably coffee--the output of foodstuffs for domestic consumption remained virtually unchanged. In some cases, increased demand for foodstuffs has had to be met by growing imports, which have had an adverse effect on the balance of payments and reduced the possibilities of industrial development and even that of the agricultural sector of the countries. Furthermore, the backward state of agriculture, together with rapid population increases and continued unsatisfactory performance of this sector, has tended to accelerate the movement toward urban centers.

a. Agrarian Reform

147. Both the Act of Bogotá and the Charter of Punta del Este place major emphasis on the need for basic reforms as an essential pre-condition for rapid and self-sustaining economic growth and social progress. As stated in the Charter of Punta del Este, a program of comprehensive agrarian reform embraces two key elements: one, the effective transformation of

structures and systems of land tenure and use, and the second, efforts to promote human welfare (education, regulation of working conditions, housing, social assistance) and foster cooperatives and production (land improvement, expansion of areas under cultivation, communications, credit, marketing systems, technical assistance).

148. It has been generally recognized that programs of agrarian reform must be considered in this broad sense, rather than with the single idea of redistribution of public and private lands. Nevertheless, the nature and degree of importance given to these elements would depend upon the specific conditions existing in particular countries and areas. In any case, it must be stressed that within an over-all concept of agrarian reform, redistribution of land is usually a fundamental factor, because of its economic effects and its social significance, and is therefore particularly important in comparison with measures designed to improve agricultural productivity.

149. Viewed in this comprehensive manner, agrarian reform is one of the very foundations of a nation's economic, social, and political structure. Even if it is achieved by peaceful means, it necessarily has revolutionary final effects. While the desired ends are to be achieved without violence, they must also be achieved rapidly. Clearly, therefore, there is an urgent need both for achieving the agrarian reforms and for putting them into effect.

Keeping the public well informed not only guarantees securing broad support but also promotes a more enlightened attitude among those directly affected by the redistribution of land.

150. It should be recognized that in many cases lack of resources limits the rate at which certain aspects of agrarian reform can be carried out. However, in several countries, where priorities must be set, first importance is given to redistribution of land and, where applicable, to colonization.

151. Agrarian reform requires careful definition of the degree to which land tenure shall be affected, firm political support, the reconciliation of conflicting interests, the drafting of clear and precise legislation, and other elements, in order to create the proper atmosphere for an effective and reasonably equitable effort. However, while such reform may itself be capable of helping to promote over-all economic and social advance, it is also true that the economy as a whole must possess the degree of dynamism necessary to facilitate the adoption of pertinent measures and to assure their successful execution. During these initial stages, agrarian reform places considerable strain on a nation's resources and energies, and requires complementing with sufficient foreign aid.

b. Reform Measures

152. The Charter of Punta del Este establishes generalized assumptions regarding integral land reform. The difficulty lies in applying them to the needs, capacities, and institutions of each country. Also, the intensity of the problem differs widely from one country to another, both in

its economic and social aspects. In some countries, for example, the land tenure problem is acute only in certain isolated areas and it affects a relatively small number of groups of people; in others, the problem affects a large and well-defined region, creating extreme social and political tensions; in still others it is nationwide, obstructing economic and social progress for the country as a whole.

153. There are countries in which there are greater possibilities for colonization of public lands than in others, both because of the availability of such lands and because of the adaptability and mobility of the population. Depending on the institutional environment, moreover, the instruments of agrarian reform may vary; in many cases the redistribution of holdings is accomplished by direct methods, i.e., by government action redistributing properties according to certain criteria and with certain compensations. This is usually the quickest way to effect the reform and to achieve the strongest social impact. However, indirect methods, such as land taxes, may likewise be used to induce the gradual redistribution of holdings and promote most efficient land use.

c. Development of Agrarian Reform

154. In the majority of countries efforts are being carried out leading to the initiation or improvement of agrarian reform programs, in accordance with the characteristics pointed out before. It is important to begin this review with the examples of Mexico and Bolivia, which began their efforts some time ago, and the recent ones of Colombia and Venezuela.

155. The Mexican Revolution, which had an eminently agrarian content, marked the beginning of agrarian reform in Mexico, liquidated the latifundia system, transferred the land, as restoration or as an outright grant to the villages, and is continuing at a vigorous rate 47 years after its start. While it was limited in the first years by special circumstances of the revolution to the distribution of land only, it can now be affirmed that Mexico has substantially surpassed the distribution phase and is at a stage of true integral agrarian reform. Proof of this are the notable efforts to improve the productivity of operations, through irrigation works, agricultural extension services, provision of credit facilities and insurance, and so on. Other measures pertaining to prices and marketing, for example, complete the picture of full agricultural development.

156. It is important to note that government credit extended to rural producers in 1961 was close to 2 billion pesos, and in 1962 a new program of long and medium-term loans was begun that will function through private bank system. This plan, which will aid medium and small farmers, as well as ejidal (communal) associations, will be financed initially through an external loan of 20 million dollars.

157. In spite of the integral development of the reform at present, mention should be made of the extent to which land distribution has continued, as can be seen in the following figures: since 1915 ejidatarios (communal farmers) have been given the use of more than 53 million hectares, of which 10 million, or 19 per cent, were granted during the 1959-62 period. Of these, 3.5 million corresponded to the 1960-61 period and almost 3.4 million to 1961-62.

158. Land tenure in Mexico is divided approximately equally between ejidatarios and small landowners, and the government has firmly upheld the principle of exclusion of authentic small agricultural holdings from redistribution.
159. The results of Mexico's experience are obvious in terms of its political and social stability and as a dynamic factor that explains to a large extent Mexico's rapid development.
160. The Bolivian reform, which began in 1953, is still in process. While the effort has been energetic and thorough, its implementation has encountered many difficulties; the poverty of the country has no doubt militated against a greater impact of the reform on self-sustaining economic and social advance. Nonetheless, the feudal structure, which was particularly oppressive before the reform, has been wiped out and the indigent population is achieving emancipation. The country has found greater cohesion and unity of purpose; comprehensive settlement programs have been launched; and marked improvements in educational facilities and levels have been achieved since the initiation of the reform. Although many difficult and complex problems remain, Bolivia's agrarian structure is on the verge of playing its proper role in the advance of the economy.
161. Comprehensive agrarian reforms have also been begun in Colombia and Venezuela. The nature of the reforms of these countries can be appraised from a brief mention of some of the more important provisions of their laws. Bolivia, Colombia and Venezuela, unlike Mexico, are countries in which the reforms were introduced only within the past decade. Their legislation is designed not only to wipe out the most glaring inequities of land distribution, but peaceably to eliminate the excessive concentration of holdings and to promote the cultivation of new lands by small proprietors.
162. Since 1960, 1 358 375 hectares have been distributed in Venezuela to over 50 000 properly settled families. Twenty per cent of this area belonged to private individuals. In accordance with the integral concept of the agrarian reform of that country, large amounts have been set aside in the ordinary and special government budgets for purposes that directly or indirectly serve this end.
163. The government credit granted to agricultural producers amounted to 530 million bolivars, of which 40 per cent has been given directly to the agricultural workers through medium and long-term loans. In the last three and half years, 94 million bolivars have been invested in irrigation works, which have increased the irrigated area by 21 600 hectares.
164. The government has invested 126 million bolivars in highways and pioneer roads, of which 6 000 kilometers have been finished. Agricultural extension service is carried out through 146 agencies throughout the country, in comparison with the 23 existing before the reform plan was initiated.
165. Agrarian reform legislation generally establishes some type of enforcement organization. The manner in which this body is set up and the powers it may exercise are clearly specified in the legislation of Colombia

and Venezuela. The lands available for distribution are generally classified as idle public lands and large private holdings that are being inefficiently or only partly utilized. Colombia and Venezuela provide for exceptions according to the nature of the land: in the former, the law does not apply to holdings of from 150 to 200 hectares; and in the latter, it excludes holdings of from 150 to 1 500 hectares. The bases for valuation and the manner of compensating for land redistributed also vary. In Colombia, the appraisal is to be made by assessors. In Venezuela, the productivity (income yield) of the land over a six-year period is to be used in calculating its value.

166. In relation to indemnification for redistributed land, Colombia distinguishes between land actually in use and that which is idle. The former is to be compensated for in cash at 20 per cent of the value, with the rest paid in installments, and the latter with 25-year bonds. Bolivia, too, plans to issue bonds, of 10 years maturity, while in Venezuela they will be of 10, 15, and 20 years maturity, depending on the use made of the land. The title to newly distributed land may be secured immediately in Bolivia and Venezuela. In the latter, the new owner cannot transfer title without the prior approval of the National Agrarian Institute.

d. Reforms in Process

167. There still remain several important countries whose pressing problems of land distribution and utilization bespeak the need for agrarian reform measures and general improvement of agriculture. This is not to say that the situation is being ignored and that significant efforts are not being made. As was suggested earlier, however, not all countries are equally prepared, from the technical point of view, to launch comprehensive reforms without considerable preliminary work in such fields as statistics, cadastral surveys, soil and resource analyses, and agricultural and over-all economic programming.

168. During the first year of the Alliance for Progress, considerable strides have been made along these lines in several countries in a systematic manner that will provide the bases for meaningful reforms.

169. In Chile, the National Congress has approved the Agrarian Reform Bill. This is a basic tool for carrying on and channeling a series of uncoordinated efforts intended to solve the problems of the agrarian structure, the low standard of living, and the unsatisfactory distribution of income in the agricultural sector, as well as low agricultural productivity, which gives rise to a permanent shortage of certain farm products considered basic to proper national feeding.

170. In October 1961, the government requested the Food and Agricultural Organization to supply technical assistance in the formulation of specific projects of land reform and agricultural development. This request was transmitted to the Inter-American Committee for Agricultural Development (ICAD), and, as requested by Chile, the sending of the mission is awaiting final passage of the agrarian reform law.

171. Since the promulgation of the Alliance, serious efforts have been made in Brazil to revamp its agrarian structure and to promote balanced economic and social development in the rural sector. Like several other Latin American countries, Brazil suffers from a marked maldistribution of land which manifests itself in the existence side by side of unproductive minifundia and enormous latifundia, creating acute social tensions and impeding the country's over-all growth. The problem is particularly serious in the country's northeast where the lack of irrigation facilities has compounded the difficulties.

172. To deal with the agrarian problem, the Brazilian Government has just established the Superintendência de Política Agrária (SUPRA) through the merging of various existing organizations such as the Rural Social Service, the Institute of Immigration and Settlement, and the National Agrarian Reform Council. This new body, organized in accordance with the delegation of authority requested from the Congress, will be in charge of planning, promoting, and carrying out agrarian reform. A program for training agricultural technicians for this purpose is in full operation at the present time.

173. Side by side with COPLAN, the Superintendência de Desenvolvimento del Nordeste (SUDENE), the organization responsible for the development of Brazil's northeast, has been carrying forward a broad program of colonizing new regions. SUDENE has also been promoting public investment in sugar plantations on condition that the owners pay for improving the tracts that will be made available for settlement of landless peasant families. Since April 1961, moreover, an agrarian reform law has been in force in the Brazilian state of São Paulo which seeks to redistribute underutilized lands, including those that are government owned, partly through the imposition of a progressive land tax.

174. A broad program is also in operation for the establishment of agricultural colonies under federal and state governments, and agricultural extension services established and operated in cooperation with Point IV are also being intensified.

175. The Inter-American Committee for Agricultural Development is presently engaged in organizing teams of experts to assist the national and regional agricultural development agencies in their task of reshaping the nation's agrarian structure.

176. Ecuador is also afflicted with maldistribution of land. Shortly after the establishment of the Alliance, Ecuador set upon the task of formulating a draft agrarian reform law, with the assistance of a group of outside experts. The bill, submitted to the Ecuadorian Congress at the end of last year, is now under consideration.

177. The OAS last June organized an agricultural advisory mission to assist the government in formulating and implementing its long-term agricultural policy. Until such reform legislation is actually effectuated, the scope for improving this sector remains limited.

178. Costa Rica's agrarian reform focuses not only on the problem of large holdings, but also on those that are uneconomical because of their smallness; moderate-sized farms are excluded. The National Bank, through its rural credit department, establishes criteria in the matter of indemnification and retains an option to purchase land when it is put up for sale. As for the terms of payment, buyers are granted a 30 year period, with title being given only after the total price has been paid. The Institute of Lands and Colonies was recently established to solve land tenure problems.

179. In El Salvador, the Instituto de Colonización Rural (ICR) is charged with the distribution of government-owned lands.

180. In Honduras, the National Agrarian Institute was established in March 1961 to carry out the reform and it began by collecting and analyzing basic data and information, including the initiation of cadastral surveys. Redistribution and awarding of some government lands have been accomplished as part of these tasks. Assistance in preparing the studies and field investigations is being given by an OAS agriculture advisory mission. The Honduran congress has recently passed a law encompassing agrarian reform and agricultural development.

181. Nicaragua, too, is actively engaged in laying the technical and legislative groundwork for its agrarian reform.

182. Guatemala passed its first agrarian reform law in 1953, the year in which the National Agricultural Bank was established. In 1954, it promulgated the Agrarian Statute, which regulates the purchase and expropriation of lands and contains provisions on the utilization of idle land. During 1961, various bills were presented to the Congress on these matters: one agrarian reform bill contemplated the establishment of an Instituto Nacional de Transformación Agraria; other bills were of a complementary nature, covering areas of agricultural development, idle lands, family holdings, and parcelings. These bills were considered by the legislative branch, which approved them in principle. At the end of April 1962, however, the executive branch withdrew them from the Congress. Since 1954, in accordance with the standards of the Agrarian Statute, a program of rural development has been carried out, as a result of which approximately 30 000 families had been settled by the end of 1961.

183. The problem of the latifundia appears to be less acute in Panama than in the other countries of the Isthmus. Congress approved in October 1962, an agrarian code principally oriented toward the settlement of public lands, the construction of farm-to-market roads, the provision of agricultural credit, extension services and technical assistance, and the installation of irrigation and drainage facilities.

184. Uruguay does not have at present an integrated agrarian program. Although it has initiated a livestock program with the financial aid of the IBRD. Its measures on land tenure have been limited chiefly to the distribution and colonization of a small amount of public lands, by the Institute of Colonization.

185. Paraguay's agrarian reform legislation has been in effect for many years. It recently took a significant step forward with the promulgation of laws for the compulsory division of properties of more than 10 000 hectares and for settlement and urbanization. A plan for turning over 25 000 plots to new owners within six years is in full operation; in 1961, 7 000 were transferred. The Agrarian Reform Institute is undertaking only the distribution of land because it lacks the funds to carry out over-all agrarian reform.

186. Statistics in Argentina show a considerable concentration of lands, but the disproportion decreases greatly if the very arid zones are excluded. Its growing population, one of the lowest in the hemisphere, finds employment in industry and creates no pressure on the land or social tensions. There are all kinds of laws in force--at both the federal and provincial levels--designed to promote land subdivision through taxation and provisions regarding inheritance. Settlement of undeveloped lands is also promoted. Almost all such lands belong to the provinces and measures have been taken to reduce existing dwarf holdings in certain zones. Top priority in development planning is given to recovery of the agricultural sector, which produces 90 per cent of the country's foreign exchange earnings.

187. Peru must be singled out as a country with a particularly acute agrarian problem. Peru's population density per hectare of arable land is one of the highest in the world; agricultural methods--especially in the Andean zone--are among the most antiquated and yields among the lowest; and a large part of the rural population remains at the margin of the market economy, lacking even the minimum for decent existence. These conditions are largely a reflection of gross inequalities in land distribution. The agrarian reform bill, prepared in 1960 and later submitted to Congress, has not yet been passed. A law has been passed that returns to the government all unimproved land. This law is essential to the proper organization of agrarian reform.^{11/}

3. Industrial Development and Productivity

188. Industrialization is the mainstay of economic and social progress in Latin America. In effect, in a region where there is, in general, a rapidly increasing population, exerting pressure on a weak and backward agriculture, it becomes imperative to develop new industrial activities that create opportunities for work, raise the level of demand, and free the national economies from their subjection to the vicissitudes of foreign trade.

189. Over the last five years noteworthy advances have been recorded in industrialization. The 8.0 per cent average annual rate of expansion during this period is considerably greater than the 5.2 per cent registered in the preceding five-year period. Between 1956 and 1961, the region-wide share of manufacturing output in the total product climbed from 21 to 24

^{11.} For changes suggested by the Peruvian delegation see Appendix, p. 198.

per cent. During 1961, net output in the manufacturing sector advanced 8.3 per cent, far above the pace registered in most other economic sectors of the region.

190. The gains, however, were rather unevenly spread among the countries, being concentrated in the few where industrialization already appears to have achieved a certain degree of self-sustaining dynamism. In almost all of the remaining countries of Latin America the pace of manufacturing activity ranges from moderate to outright sluggish. This trend would seem to indicate the advisability of strengthening programs for speeding up the process of industrialization and, in particular, the advisability of creating fiscal, tariff, monetary, financial, and other incentives to benefit private investment and assure it of conditions conducive to its development.

191. Among the basic aspects of industrialization it is necessary to single out--besides capital formation--the role of technological advance, the development of human resources, and increased productivity.

192. Considering the decisive influence of technological innovation on the process of development, it is worth pointing out that in order to create a favorable climate for greater technological progress, support should be given to applied research and to the adaptation of technology --not an indiscriminate copying of the technology developed by more economically advanced countries--with a view to applying the techniques used to matters concerning the relationship of cost factors and the availability of capital, labor, and raw materials of the countries in the process of development. Of special interest is the important contribution that should be made by Latin American technological research institutions in the design of products and processes that make the aforesaid factors into account, as well as in the utilization of new domestic raw materials.

193. Industrial development and increased productivity are so closely related that emphasis must be placed on the importance of programs that tend to raise the productivity of existing enterprises, with the understanding that a higher level of productivity depends not only on capital, but also, in large measure, on production technology and on the techniques of organizing the production system. The last aspect must be emphasized, for while modern production techniques and tools are important, it is just as important, to have a labor force adequately trained to operate and maintain the equipment and a management corps, in both public and private enterprise, that knows how to organize and operate the productive process in such manner that maximum production is achieved with the minimum expenditure of resources.

194. Increased productivity, however, must help to better the standard of living of the majority of the population and correct the maldistribution of income. To this end, the benefits of increased productivity must be equitably distributed among the entrepreneur (in the form of greater profits that permit larger capitalization and productive reinvestment), the labor force (in the form of higher wages and salaries and increased social benefits) and the consumer (through the lowering of retail prices). This system of distributing the fruits of greater productivity will make it possible to realize, at the same time, both economic and social benefits.

195. The industrial promotion work needed to favor and assist in the establishment of new enterprises should be based on studies of technical and economic workability that take into account not only income yield, but also general economic and social effects from the national standpoint.

196. It is also advisable to temper protectionist policies for young industries, both to maintain quality and price levels affording some protection for the consumer and to foster industry under competitive conditions, keeping in mind especially the integration programs now under way in Latin America.

197. There is an urgent need to complement general economic and social planning with a program for the systematic development of human resources. Development programming requires not only the preparation of capital formation projections but also a detailed assessment of training and education needs, for a country's capacity to absorb new capital is closely linked to its ability to assimilate new skills and technology.

198. A literate and trained work force is a desirable social goal in itself and also constitutes one of the essential "inputs" into the productive process. In this connection, formal education alone does not solve the problems of the critical shortage of skilled personnel or the persistent surplus of unskilled workers. Formal education must be accompanied by intensive training, either in the employing institutions themselves or in the centers offering technical training in the skills needed by industrial development.

199. The OAS is staging a program to promote the institution, in each country, of manpower planning in relation to economic and social development. In launching this program, the OAS has been drawing upon the experience of the Organization for Economic Cooperation and Development (OECD). Various Latin American countries--particularly Argentina, Chile, Colombia, Peru, and those of Central America--established or broadened their own programs in 1961, and this year, they will be joined by Brazil, Mexico, Uruguay, and Venezuela.

200. The OAS has given a course in such techniques at the Torcuato de Tella Institute in Buenos Aires, Argentina, to train the personnel in charge of national surveys in the various Latin American countries. In addition, the Latin American Institute for Economic and Social Planning, established under the auspices of ECLA, has initiated a course in manpower planning.

4. Public Administration

201. As a result of the recent efforts of the Latin American countries to formulate and execute comprehensive economic and social development plans and social reforms, weaknesses in their administrative mechanisms have been laid bare.

202. In some cases the administrative and political structure of the government is so centralized that local or municipal authority is for all practical purposes inoperative. At the other extreme, there are instances

of such a high degree of decentralization, reflected in virtually hundreds of autonomous governmental entities, that the execution of a genuinely national plan is difficult.

203. Although it is highly important to avoid the proliferation of autonomous entities and agencies with high operating costs and a kind of organization that results in excessive red tape, it should be borne in mind that the existence of certain autonomous agencies in some countries meets their needs or fits their special characteristics. The civil service sometimes stands exposed to undue political pressures, is usually underpaid and often lacks a strong sense of mission of duty. This, along with too frequently hazy lines of authority between ministries, bureaus and boards, makes it difficult to place responsibility.

204. Often, relatively minor alterations in the chain of command, in the status and functions of a particular office or bureau, or in the definition of an official's responsibility, can unblock administrative bottlenecks without need for any across-the-board reform of the entire structure of government administration.

205. It is difficult to gauge actual accomplishments by each country in so vast and complex a field as administration. Some of the principal changes made in public administration in Latin America have already been mentioned in the description of national planning efforts. In the field of taxation, various countries have adopted measures and passed laws to reform the administration of the tax system. In those countries the tax collection mechanism has been improved, safeguards against evasion have been established and the procedures for filing tax returns has been simplified.

206. Moreover, several countries are expanding their activities in the field of public administration training. In Brazil, for example, the School of Public Administration, established in 1952 with the assistance of the United Nations, continued in operation under the auspices of the Getulio Vargas Foundation. In Central America, the Advanced School of Public Administration for Central America has expanded its training activities, particularly with regard to courses and seminars on problems of economic integration.

207. More than three years ago, with the assistance of a United States economic mission, the Government of Paraguay organized the School of Public Administration to train public officials in economic and social development activities.

208. There is an urgent need to improve public administration in Latin America, and for this some countries may require technical assistance. It is of the utmost importance to be aware of this fact and to take suitable action, because only if the countries have a good public administration will it be possible for their national development plans to be carried out efficiently.

209. The general lines and requisites of a broad public administration program that would make it possible to solve the aforesaid problems might take the form of the preparation of country studies to identify the kinds

of projects and technical assistance services needed; the establishment of research and training centers; and the holding of meetings or seminars to compare experience and to propose solutions.

210. Such activities were extensively discussed at the meeting of a group of experts, which was held in May 1962 and which gave special attention to the problems of public administration in relation to development programs. As an outgrowth of that meeting, groups of experts began to make visits to ten South American countries in October 1962 for the purpose of identifying those problems which are most important in the programming process and deciding on the steps to be taken for their solution. The pertinent reports are to be completed in December and study visits to the rest of the countries will be made in 1963.

211. The advisability of making maximum use of local universities and institutes of public administration in the activities undertaken in this field should be studied, along with the forms it might take.

212. Administrative reforms should be directed not only toward the improvement of existing agencies but also toward the establishment of others that are needed and the elimination of those that do not perform a truly essential function.

213. The problems are so great that in most countries all possible efforts should be consolidated. In this connection, both technical assistance programs and training programs might be executed as special projects sponsored by the country or countries interested, international organizations, and private nonprofit entities.

5. Tax Policy and Administration

214. At this moment, when the Latin American countries are undertaking programs for accelerated economic and social development, the need to modernize tax systems and administration is urgent. The Charter of Punta del Este stresses the importance of including measures to reform tax structures and improve fiscal administration within plans for economic and social development in Latin America. There must be both tax reform and administrative improvements in order to increase and facilitate the domestic effort that each nation must make in implementing those development plans.

215. The Act of Bogotá and the Charter of Punta del Este furnish the framework of such reforms and set forth the economic and social objectives to be sought, namely:

- a. To make the benefits of development available to all economic and social sectors, through a system of adequate and fair taxes that, efficiently administered, will produce a more equitable distribution of national income;
- b. To create conditions favorable to mobilizing and utilizing financial resources effectively and rationally, through a fiscal policy directed toward increasing and orienting private investment;

- c. To carry out a monetary policy aimed at achieving and maintaining monetary stability and at improving the balance-of-payments position, so as to provide a reasonable degree of economic stability, favorable to economic development;
- d. To increase government revenue, so as to permit a higher level of public investment in development programs.

216. It is important to point out that, in many cases the aforementioned objectives are in conflict with one another, in particular those of an economic with those of a social nature. For instance, it is necessary to establish a harmonious balance between the objectives of social justice in the tax area and of incentives to investment, but no generalizations can be made as to the means of achieving that balance, which depends primarily on the economic, social, and political conditions of the individual countries.

217. The Latin American countries might work out cooperative arrangements for the suitable channeling of foreign investments, so that they will not compete with one another in making concessions aimed at attracting capital from abroad.

218. The need for tax reform is generally recognized. However, it is not possible to devise an ideal tax system, equally applicable at all times and in all countries. On the contrary, the tax system must be adapted to the peculiarities of each country. Literal imitation of the systems employed in other countries should be avoided. At the forthcoming OAS/IDB/ECLA conference on fiscal policy, to be held at the end of 1962 in Santiago, Chile, guidelines for joint action in this regard by the countries of the area will be discussed and laid down.

219. It must be recognized, moreover, that tax reform is less an isolated act than a process. Consequently, if important results are to be achieved, a considerable length of time may be required.

220. It is important to point out that the basic objectives of improving the distribution of the tax load and increasing public revenue cannot be achieved solely through changes in the tax structure. Such changes must be accompanied by the necessary reforms in tax administration, with a view to diminishing the cost of collections.

221. Particular attention should be paid to having the governments initiate publicity campaigns in this area, in order that tax payers may be made aware of the problems involved, and may become convinced of the need for, and fairness of, taxation. This will result, in the future, in a more effective tax administration.

222. It is important to bear in mind that external aid of both a technical and financial nature can contribute decisively to accelerating the reform process in Latin America.

223. The general outlook is encouraging in this field, owing not only to the improvements and advances already achieved in various countries, but also to measures that are currently being adopted and put into practice. These are reviewed briefly in the following sections.

a. Fiscal Legislation

224. In the last two years, noteworthy developments have taken place in income tax legislation in Latin America. In 1961, an income tax was put into effect in Uruguay for the first time; and in the Dominican Republic and Ecuador new income tax systems were established in 1962.

225. Important changes have also been made in the income tax structures of Colombia, El Salvador, Haiti, Mexico, and Panama; while changes have been made in rates or in exemption levels in Argentina, Brazil, Paraguay, Peru, and Venezuela. In three countries (Bolivia, Honduras and Panama) studies are under way which will provide the bases for significant income tax revisions. In Guatemala, the only Latin American country still without a personal income tax, a bill for a tax of this kind was presented to the Congress in September 1962. That same month, bills referring to new income tax laws were presented for congressional consideration in Chile and Costa Rica. Various tax reform measures are pending in the Brazilian Congress, chiefly with reference to the income tax.

226. To illustrate the nature of the changes in income tax legislation, it may be helpful to review developments in a number of Latin American countries.

227. In the Dominican Republic, the new law sets forth rates of a progressive nature, combining proportional taxes for different categories of activities with a complementary tax on total income.

228. Mexico made important changes in its income tax law, effective January 1, 1962. Investment incentive and more equitable treatment of taxpayers are the two principal aims of the reforms. A new system for more rapid write offs and reinvestment of profits are the principal instruments of economic development incorporated into the law. The creation of a complementary tax on aggregate income, the inclusion of certain types of revenue (formerly exempt) in the taxable income, and a new treatment of capital gains are the elements of tax justice introduced by the reforms.

229. Extensive tax reforms, were introduced in Colombia at the end of 1960. The concept of income and the tax rate structure were changed, preferential treatment being accorded income from wages and salaries. Measures of social significance and ones for the promotion of economic development were also adopted.

230. In connection with the concept of income, mention should be made of the inclusion of capital gains from the sale of real property. The structure of tax rates applicable to corporations was simplified. With regard to rates on personal income, the attempt was made to relieve the burden on tax payers in the lower and middle brackets and to raise taxes on those in the upper brackets. In addition to favorable treatment for certain income derived from wages and salaries, combining the income tax with complementary taxes on inheritances and excess profits provides fairer treatment for taxpayers.

231. In addition to decreasing rates on lower incomes, the reforms achieved social objectives by decreeing special exemptions for payment of rent, hospitalization and medical service costs, and secondary-school and university living expenses, and the development of low-cost housing. Among the incentives to economic development, exemptions were granted to basic industries and on certain exports.

232. Brazil has approved legislation of a tax nature to encourage economic development, granting exemptions of up to 50 per cent on returns from investments made in the northeastern part of the country. Changes in exemption levels were adjusted to changes in price levels.

233. In Ecuador, a new income tax law, enacted in 1962, introduces important changes into the country's tax structure. Among these attention should be called to the following:

a) income taxes eliminated for individuals in the lowest brackets, by raising the level of minimum taxable income and increasing exemptions for family expenses; b) incomes in the higher brackets are taxed on a more sharply progressive scale than under the previous law; c) the tax on personal income is divided into four categories, according to source, and it is proportional, with rates running from 6 to 23 per cent; d) provision is made for a progressive over-all tax on income from all sources, running from 10 to 43 per cent; e) special treatment is granted to profits from productive activities that are reinvested in equipment and installations, and faster write offs are provided for fixed assets; f) a system of estimated income is established for professionals; g) the tax on the working capital of business enterprises is totally eliminated.

234. As an indirect measure for channeling private savings toward investment in industry and agriculture, in projects essential to economic development, the new income tax law exempts from taxation interest earned by securities issued for financing such projects.

235. Apart from income tax reform, other tax reforms have been introduced in Latin America, adjusted to the objectives of the Alliance for Progress, and having perhaps a broader social and economic significance.

236. Custom duties constitute an important source of revenue for many Latin American countries. In a number of them--Bolivia, Costa Rica, Mexico, Panama and Paraguay--changes in the structure and rates of said duties have been made in recent years, mainly to protect domestic industry on certain occasions and to raise revenue and make the tax burden more equitable. Paraguay formed a Comisión de Evaluación Aduanera in 1962 composed of representatives from the government and private industry.

237. The two movements toward economic integration in Latin America have been responsible for bringing about fundamental changes in the structure of import duties. A clear tendency to increase taxes on luxury goods and to lower those on raw materials and capital goods may be observed in the agreements for tariff standardization which resulted from the General Treaty for Central American Economic Integration.

238. Taxes on exports have also been increased, and new ones have been introduced in several countries. Costa Rica, for example, modified its taxes on coffee and sugar exports in September 1961. A new tax on shrimp exports was instituted in El Salvador in June 1961. Haiti, in 1962, imposed import and export taxes on various goods which were previously exempt. The resultant proceeds are specifically allocated to public investment.

239. One of the most important areas of taxation policy--that which is perhaps the pivot of the land reform effort--is land tax policy. In Costa Rica, for example, the Land Tenure and Resettlement Law of October 1961 includes a special tax on idle land holdings under single ownership exceeding 250 hectares. A new land tenure act was passed in September 1962.

240. In Panama, the law of December 1961 establishes levy of 30 centavos per hectare on all registered farms, and a levy of 50 centavos per hectare on unregistered ones. In Uruguay, a law of November 1960 provides that all rural land shall be appraised at market value, plus 20 per cent for improvements, with reappraisals to be made every three years. In addition, the surtax on real property holdings in excess of a specified minimum has been increased.

241. In many countries--Chile, Colombia, Honduras, and Panama, particularly--cadastral surveys are under way, preparatory to the introduction of new land-tax legislation. In October 1962 Honduras passed a land reform law establishing taxes aimed at a better distribution and use of lands. The Government of Chile has submitted a bill instituting changes in land taxes to the Congress for consideration.

242. Significant modifications have also been made in recent years in inheritance and gift taxes by Ecuador, Nicaragua, Uruguay, and Venezuela. In Venezuela the rate structure, which had ranged from 1/2 to 30 per cent, now runs from 1 to 55 per cent. In Uruguay, a substantial revision of the inheritance tax was made, raising the rates on legacies, and obliging the heir to acknowledge gifts received inter vivos from the deceased, so that the value thereof may be added to the legacy or inheritance. In Ecuador, a new inheritance tax, simplifies the legislation and, in general, provides for an increase in rates. Nicaragua, has revised rates on inheritances, making them more progressive.

b. Tax Codification and Administration

243. The problem of improving tax administration in Latin America is complicated by the proliferation of uncoordinated tax laws. Some countries, such as Bolivia, Colombia, and the Dominican Republic have taken or are taking steps to simplify their legislation.

244. A good deal can be done to improve tax administration without the enactment of new legislation. An outstanding example of the measures taken to improve tax administration is the basis revamping of the "Dirección General Impositiva" in Argentina since 1960. The principal feature of the reorganization is the establishment of autonomous district and regional offices. With the aid of trained personnel a successful effort was made to bring tax collections up-to-date. In 1962, new legislation introduced widespread

innovations in assessment and prepayment and in procedures for identifying taxpayers, with penalties levied for late payment and for fraud.

245. In Chile a far-reaching administrative reform was undertaken in March 1961. The organization of the "Dirección de Impuestos Internos" was improved, including the establishment of an inspection service to reduce tax evasion. The quality of the administrative staff has been raised through the training being given in a modern and well equipped school. Tax collections have increased and public support has been enlisted for efficient tax administration.

246. Brazil recently established the obligation of presenting a property declaration together with an income declaration in order to improve revenue and avoid tax evasion.

247. Peru has concluded the preparatory phase of coordination and codification of legislation that will become law in January 1963.

248. In Colombia, similar measures have been taken to improve administrative efficiency, particularly in the collection of delinquent accounts and in taxpayer identification.

249. Improved revenue administration in Bolivia in 1961 resulted in an increase of 30 per cent in customs receipts and a 10 per cent increase in other tax collections.

250. Measures to improve administrative procedures and particularly to assure prompt collection of taxes have also been adopted in El Salvador, Haiti, Uruguay, and Venezuela, in most instances in conjunction with reforms related to the levying and collection of income taxes.

251. In Mexico, the tax reform of 1961 introduced improvements of and administrative order to complement those initiated since 1959. The coordination and centralization of auditing services, a new registration of taxpayers and campaigns to improve relations with taxpayers and aid them in the compliance with their obligations, are aspects worthy of mention.

252. New techniques for assessing and collecting taxes have been introduced in Peru and Ecuador. In Peru systematization methods for figures have been improved with the use of electronic systems and a recent amnesty law will have beneficial effects on fiscal administration.

253. In Panama, the employees of the Internal Revenue Service were placed under civil service and procedural manuals were prepared for the guidance of staff operations.

254. A significant stimulus to tax reform and the improvement of administrative procedures resulted from the Conference on Tax Administration, held in Buenos Aires from October 11 to 19, 1961, sponsored by the OAS, IDB, and ECLA, with the cooperation of Harvard University. The most tangible result of the Conference has been the aid that its work signified in calling attention to the measures and procedures that can be adopted to reorganize the system and fiscal administration, as well as the results already obtained in some countries.

c. Studies and Reforms in Progress

255. Among the various reforms under Congressional consideration are the new Chilean sales tax, a new organic statute for the internal revenue service, and inheritance or gift taxes. In Ecuador a tax code was prepared in July 1962. In January 1962 in Bolivia a commission of officials of the Finance Ministry and other departments were named to prepare a similar project. Under the Alliance for Progress, Paraguay has begun a budgetary credit compensation for structural tax reform.

256. The series of studies in progress or completed is a long one. It is sufficient to cite by way of examples the report on a four-year plan for fiscal reform proposals in Honduras, prepared in August 1962, soon to be presented to the Congress, or the one on income tax reform in El Salvador.

257. Panama has also finished preparing reforms to be presented to the legislature during 1962. These reforms were conceived for the purpose of establishing a more equitable system, preventing tax evasion and giving incentives to channel private investment.

258. The same may be said concerning Brazil, where the Council of Ministers presented to Congress a tax reform project that touches on various taxes, but that principally introduces substantial reforms on income taxation relative to the adoption of a progressive scale applicable to dividend gains and has the purpose of encouraging re-investment. This project also consists of measures leading to the achievement of a better distribution in the holding of corporation stock and to create more favorable conditions for capital markets, through exemptions, as well as changes in the system of consumer taxes by means of a general rate increase, especially in luxury taxes. At the same time, changes in fuel taxes and a new tax on tires --revenue which will be dedicated to the financing of a highways program-- tends to give fairer treatment to those using these services.

6. Education

259. The Charter of Punta del Este and the Ten-Year Education Program of the Alliance for Progress recognize that education is an essential instrument for development and that "under proper conditions, investments in education have the highest cultural, social, and economic multiplier effect."

260. The Conference on Education and Economic and Social Development in Latin America (Santiago, Chile, March 1962) reasserted the urgent need for assigning priority to international cooperation in education--mindful that each country should make a maximum domestic effort of its own--by providing large-scale and adequate technical and financial assistance.

261. In its report to the IA-ECOSOC, the Panel of Experts states that education is "the field of social investment that should receive the greatest consideration in development programs." 12/

12. See OEA/Ser.H/X.3, Document 17, paragraph 92.

262. Definite strides have been made in extending educational services in the Latin American countries in recent years, as a result of greater attention to problems in this field, to the reforms introduced, and to the financial efforts made by the countries.

263. Owing to lack of uniformity in the national reports, insufficient statistics, and shortage of time, for this first year it has been impossible to make an accurate evaluation of present educational programs on bases permitting a valid comparison. The efforts mentioned in the foregoing paragraph are insufficient: the rapid population growth, and Latin America's accumulated deficit make extremely heavy demands upon plans for educational development and require larger funds. Since 20 per cent of the total population falls within the compulsory school-age bracket, efforts to develop the potential of these human resources must be speeded up.

264. Although encouraging progress has been made in increasing the amount of education, very marked deficits continue to exist as indicated by facts such as an illiteracy rate of about 40 per cent; average schooling of 2.2 years; dropouts of 83 per cent in elementary school and 78 per cent in secondary school; a failure rate of approximately 20 per cent; lack of pedagogical training on the part of 44 per cent of elementary school teachers and 70 per cent of secondary school teachers; deficiencies in school equipment; poor orientation of curricula; obstacles arising from inadequate administrative organization; shortness of the school year; and, in short, inefficiency in the utilization of available resources.

265. Dropouts have constituted one of the most serious problems in the field of education. It is estimated that three or four years of elementary schooling is the minimum necessary to assure functional literacy on a permanent basis. Yet, approximately half the children in Latin America who enter primary school leave within the first three years. Accompanying this is a dropout in teaching personnel, particularly in rural zones. This is also a serious problem that contributes to lowering the productivity of the school system in many countries.

266. There is no doubt that the only possibility for increasing the number of teachers, raising standards of the profession, and avoiding dropouts by the most highly qualified is through a substantial improvement in the social and financial incentives now being offered the teaching profession both in its technical and administrative aspects.

267. Economies in the process of development need constantly greater numbers of trained human resources at the middle and upper levels. This skilled force can be given basic or advanced training in various ways: a) through intensive technical assistance programs, foreign investment, consultant services, and immigration of specialized personnel; b) through on-the-job apprenticeship, organized training courses at labor centers, seminars for the preparation of supervisors and executives, educational and cultural extension courses outside working hours, etc.; and c) through technical institutes, high schools, and universities. Such training programs can also be complemented by the use of other government funds, such as military budgets. The armed forces may even play a direct role in these activities.

268. Large companies are in a financial position to defray the costs of their own training programs and, in a certain sense to convert themselves into real schools. This modern orientation can be furthered through specialized organizations like SFNAI (National Industrial Apprenticeship Service, Brazil), SENATI (Peru), INCE (National Institute for Cooperative Education, Venezuela), SENA (National Apprenticeship Service, Colombia), and through incentive policies such as tax exemptions that permit sharing the responsibilities and costs of training programs.

269. However, small firms and handicraft shops require government training centers. Likewise, in the agrarian reform process, the greatest responsibility for preparing the skilled labor needed in the various types and levels of work falls on the government.

270. In the rural areas, community development programs are among those that can most quickly fill basic skilled-labor requirements. The budgets and personnel of the armed forces are used intensively by some countries in agriculture, transportation, and other community development programs.

271. In order to integrate training programs with the planning of economic and social development, it is necessary to carry on research jointly with the managers of companies in every branch of business. In this way, through the evaluation of program needs, industry by industry, and consideration thereof in the aggregate, a truer picture is provided for calculating human resource needs.

272. In compliance with Resolution A.4, annexed to the Charter of Punta del Este, the Secretary General of the OAS created the Task Force for Promoting the Programming and Development of Education, Science, and Culture, and assigned its corresponding objectives. The Task Force has prepared 25 plans for immediate action. 13/

273. Several of these projects, approved by the Conference of Santiago, are now being carried out with funds from the United States and international organizations. It is anticipated that the majority of the remaining ones will be in operation before February 1963.

274. The Task Force promoted the coordination and cooperation between UNESCO and the OAS for the programs related to the Alliance for Progress. An agreement was signed by the two organizations in June 1962 and the Mixed Committee established by it just met at the highest level on October 10 and 11 in Washington, D.C. UNESCO has actively cooperated with the Task Force.

275. At its last meeting, the Task Force presented to the OAS General Secretariat a recommendation on reinforcing the Secretariat in the field of education by setting up the Office of Assistant Secretary for Educational, Scientific, and Cultural Affairs, converting the Division of Education to a Department, and reorganizing the Inter-American Cultural Council. Following this recommendation in part, the General Secretariat established the post of Assistant Secretary for Cultural and Scientific Affairs and Information.

13. See OEA/Ser.H/X.3, Documento de Referencia Numero 18.

276. The Task Force is completing analytical studies by various specialists for its final report to be presented to the Secretary General of the OAS in February 1963. The report will cover the following topics: a) a comparative study by groups of countries with quantitative estimates up to 1970; b) national resources and investments in education; c) administration of education; d) general educational planning and its relationship to over-all planning; e) determination of skilled manpower; f) development of human resources; and g) studies on each of the branches and levels of education. The report, which will be short and contain specific recommendations will constitute one of the basic documents for the Third Inter-American Meeting of Ministers of Education.

7. Housing

277. In recent years, the Latin American countries have been increasingly concerned over their housing shortage, estimated to be of approximately ten million units, although reliable figures are not available. The deficit in urban areas probably stands at some three to four million units and, despite the extensive plans now being carried out and others in an early stage of execution, it is likely to continue increasing for the next several years. In addition, it is considered that a great many of the existing rural units do not meet the minimum standards required.

278. The Declaration to the Peoples of America clearly recognizes the severity of the situation and calls for participating governments to "carry out urban and rural housing programs to provide decent homes for all our people." The Charter of Punta del Este, also, sets as one of its goals "to increase the construction of low-cost houses for low-income families in order to replace inadequate and deficient housing and to reduce housing shortages; and to provide necessary public services to both urban and rural centers of population."

279. Since the beginning of 1961, greatly increased efforts have been made in most Latin American countries to channel public funds into low-cost housing, and to encourage participation by private capital in such programs, especially by means of tax incentives. A number of countries have reorganized their official housing agencies so that they can provide help in the preparation of projects, make technical assistance available for self-help building programs, and obtain external financial and technical assistance. In several instances these programs have already received considerable financial assistance from the Inter-American Development Bank or from the United States.

280. Latin America's deficits of urban and rural housing, is symptomatic of low standards of living and is a threat to the general health of the populations, and a basic cause of underlying social tensions. Faced with the lack of shelter, the people tend to accumulate in the existing facilities and, in addition to creating overcrowded, unhealthy zones and moral and social conflicts, this contributes to the deterioration of the buildings. For some years, moreover, the growing housing deficit has led more and more people, to erect improvised structures that generally lack the minimum requirements for sanitation and propriety. The slums that result --known by various names--constitute one of the most serious urban problems in Latin America.

281. In the rural areas, the housing problem consists mainly of the use of structures built with inappropriate materials inadequate for health, and in the lack of drinking water, sanitary facilities and electricity. The urban and rural housing problems are equally serious, but in the urban areas the sanitary problems are larger and social inequality more evident. The high rate of growth of the urban population--partly due to internal migration--and the low income levels of large urban sectors rapidly increase the deficit of low-cost housing, since the rate of construction and of installation of city services lags behind.

282. This gap between population growth and the increase in housing and services appears to be a widespread phenomenon in Latin America. However, in most of the countries the true extent of the housing deficit cannot be determined, because the necessary statistical data are lacking.

283. Since the signing of the Charter of Punta del Este it has been recognized that one of the first tasks confronting the Latin American countries, as well as the regional organizations, is to establish the basic organizational means for proceeding systematically to solve the housing problem. Considerable efforts have been made in this respect, both at the national and international levels.

284. In many Latin American countries organizations have been created to give an institutional framework to housing development, such as: a) housing institutes, which are responsible for coordinating research and planning and carrying out housing programs; b) central financing agencies, such as housing banks, to unify and underwrite the financial operations involved in housing programs and c) a network of mutual savings and loan institutions aimed at channeling savings into housing investments. In addition, cooperative organizations, trade unions, civic groups, and business associations have been enlisted to help their members solve their own housing problems.

285. Planning in the field of housing involves taking a number of considerations into account. For one, there is the carrying out of mutual-aid and self-help housing construction programs, by which the future occupant participates in the building of his own house, using materials that have been provided by the program. This system also provides the technical guidance, including that on urban services, required to effect such a project.

286. In many instances, solutions to housing problems are linked to the development of construction industries. International cooperation in the field of construction methods and materials has made some progress, thanks to the joint OAS-IDB-ECLA meeting on modular construction that took place in El Salvador in September 1962, and in which a Central American Housing Development Plan was prepared, to be considered by the Subcommittee on Housing of the Central American Economic Cooperation Committee. Among the major recommendations of that conference was the one stressing the importance of the standardization of construction materials, so that they could be used as interchangeable parts in the housing programs of the Central American countries.

287. Research and documentation work in all aspects of the housing field, including studies of materials technologic development, and specialized training, has been undertaken by the OAS through two agencies: The Inter-American Housing and Planning Center (CINVA), in Bogotá, Colombia; and the Inter-American Program for Urban and Regional Planning (PIAPUR), in Lima, Peru.

288. CINVA which was established in 1951, has three principal functions: education, research, and documentation. Its research activities include work in the fields of housing construction techniques, housing in relation to economic development, problems resulting from urban growth, housing administration and programming, and the techniques and administration of mutual-aid and self-help housing programs.

289. PIAPUR is an attempt to solve the problem of training, as rapidly as possible, the planning personnel so badly needed by Latin America. The purpose of the program is to expand the existing teaching and research activities of the Housing Institute of the National Engineering University of Lima. PIAPUR includes among its activities a continuing program of research on the methodology and techniques for planning regional and urban housing.

290. In accordance with the provisions of the Charter of Punta del Este, the OAS is conducting an inter-American survey that will cover the whole field of housing and its components. The project is aimed at laying the foundations for the preparation of short and long-term national housing plans, and includes such fields as construction technology, studies of materials, and financing systems. It is also intended to provide technical assistance in this field to countries that request it.

291. During the first half of 1962 a technical meeting was held in Los Angeles on aspects and problems of capital formation for housing in Latin America. Sponsored by the General Secretariat of the OAS, this meeting studied various technical reports presented by specialists from a number of countries. Those reports will shortly be published, along with the general conclusions of the meeting.

8. Public Health

292. Resolution A.4 appended to the Charter of Punta del Este, recommended that the Task Force on Health, organized by the Pan American Sanitary Bureau (PASB), evaluate the principal health problems in the Americas and suggest lines for immediate action.

293. The proposals contained in this document are a summary of those appearing in some documents of the personnel and in reports of the advisory committee, prepared by the PASB and the advisory committees in meetings held during the last twelve months, for the purpose of reviewing the problems and proposals of the Task Force on Health.

294. As health programs were already underway in the Latin American countries in 1961, the PASB felt that these fulfilled the immediate measures

indicated in the Charter of Punta del Este, and that it would be more beneficial for the Task Force to review the most pressing health problems for purposes of long-term planning.

295. At the end of 1961 and at the beginning of 1962, advisory committees were convoked to study the general problem of planning, environmental sanitation, health statistics, medical attention, medical education and research, and nutrition. Specialized groups met to study aspects of malaria, Chagas' disease, and schistosomiasis that require research. In addition, several studies on plague, tuberculosis, mental health, dental health, radioisotopes, etc. were prepared by the PASB staff and special consultants. Apart from the work of the aforementioned committees and the studies just listed, progress in the following areas is also worthy of consideration.

296. As a result of the advisory services financed since 1960 by the Special Community Water Supply Fund of the Pan American Health Organization (PAHO) and of loans made to individual countries by the Inter-American Development Bank and other lending agencies, the goal of the Charter of Punta del Este of providing water and sewage service to 70 per cent of Latin America's urban population within a decade is in sight. Many of these projects have been designed with the 1980 population in view. In addition, the PAHO advisory committee on environmental sanitation feels that provision of drinking water and sewage disposal facilities to 50 per cent of the rural population is also completely feasible, although it is recognized that rural conditions require special financing.

297. Work in environmental sanitation has been greatly facilitated by the high degree of cooperation between national and international agencies working in the field. Problems that exist are: a) setting water rates at levels that cover amortization and operating costs and that at the same time match the consumers' ability to pay; and, b) providing an efficient sewage management system, once the initial construction has been completed.

298. The campaign against the mortality of children under five necessarily involves a combination of health programs and cannot be handled with a single measure. It is hoped that water and sewage services will be of decisive help in preventing water-borne diseases and intestinal parasites.

299. The Charter of Punta del Este called for communicable disease eradication programs according to the importance of the disease as a killer or disabler of humans. Malaria is by far the most important debilitating disease in Latin America, even though fatalities have not been frequent. Its eradication was begun in the fifties, and by the middle of 1962, the disease had been eliminated (or, at least, there were no new autochthonous cases known) in some of the Caribbean islands, as well as in large areas of Argentina, Brazil, Mexico, and Venezuela. Aedes Aegypti, the mosquito carrier of urban yellow fever, has been eradicated in Central America and in parts of North and South America and the Caribbean. Yaws has been practically eradicated in Haiti through a vigorous campaign that reduced the incidence of the disease by the end of 1961 from one case per every three persons to less than one case per every 10 000 persons. With new methods of modern science, hope has increased for controlling tuberculosis through low cost out-patient treatment, instead of long, expensive hospitalization.

300. Malnutrition is seldom a direct cause of death in Latin America, but subclinical malnutrition is common in many areas. In the long run, an increase in real income in the Latin American countries would mean that the people might be able to buy the protective foods they need. In the meantime, efforts are concentrated in making the best use of available food supplies. A cooperative nutrition program is being carried on by PAHO, FAO, and UNICEF in 1962, together with the ministries of health and agriculture in 11 Latin American countries and is principally aimed at education in nutrition at the local level and family self-help in gardening. INCAPARINA, a low-cost protein concentrate put on the market by the INCAP in Guatemala in 1960, is now being produced in El Salvador and Guatemala, with production plans underway in six other countries. This product provides a child's total daily protein requirement at a retail cost of 4 cents (U.S.) a day. The development of fishmeal also offers high promise.

301. It is estimated that somewhat more than 7 000 doctors a year, graduate from about 100 medical schools in Latin America, but this is still not enough to meet present needs. There are less than 40 000 graduate nurses, and nursing services are maintained by using a large number of auxiliary personnel. In addition to quantitative deficiencies and poor geographical distribution, the training of health personnel is usually of unsatisfactory quality.

302. To make better use of available resources for health, a number of measures are obviously required. The building of huge city hospitals is not always necessary. Health centers in rural areas and small cities, which can provide preventive and curative treatment at the same time, may mean considerable saving. Although about 620 000 new hospital beds are required in order to achieve a ratio of 4.5 beds per 1 000 inhabitants, the usefulness of the ones now available would be doubled if the time of the average hospital stay were cut in half.

303. The Advisory Committee on Medical Research of the PAHO recently established the guideline for an expanded scientific research program, which is already being put into effect by the countries and by the PAHO Office of Research Coordination. The results of this research are published by PAHO.

304. In 1961, PAHO established a planning office and has begun the preparation of manuals. The first of a series of courses to train personnel for planning in public health began in October 1962 in the Latin American Socio-Economic Planning Institute in Santiago, Chile. Another series of courses is also being planned in cooperation with Johns Hopkins University. Furthermore, PAHO has encouraged activities in the field of health economics, has added economics to the list of advisory services provided on request to national public health authorities, and has helped to finance a major research project on the economic implications of malaria eradication.

305. Greater coordination between programming and health is necessary. It has been difficult to initiate projects in areas where they would provide maximum support to specific economic development projects, owing to lack of participation by health authorities and others responsible for general development plans.

306. It is recognized that expenditures for health purposes, in addition to their social effects, represent an investment in human resources that results in increased productivity. The matter of using credit for activities in the field of health should be analysed in broad perspective. Some activities, as, for example, urban water services, are usually financed by long-term credits, which are amortized with payments by the consumer. In other kinds of health activities, such as in the supply of water to rural areas, it is obvious that special methods and flexible financing are required. The achievement of a rational balance between health and other economic sectors depends upon a comprehensive review of interrelationships between the different fields, giving special emphasis to those health programs that would provide the greatest support to economic development. In turn, development plans should provide for the expenditures required to carry out these health programs.

B. The Internal Financial Effort

307. It is the duty of the Latin American countries themselves to make the greatest financial effort to attain the goals of economic and social development set forth in the Charter of Punta del Este. The accelerated internal mobilization of resources which this presupposes will in some cases require changes in, or the transformation of, the financial apparatus of those countries. In view of the fact that questions relating to the capital market have been among those least studied during the first year of the Alliance for Progress, it would be well to bring about a greater degree of contact among the Latin American organizations that implement the policies for channeling domestic savings, such as development banks, securities exchanges, investment societies, etc. In addition, it would be helpful to have available studies by countries of the money and capital markets.

308. The public sector must necessarily play a strategic role in the mobilization of domestic resources in Latin America in coming years because many countries are currently weak as regards institutions and mechanisms for stimulating private savings. Hence, there is a need to adopt measures to finance the projected public investment programs under conditions of reasonable price stability.

309. Only a few countries in Latin America, e.g., Mexico, Colombia and Venezuela, have been able to devote more than a third of their general government revenues to investment during the 1950's. In general, the level of public sector savings has not been adequate. Furthermore, at times public investment has gone into "prestige" projects instead of being used for needed expansion in the infrastructure.

310. In the context of the Alliance, the generation of public savings requires simultaneously the expansion of revenues through taxation and the curbing of current government outlays for purposes other than for economic and social development. As a practical matter, attention must be focused on the budget of the central government.

311. The tax reform efforts of many Latin American countries described in detail in previous pages, ^{14/} are a promising start toward augmenting the savings capacity of both the public and private sectors.

312. Several problems are worth mentioning in this respect. Equity and yield considerations may often conflict. At times lack of data, or the manner of execution or the nature of a tax reform may make it impossible to forecast with assurance tax yields in the immediate future, even though the ultimate prospects for increased revenues are good. Moreover, one aim of tax reform should be to increase the flexibility of the tax system, making it more responsive to increases in income and prices.

313. The Alliance for Progress requires simultaneous increases in savings in the public sector and in current outlays for economic and social development activities. Consequently, it is necessary to reduce to a minimum current expenditures for other purposes. A realistic appraisal, based on recent efforts and experience in Latin America, must admit the existence of serious obstacles to the curbing of nondevelopment outlays. For example, the number of public employees, even when obviously excessive in relation to needs, can be reduced only with great difficulty. The future rationalizations of the civil service should be of constant concern to the governments. It may, in fact, depend as much on an acceleration of growth throughout the economy and the expansion of private employment opportunities as on firmly austere government policy.

314. Other institutions within the public sector deserve special attention as potential instruments for mobilizing the additional savings required. The financial activities of traditionally public enterprises (railways and ports) and the large manufacturing enterprises part of whose capital often comes from public funds (steel and petroleum) must be coordinated with the over-all processes of public budgeting and national planning, in order to achieve their potentialities for generating savings.

315. There are some deficit enterprises (e.g. the railways), where some upward adjustment of rates and rationalization of operations may be called for. But there are other enterprises, in growth sectors, that should be able to provide for their own investment needs, and even mobilize savings for use in other activities. In many cases, when these enterprises were established, they received substantial financial assistance and other special privileges from the government. With their development into vigorous concerns, these initial advantages may be reduced or entirely eliminated.

316. In addition to the profits of government-owned enterprises, sources of government revenues are to be found in charges for services and the sale of lands that have been improved by public works, such as drainage and irrigation facilities, and in a series of quasi-entrepreneurial activities carried out by the government. It is, moreover, important to foresee a large-scale increase in such activities as a result of economic and social development programs. From a long-range viewpoint, these offer a potential source of revenue of considerable importance. In many instances there is

14. See paragraphs 214-258 in general, and 224-242 in particular.

likely to be an important time lag between benefits provided and payment therefor (for example, delay in payments for land, in the case of agrarian reform), but these sources of revenues can be expected to increase their return.

317. The social security systems are of major financial importance in several countries, and of considerable significance in almost all. The savings potential inherent in these systems depends upon several factors, including the rate of contributions, coverage and degree of maturity of the system, and the specific benefits it provides. It is important to maintain an appropriate relation between contributions received and benefits provided. The savings represented by these systems are affected by inflationary processes.

318. It is important also not only to maximize the savings potential of these systems, but to assure that the savings generated by the social security system are substantially allocated to purposes that are compatible with the national budgetary and planning effort.

319. The existence in a few countries (e.g., Ecuador and Brazil) of a fiscal system in which a great proportion of public revenue is derived from provincial, state, or municipal taxes, raises special problems regarding the mobilization of government savings and the financing of national development plans. Generalizations here are hazardous since governmental decentralization involves certain political questions and traditional relationships between the central government and local authorities.

320. An optimum sharing of the taxing powers may, at times, require an increase in taxes at the provincial and local levels to meet rising expenditures and to reduce central government assistance to local authorities. In other cases, excessive splintering of the tax structure may call for increased centralization of revenues and a better distribution thereof at the various levels of government.

321. Additional problems arise in an appraisal of recent successes in mobilizing private savings in Latin America owing both to an insufficiency of quantitative data and to the difficulties of evaluating the financing provided by the several financial institutions and mechanisms in operation in this field. In general, the Latin American governments have not been able to achieve the desired stimulation of private savings. The flights of capital that have taken place are a symptom of the problem.

322. Political and monetary stability and promotional efforts on the part of the state are essential to the accumulation of savings and the proper use thereof.

323. The money and capital markets have evolved in those places in which the traditional banking structure has been complemented by a complex system of investment banking. Among the instruments of investment banking may be included mortgage banks, investment societies, mutual funds, insurance companies, and securities exchanges.

324. Many Latin American enterprises depend to an important extent on money market resources, chiefly short and medium-term bank credit. In

some countries, such as Mexico, they have been able to channel part of the funds of the money market into the long-term credit market, through selective legal reserve requirements, imposed by the central bank. In addition, the Nacional Financiera (National Finance Corporation of Mexico), by issuing securities that meet the public desire for liquidity, and by intervening in the securities market, has been able to harness a growing volume of liquid savings and to transfer them to the industrial investment sector through the extension of long-term credits and investments in industrial bonds and debentures.

325. The securities market takes on a different structure in different countries. Some countries are characterized by issues of, and transactions in, securities producing a fixed income; in others transactions in securities producing variable income predominate. In general, the capital of business enterprises is concentrated in closed family circles. Nevertheless, cases exist--in Argentina, Brazil, and Colombia for example--of enterprises of a democratic nature, whose shareholders number several thousand.

326. The fixed-income securities market has acquired great importance in Mexico, particularly through the activities of the Nacional Financiera and about one hundred private financing concerns.

327. The Commercial Exchange of Buenos Aires, which has been in existence for three quarters of a century, has served as an important instrument for channeling popular savings toward stock purchases. The securities exchanges of Rio de Janeiro and São Paulo have taken on extraordinary importance. The exchanges in Montevideo, Santiago (Chile), Bogotá, and Mexico City operate on a smaller but increasingly active scale.

328. Recently an important movement has begun to establish mutual funds, or investment societies, in Latin America, particularly in Argentina, Brazil, Colombia, Mexico, and Peru.

329. Another method used in Brazil to mobilize internal resources is that offered by acceptance companies, which guarantee bills of exchange issued by private enterprises, which thereby find buyers in the capital market.

330. There exist moreover a number of financing institutions and mechanisms that can likewise contribute to an effective mobilization of private capital and to its placement in productive investments. Among these, mention may be made of the banks and associations for savings and home loans to be found in Chile, Mexico, and Peru; the Caja de Crédito Agrario (Agricultural Credit Office) in Colombia; and the insurance companies established in a majority of Latin American countries.

C. External Financial Assistance

331. While it is true that by far the greater part of the resources necessary for speeding up the economic and social development of Latin America will be provided by the Latin American countries themselves from their own savings, the Declaration to the Peoples of America adopted at Punta del Este makes it clear that "... in order to achieve the goals which have been established with the necessary speed, domestic efforts

must be reinforced by essential contributions of external assistance." Therefore, it is expected that in addition to its own resources, Latin America will receive at least 20 billion dollars in capital from external public and private funds during the ten-year period 1961-71.

332. Disbursements by official agencies of the United States ^{15/} and by the international agencies that appear in Table 6 reached a total of 1 160 700 000 dollars. ^{16/} Adequate data are not available on the amount of foreign private investment or on official loans from other countries. If estimates on the contributions of those sources were added, the over-all total would probably reach 2 billion dollars.

333. As regards commitments and obligations, the total from official agencies of the United States and from the international financing organizations was 1 690 200 000 dollars (See Table 5). Adding other national and international official sources, one reaches an over-all total estimate of between 2.2 and 2.5 billion dollars.

334. While commitments and disbursements by the United States and international agencies have grown significantly, financial assistance by Western Europe governments has shown only a moderate increase; in addition, private sector investment, both from Western Europe and from the United States and other countries, has not increased as much as was expected.

335. One of the difficulties in properly assessing the flow of external assistance is the lack of complete and comparable data on the various sources and types of such capital flows. It is therefore essential to broaden the scope of the statistical information on total financial assistance, both on a gross and on a net basis.

1. The United States

336. The Punta del Este Declaration to the Peoples of America stated that "...the United States will provide a major part of the minimum of twenty billion dollars, principally in public funds, which Latin America will require over the next ten years from all external sources in order to supplement its own efforts." This commitment was rapidly put into effect. In addition to the specific commitments for the first year of the Alliance, and to other financial resources of the United States available for this purpose, the United States Congress included in the foreign aid act, passed after the Charter of Punta del Este was signed, an authorization of 2.4 billion dollars for the Agency for International Development (AID), for the period ending June 30, 1966. These funds were assigned exclusively for the purposes of the Alliance.

337. It is also stated in the Declaration to the Peoples of America that "...the United States will provide from public funds, as an immediate

15. Does not include military aid.

16. In addition, the International Monetary Fund provided 278.1 million dollars.

Table 5

OBLIGATIONS AND COMMITMENTS OF AID TO LATIN AMERICA BY THE UNITED STATES
AND SELECTED INTERNATIONAL AGENCIES, JULY 1, 1961-JUNE 29, 1962
(In million of dollars)

	GOVERNMENT OF THE UNITED STATES						INTERNATIONAL AGENCIES						Grand total	International Monetary Fund (IMF)	
	AID	EXIMBANK	Social Progress Trust Fund (IDB)	Food For Peace	Peace Corps	Total U.S.	Own Funds	IDB Social Progress Trust Fund	Total	IBRD	International Development Association (IDA)	International Finance Corporation (IFC)			Total IDB IBRD IDA IFC
ARGENTINA	22.0	51.9	5.0	-	-	78.9	34.4	5.0	39.4	95.0	-	3.0	132.4	211.3	100.0
BOLIVIA	28.7	-	-	4.3	0.9	33.9	4.5	-	4.5	-	-	-	4.5	38.4	7.5
BRAZIL	84.5	-	47.0	69.3	0.9	201.7	29.9	47.0	76.9	-	-	-	29.9	231.6	-
CHILE	142.7	46.4	18.7	10.4	1.0	219.2*	16.2	18.7	34.9	-	-	-	16.2	235.4	-
COLOMBIA	38.1	-	22.8	10.0	1.3	72.2	2.6	22.8	25.4	69.5	19.5	4.0	95.6	167.8	10.0
COSTA RICA	2.0	4.5	3.5	-	0.3	10.3	5.8	3.5	9.3	8.5	5.5	-	19.8	30.1	15.0
DOMINICAN REP.	26.0	10.0	-	0.3	0.2	36.5	-	-	-	-	-	-	-	36.5	-
ECUADOR	19.9	-	13.6	1.9	0.8	36.2	4.7	13.6	18.3	-	-	-	4.7	40.9	5.0
EL SALVADOR	3.0	10.0	11.6	2.4	0.2	27.2	5.6	11.6	17.2	-	-	-	5.6	32.8	11.2
GUATEMALA	4.5	-	3.5	0.6	+	8.6	5.2	3.5	8.7	-	-	-	5.2	13.8	15.0
HAITI	7.1	-	-	0.9	-	8.0	-	-	-	-	-	-	-	8.0	6.0
HONDURAS	2.9	-	-	0.3	0.2	3.4	7.4	-	7.4	-	-	-	7.4	10.8	7.5
MEXICO	20.6	109.8	10.6	9.4	-	150.4	21.7	10.6	32.3	160.5	-	1.2	183.4	333.8	90.0
NICARAGUA	3.6	-	7.7	0.4	-	11.7	0.5	7.7	8.2	-	-	-	0.5	12.2	-
PANAMA	12.5	2.0	10.4	0.4	-	25.3	2.9	10.4	13.3	-	-	-	2.9	28.2	-
PARAGUAY	1.9	-	-	7.5	-	9.4	1.4	-	1.4	-	6.0	-	7.4	16.8	5.0
PERU	26.3	17.1	24.8	7.0	0.7	75.9	1.5	24.8	26.3	10.0	-	6.5	18.0	93.9	30.0
URUGUAY	0.3	1.9	2.5	2.0	-	6.7	10.9	2.5	13.4	-	-	-	10.9	17.6	-
VENEZUELA	11.1	-	42.0	19.6	0.6	73.3	-	42.0	42.0	45.0	-	-	45.0	118.3	-
REGIONAL	11.5	-	-	-	-	12.0	-	-	-	-	-	-	-	12.0	-
TOTAL	469.2	253.6	223.8	146.7	7.1	1100.8	155.2	-	379.0	388.5	31.0	14.7	589.3	1690.2	302.2

Sources and Notes:

Agency for International Development: U.S. Economic Assistance to Latin America, July 13, 1962. Inter-American Development Bank: the obligations and commitments made by the IDB and charged to the Social Progress Trust Fund which the IDB administers under contract with the Government of the United States - the figures have been included under the IDB column in this table for informative purposes. International Bank for Reconstruction and Development: Statement of Loans, June 30, 1962; International Development Association: Statement of Development Credits, June 30, 1962 and Summary of Commitments, June 30, 1962. International Monetary Fund: the obligations and commitments are subject to change during the fiscal year. The totals may differ from the sum of components because of rounding off.

* Less than \$ 50 000.

a. As of May 31.

b. Includes operations of the Social Progress Trust Fund approved by the IDB under contract with the Government of the United States. The figures for the Trust Fund are included in the total for the U.S. Government and not in the total for international agencies.

c. The Central American Bank for Economic Integration began operations in September 1961, but as of June 30, 1962, it had not made any loan commitments or disbursements. In addition, see the preceding note.

d. Does not include obligations and commitment of the International Monetary Fund.

* Includes 100 million dollars for special assistance for earthquake damage.

p. Preliminary.

Table 6

TOTAL DISBURSEMENT OF AID TO LATIN AMERICA BY THE UNITED STATES
AND SELECTED INTERNATIONAL AGENCIES, JULY 1, 1961, THROUGH JUNE 30, 1962
(In millions of dollars)

	GOVERNMENT OF THE UNITED STATES						INTERNATIONAL AGENCIES								
	AID	EXIMBANK	Social Progress Trust Fund (IDB)	Food For Peace	Peace Corps	Total U.S.	IDB			IBRD	International Development Association (IDA)	International Finance Corporation (IFC)	Total IDB + IBRD + IDA-IFC	Grand total	International Monetary Fund (IMF)
							Own funds	Social Progress Trust Fund	Total						
							<u>b/</u>	<u>c/</u>	<u>c/</u>						
<u>a/</u>	<u>p/</u>	<u>b/</u>	<u>c/</u>	<u>d/</u>	<u>e/</u>										
ARGENTINA	1.0	65.7	-	-	-	66.7	1.9	-	1.9	5.9	-	4.0	11.8	78.5	110.0
BOLIVIA	21.8	-	-	5.3	0.1	27.2	4.5	-	4.5	-	-	-	4.5	31.7	2.0
BRAZIL	81.8	194.3	-	78.6	0.1	354.8	4.8	-	4.8	20.2	-	-	25.0	379.8	-
CHILE	66.4	46.3	-	23.4	0.3	136.4	0.8	-	0.8	6.4	-	-	7.2	143.6	35.0
COLOMBIA	35.6	55.2	1.8	14.6	0.5	107.7	0.8	1.8	2.6	26.6	2.4	2.0	32.0	139.7	45.0
COSTA RICA	3.9	1.6	0.5	-	-	6.0	0.3	0.3	0.8	5.3	-	-	5.6	11.6	10.0
DOMINICAN REP.	11.6	-	-	0.8	-	12.4	-	-	-	-	-	-	-	12.4	-
ECUADOR	12.6	0.4	-	3.6	-	16.6	0.1	-	0.1	7.0	-	-	7.1	23.7	7.0
EL SALVADOR	1.3	7.2	0.1	0.8	-	9.4	0.2	0.1	0.3	2.8	-	-	3.0	12.4	8.0
GUATEMALA	6.6	1.1	-	0.7	-	8.4	0.2	-	0.2	-	-	-	0.2	8.6	5.0
HAITI	9.2	-	-	0.7	-	9.9	0.1	-	0.1	0.3	-	-	0.4	10.3	1.5
HONDURAS	6.7	0.3	-	0.2	-	7.2	2.1	-	2.1	2.2	-	-	4.3	11.5	3.6
MEXICO	0.8	123.6	-	5.1	-	129.5	0.2	-	0.2	10.1	-	-	10.3	139.8	45.0
NICARAGUA	2.5	6.5	-	0.7	-	9.7	-	-	-	1.6	-	-	1.6	11.3	6.0
PANAMA	4.3	2.0	1.2	0.4	-	7.9	-	1.2	1.2	1.8	-	-	1.8	9.7	-
PARAGUAY	2.4	-	-	6.9	-	9.3	0.4	-	0.4	-	-	-	0.4	9.7	-
PERU	2.9	14.0	2.8	6.1	-	25.8	1.4	2.8	4.2	10.4	-	1.2	13.0	38.0	-
URUGUAY	3.6	0.8	-	0.3	-	4.7	-	-	-	1.3	-	0.2	1.5	6.2	-
VENEZUELA	1.1	74.4	-	0.5	-	76.0	0.8	-	-	0.8	-	-	0.8	76.8	-
REGIONAL	5.4	-	-	-	-	5.4	-	-	-	-	-	-	-	5.4	-
TOTAL	281.5	593.4	6.4	148.7	1.0	1031.0	18.6	6.4	25.0	102.1	2.4	7.4	130.5	1160.7	278.1

Sources and Notes:

Agency for International Development: U.S. Economic Assistance to Latin America, July 13, 1962. Inter-American Development Bank: disbursements made under the heading of "Government of the United States" in the table but for informative purposes have been included under the IDB column as well. The totals may differ from the sum of components because of rounding off. International Bank for Reconstruction and Development: Statement of Loans, Commitments, June 30, 1962; International Development Association: Statement of Development Credits, June 30, 1962; International Finance Corporation: Summary of Commitments, June 30, 1962; International Monetary Fund: the obligations and commitments are subject to change during the fiscal year.

+ Less than \$ 50 000.

a. As of May 31.

b. These figures include disbursements made on loans approved before July 1, 1961, equivalent to 800 000 dollars. From July 1 through September 30, 1962, an additional 9.8 million dollars was disbursed.

c. Includes disbursements from the Social Progress Trust Fund, administered by the IDB under contract with the Government of the United States. The figures for the Trust Fund are included in the total for the U.S. Government and not in the total for international agencies. From July 1 to September 30, the Trust Fund disbursed an additional 5.2 million dollars.

d. The Central American Bank for Economic Integration began operations in September 1961, but as of June 30, 1962, it had not made any loan commitments or disbursements. See also the preceding note.

e. Does not include the IMF.

p. Preliminary.

contribution to the economic and social progress of Latin America, more than one billion dollars during the twelve months which began on March 13, 1961, when the Alliance for Progress was announced." In fact, during the period indicated more than one billion dollars of United States funds were assigned to Latin American development.

338. Direct United States financial assistance to Latin America under the Alliance is channeled through AID; the Export-Import Bank; the Social Progress Trust Fund, administered by the IDB; the Food for Peace Program; and the Peace Corps. Commitments and obligations to the countries signatories of the Charter of Punta del Este totaled 1 100.8 million dollars for fiscal year 1961/1962, and actual disbursements reached 1 031 million dollars.

339. It is important to note, however, that new commitments and obligations in Latin America by AID and the Social Progress Trust Fund, greatly exceeded disbursements, based on these new obligations. This reflects in part certain delays in transforming blueprints into actual projects and by special financing procedures in the case of some projects.

340. It is expected that United States financial assistance to Latin America will increase as the Alliance moves into its second year and the formulation and execution of development programs and projects proceed. In this connection, it is recognized that the task of effecting basic internal reforms should not be a prerequisite to external financial cooperation; but, at the same time the execution of such reforms and the mobilization of internal resources should be simultaneous processes closely interrelated to the flow of external financial assistance. It is the vigor of the internal efforts that will expand possibilities for external financing.

341. The United States contribution to Latin American economic and social development remains based on the general rule that funds will be directed into projects and activities where they will yield the highest economic and social return. Such indices as the per capita income of a country should not be the sole criteria for granting financial assistance. It is rather the feasibility of a given project and, above all, its order of priority which must be the determining elements in external financing. One of the difficulties in obtaining United States financing has been the scarcity of projects falling under an integrated development program. 17/

342. Loans granted by AID have usually been made at low interest rates, extended maturities, and long grace periods for repayment. Export-Import Bank loans, although more strict, are still more favorable than those obtained from other sources.

343. One of the major difficulties in external financing which the Latin American countries face is the lack of uniformity of lending criteria used by the various national and international financial institutions and the faulty coordination among them. As regards United States development assistance, the possibility of strengthening that country's field missions

17. For changes suggested by the Brazilian delegation see Appendix, p.197.

in Latin America, giving them wider powers of decision on financing and thus reducing the delays in fulfilling loan requests might be considered.

344. This transition period will be of critical importance to the success of the Alliance; it is one of adaptation and adjustment during which the basic administrative and substantive patterns of making the Alliance work must be developed. This implies not only the crystallization and coordination of external financing policies and programs, but also national efforts to select and prepare concrete projects, improve the machinery for administering external assistance, and to formulate the over-all development perspectives and policies, particularly in the monetary and fiscal fields, on which sustainable economic and social progress depend.

345. For those countries to which tourism can be an important source of foreign exchange income, it is advisable for the financing agencies to study the possibility of considering projects promoting tourism as an integral part of their national development effort. While external financial assistance is of decisive importance in complementing domestic resources for development, it also constitutes a catalyst to activate domestic energies and potentialities. 18/

2. Other Capital Exporting Countries

346. Generally, the Latin American countries have been granted export credits financed under the various credit facilities of the Western European countries. While these credits are useful in the financing of imports of capital goods, the relatively limited period for which they are granted hinders their full use.

347. In the United Kingdom, the Export Credits Guarantee Department introduced a new long-term financial guarantee scheme in April 1961, designed to facilitate financing the export of capital goods. The first project to be financed in part under this new program is a hydroelectric plant in Peru, to cost around 84 million dollars. A consortium of British commercial banks, insurance companies, and pension funds has also recently agreed to lend the Government of Peru 40 million dollars for fifteen years at 6.5 per cent. The remainder of the cost will be financed by the Government of Peru and the Federal Republic of Germany.

348. In 1961, the latter government granted credits to South America amounting to some 83 million dollars. In addition to Italy, the United Kingdom and Germany, other Western European countries have also increased their financial assistance to Latin America since the establishment of the Alliance for Progress. However, the aid from Western Europe, although important, has not yet reached a satisfactory level.

349. Purchase of securities of the IDB is another possible avenue of financing Latin American development by European countries. This was done recently by Italy, where 24.2 million dollars worth of the IDB bonds were placed with the Bank of Italy and a group of six commercial banks.

18. For changes suggested by the Peruvian delegation see Appendix, p.198.

3. International Financial Institutions

350. International and inter-American financial agencies greatly stepped up their financial assistance to Latin America in 1961-62. Total obligations and commitments of the IDB, the IBRD (including IDA and IFC), amounted to 589.3 million dollars. Disbursements were 130.5 million.

351. Out of this total, the IDB committed 155 million dollars from its ordinary loan funds and its fund for special operations--in addition to 224 million dollars from the Social Progress Trust Fund. As its programs are still relatively new, however, IDB disbursements have remained relatively modest to date.

352. The amount of funds granted to Latin American countries in the first year of the Alliance has not always been in direct relation to the size or the economic importance of the country. Instead, assistance has been given preferentially to countries where projects or groups of projects were already fully operational. United States and international commitments or disbursements during 1961-62 cover a variety of social and economic fields. These include housing, school and highway construction, water supply and sewage systems, agricultural credit, irrigation projects, food storage warehouses, and shipments of wheat and dried milk.

353. Interest in finding flexible mechanisms for the capital market, especially for that concerned with integration industries, led the governments of Central America to authorize the Central American Bank for Economic Integration to make direct or indirect investments in securities traded on the stock market.

354. It is felt that the international financing institutions should give prompt attention to the financing of specific projects proposed by the Latin American countries, especially those that by their nature, would tend to solve social problems or strengthen the economic infrastructure of the countries requesting the loans, and which could later be incorporated into the national development plans that are being prepared or are planned for the future. 19/

4. Private Foreign Investment

355. While the greater part of the external resources necessary for the success of the Alliance for Progress will come from public funds, a considerable part will be in the form of private investments in Latin America from the United States and from Western European and other capital-exporting countries.

356. To date, private-capital flows into Latin America from these sources have failed to meet the needs for such capital. In fact, judging by preliminary indications, the annual total of new direct private investments from the United States has decreased. It had been hoped that the contribution of private capital to direct investments might reach 300 million

19. For changes suggested by the Peruvian delegation see Appendix, p.198.

dollars a year. Moreover, there are indications that Western European and Japanese companies are expanding their direct investments in Latin America.

357. Since there are not sufficient data on private foreign investment to make a thorough evaluation of its role within the framework of the Alliance for Progress, it would be advisable for the next Annual Meeting of the IA-ECOSOC to study this topic in greater detail and depth.

D. Technical Cooperation

358. Several inter-American and international organizations make an important contribution to the Latin American countries, offering technical assistance, principally in the fields of planning and agricultural and fiscal problems, fellowships for training at different levels, and other forms of multilateral cooperation. 20/

359. An examination of some instances of technical cooperation clearly shows the urgent need for the selection of personnel to be more strict --to have higher-level experts--and for the missions to be given sufficient time to complete their assignments.

1. Intra-Latin-American Technical Cooperation

360. The growing cooperation between Latin American countries in the area of technical assistance is demonstrated by the fact that at present there are some 10 000 Latin American students undergoing their professional training or taking postgraduate or special studies in various countries in the region.

361. In Argentina, for example, fellowships are offered in several fields: nuclear energy, solid physics, nutrition, etc. In Brazil, besides the Getulio Vargas Foundation--which for ten years has been training both public and private administrators--numerous scientific institutions, such as the Oswaldo Cruz (Manguinhos), and Butantan (São Paulo) institutes, and several universities offer research facilities to Latin American students, scientists and professionals in tropical diseases, vaccine preparation, and other subjects. Mexico offers a certain number of fellowships to Central American students, especially in medicine and the social sciences. Through the University of Costa Rica and in collaboration with the United Nations, Central America is training Latin Americans in the field of public administration.

362. It is hoped that the foregoing, no more than a bare outline based on available data, can be expanded next year and help in making a precise assessment of the mutual effort of the Latin American countries to provide the technical assistance they need from one another.

20. For a more detailed description of the organization's technical cooperation activities see Section III, "The Role of International Organizations in the Alliance for Progress", especially items A, 3-a, and C-2 and 3.

2. The United States

363. The United States program of technical assistance to the Latin American countries has been expanded to meet the needs of the Alliance for Progress. In the year that ended June 30, 1962, the services of close to 1 600 experts and technicians were provided to the countries of Latin America, though some of these personnel were available only for limited periods. Assistance was rendered in economic planning, in project preparation, and in the development of industry, agriculture and other sectors.

364. In cooperation with the other members of the Alliance, increased emphasis is being placed on the establishment of well-defined priorities in line with national plans and programs, with a view to applying the same criteria to the technical assistance needed.

365. Efforts are being made to draw more fully upon nongovernmental personnel--from universities, for example--to make full use of the technical talent available in the United States. Private foundations are also increasing their contributions to Latin American research and training programs and others in support of the Alliance for Progress.

366. Another important aspect of technical assistance is the extension of training programs in Latin America, the United States and in other countries. The United States is now financing the training of about 3 000 Latin Americans a year in such fields as food and agriculture, industry and mining, labor, health and sanitation, education, public administration, and community development and housing. The United States has also granted 6 millions dollars to the Organization of American States, which are largely used for research and technical assistance in planing in Latin America.

367. At present the United States is developing new policies and activities to assure that its technical assistance will be wholly in line with its commitments under the Charter of Punta del Este. In this spirit, the United States is making substantial contributions to multilateral and regional technical cooperation programs.

3. Extracontinental Countries

368. A number of European countries have provided modest but growing amounts of bilateral technical assistance to the Latin American countries. However, recent commitments by European countries at the July 1962 meeting of the Development Assistance Committee (DAC) of the OECD, 21/ will result in a substantial increase of such cooperation.

21. The member countries of the OECD are Austria, Belgium, Canada, Denmark, the Federal Republic of Germany, France, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

369. France has offered to provide the OAS with the services of a number of experts in various phases of economic planning to be included in technical assistance missions carried out in that field in Latin America.

370. An agreement has also been signed between the Organization of American States and the Government of Israel; it provides for the granting of 200 fellowships to Latin American technicians for postgraduate study and training in Israel, particularly in the field of agricultural planning and engineering.

371. Fellowships offered by Italy and Spain for postgraduate study and training in economic planning, agricultural development, land reform, and settlement are now being utilized. Offers of fellowships have also been received from Belgium, the Netherlands, the Federal Republic of Germany, Switzerland, and Japan.

E. The Movement toward the Economic Integration
of Latin America

372. The Latin American economic integration process was in full forward movement, thanks to the establishment of the Latin America Free Trade Association (LAFTA) and to the programs carried out under the General Treaty for Central American Economic Integration, when the American republics approved the Alliance for Progress, within the framework and principles of Operation Pan America and the Act of Bogotá.

373. The Charter of Punta del Este recognized that the two Latin American movements are efficacious instruments for attaining the objectives of the Alliance for Progress, one of which is "to strengthen existing agreements on economic integration, with a view to the ultimate fulfillment of aspirations for a Latin American common market that will expand and diversify trade among the Latin American countries and thus contribute to the economic growth of the region."

374. In general, work toward the establishment of a common market comprising all the Latin American countries has proceeded at a satisfactory pace since the signing of the Charter of Punta del Este by the member states. Although a majority of the cooperative measures for the promotion of economic integration set forth in Title III of the Charter have not been fully applied, the activities and advances of the two integration movements in their respective fields show that those measures must be put into effect quickly so that the proposed objectives will be more readily achieved.

375. Both the Latin American Free Trade Association and the General Treaty for Central American Economic Integration must face two problems of particular importance for the achievement of their objectives. These are the questions of planning and financing, which the Charter of Punta del Este has indicated as basic elements in the integration process and for which proper solutions would be desirable.

376. Planning is new in Latin America and for that reason it has been difficult for national plans already prepared to include programs that

cover production for the unified market of LAFTA and the Central America Treaty area. Nevertheless, it is possible to achieve this in the initial stage of programming and integration through agreements for complementary industries.

377. As regards financing, the Charter of Punta del Este specifically committed the resources of the Alliance for Progress to multinational projects that would contribute to strengthening the integration process on all its aspects; to facilitating the participation of countries at a relatively low stage of economic development in these projects; and to providing additional funds to cover the needs foreseen in national development plans. 22/

378. It has been pointed out that the organizations that grant financial aid to the countries of LAFTA and the Central American program have not paid sufficient attention to the possibilities of increasing intra-Area trade and to financing development in the industrial sector. They have even financed projects that duplicate efforts of others or that bring about an excess of productive capacity.

379. The problems arising in relation to the financing of intra-Area commerce take on greater urgency with the increasing liberalization of trade. They fall into two well-defined categories. One has to do with the machinery for making payments and the system of settling intra-Area trade balances. The other has to do with the facilities available to Latin American exporters for extending credit to Latin American importers on terms that are at least as competitive as those offered by exporters in countries outside Latin America.

380. Attention is being given to these two groups of intra-Area trade problems and to those related to financing industrial development, both by the integration movements and by the inter-American agencies that are seeking to find feasible solutions for them.

1. The Latin American Free Trade Association (LAFTA)

381. The Treaty of Montevideo was signed on February 18, 1960, by Argentina, Brazil, Chile, Mexico, Paraguay, Peru, and Uruguay, and was ratified on May 2, 1961, by all those countries except Paraguay which did so on June 21, 1961. Colombia adhered on September 30 and Ecuador on November 3 of the same year, bringing the total number of countries in the Latin American Free Trade Association at the present time to nine, representing over 85 per cent of the total population of Latin America.

382. LAFTA held its First Period of Sessions of the Conference of Contracting Parties from July to December 1961, and the member countries agreed on the basic measures necessary for applying the Treaty of Montevideo. Special emphasis should be placed on the measures dealing with the program for liberalizing trade, on those pertaining to treatment of countries at a relatively low stage of economic development, and on the agreements covering

22. See Title III of the Charter, paragraphs 6, 7, and 8.

complementary activities. These represent three highly important aspects of the Treaty of Montevideo.

383. Argentina, Brazil, Chile, Mexico, Paraguay, Peru, and Uruguay participated in the first of the annual series of negotiations provided for in Article 5 of the Treaty. These countries included a total of 2 454 concessions in their national schedules, which went into effect on January 1, 1962.

384. Later, during the First Period of Extraordinary Sessions of the Conference, from January 29 to March 3, 1962, negotiations were carried out pursuant to Article 58 of the Treaty, covering the adherence of Colombia. As a result, the national schedule of Colombia, which contains 268 concessions, went into effect on April 1 on which date the Area treatment agreed on by the other Contracting Parties during the first series of negotiations was extended to Colombia. Ecuador, for its part, will engage in the corresponding negotiations during the second period of sessions.

385. The reductions granted during the first series of negotiations were considerably greater than the eight per cent minimum commitment of reduction in the weighted average duty on imports coming from within the Area as compared with the average of those in effect for outside countries.

386. No adequate statistical data are available yet for establishing comparative figures on trade movements since the initiation of the liberalization program. However, preliminary information for some countries indicates a significant increase in intra-Area trade attributable to the commercial effects of the concessions.

387. As regards treatment extended to countries at a relatively low stage of economic development, during the First Period of Sessions, in Resolution 12 (I), the Conference authorized the Contracting Parties to grant Paraguay the advantages provided for in clause a) of Article 32 of the Treaty. In accordance with that authorization, Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Uruguay granted Paraguay customs exemptions or tariff reductions, not applicable under the most-favored-nation clause in Article 18 of the Treaty to the other Contracting Parties, on various Paraguayan export articles. These concessions are valid for a period of nine years beginning on January 1, 1962, the date upon which they went into effect.

388. By Resolution 32 (I-E), the Conference authorized Colombia to apply the measures provided for in clause a) of Article 32 in behalf of Ecuador, by freeing the importation to Colombian territory of a list of Ecuadorian products given in that resolution. In this case, the authorization is valid until December 31, 1962.

389. The regulations on complementation agreements were also approved during the First Period of Sessions, and, based on these, a Protocol was signed in which the first complementation agreement was reached in application of the provisions of Articles 16 and 17 of the Treaty. In fact, on July 20, 1962, the plenipotentiaries of Argentina, Brazil, Chile and Uruguay concluded an agreement under which the importation of statistical

and similar machines, electronic data-processing equipment, and their spare parts, accessories, and other materials and cards for use with them, is liberalized in the territory of those Contracting Parties.

390. In addition to this agreement, preliminary negotiations are under way with respect to other industrial sectors, such as electronic receiving tubes, automobiles, iron and steel, glass, and copper.

2. The Central American Economic Integration Program

391. The Charter of Punta del Este has recognized the efficacy of the Central American economic integration program, the principle objective of which is to establish a common market among the Central American countries. The program was initiated in 1952. On the recommendation of the Economic Commission for Latin America (ECLA), the Central American Economic Cooperation Committee was established that year. It was composed of the ministers of economy and was the guiding body of the Program.

392. Since that period, the establishment of the regional common market has advanced rapidly and its bases have been established in the General Treaty for Central American Economic Integration. During the first stage, which was characterized by studies and certain accomplishments, a standard Central American Customs Nomenclature (NAUCA) was adopted, which has served as a basis for negotiating the freeing of intrazonal trade and equalization of customs duties.

393. Among the important accomplishments was the creation of two institutions. The Advanced School of Public Administration for Central America was established in 1954, with headquarters in San José, Costa Rica. Its fundamental mission is to train and prepare government personnel holding important positions in the public administration of each country. In 1955, the Central American Institute for Industrial Research and Technology (ICAITI) was created. Its headquarters are in Guatemala City and its basic function is to help private enterprise and governments in the industrial field.

394. Various studies were also prepared during this first stage on the problems that should be confronted through the establishment of the Central American common market, in the field of infrastructure as well as those of agriculture, industry, freeing of trade, financing, and so on, with the valuable collaboration of ECLA, the FAO, and other United Nations agencies.

395. As far as liberalization of trade is concerned, the Central American movement for the establishment of the common market has as antecedents the experience of the five nations in their bilateral free-trade treaties, which unquestionably facilitated the first step toward a trade liberalization policy in regional terms, which was initiated in 1958 with the signing of the multilateral Central American Treaty of Free Trade and Economic Integration. This Treaty contained a relatively limited list of products, but it was the first step toward attainment of a common market. Through this instrument, the contracting parties agreed to bring about a free trade zone within ten years, and to adopt a uniform customs tariff. It should be mentioned that since that time the Central American countries have shown

firm determination to constitute a customs union rather than a free-trade zone, even though they have adopted a policy of gradual development thereof.

396. In 1960, the Central American countries gave a new emphasis to their policy of forming a common market, marked by a speeding-up of the process. Guatemala, El Salvador, Honduras and Nicaragua signed, on December 13, 1960, the General Treaty on Central American Economic Integration, which provides the organizational framework of this regional integration movement. The treaty remained open to adherence by any other country of the isthmus.

397. Through the General Treaty--which entered into force on June 4, 1961--the contracting countries agreed to form a customs union, to be consummated within five years. To attain this objective, completely unrestricted trade was granted for natural and manufactured products originating in each country, with the exception of a limited number of articles for which special treatment was reserved. According to this new approach --different from that of the Multilateral Treaty--all products enjoy freedom from restrictions, except those that needed a certain period in which to adjust the conditions of production to the new form of competition within the regional market, for which a five-year period was established. The list of special products--subject to preferential tariffs, and import and export quotas and controls--is contained, stated by pairs of countries, in Appendix A of the General Treaty. It should be pointed out that at the end of this period of transition these products will be completely free of restrictions.

398. Moreover, provisions were established within the General Treaty that tend to guarantee free operation of trade, and others that attempt to prevent unfair trade practices, either on the part of private enterprise or by governmental policies.

399. The establishment of bases for a complete customs union implied the adoption of a uniform customs tariff, preliminary agreement on which were reached in the Central American Agreement on the Equalization of Import Duties and Charges, signed in 1959 and broadened by the Protocols signed in Managua in December 1960, and San José in July 1962. The first two are in effect in all the countries, except Costa Rica. On the signing of the last-mentioned instrument, the Central American Uniform Tariff has practically been concluded, since some 1 220 items, representing 95.5 per cent of the total, have been given equal treatment. The remaining 56 items will be equalized before the year is out. Obviously in adopting a uniform tariff, the Central American countries have acted on the basis of criteria of national and regional economic development, while taking into account the fiscal and balance-of-payments problems.

400. The Central American governments from the beginning of the program for economic integration have shown special concern for speeding up their industrial development and have created the basic condition for it: a broader market in which to liberalize trade. They felt, then, that industrialization, in addition to being a positive factor of economic growth, should be carried out along lines that would make possible a balanced development among the participating countries. That policy was expressed in the Central American Agreement on the Regime of Integration Industries

signed in September 1959, which would be implemented through additional protocols that would, on the one hand, indicate the country where the industry would be established and, on the other, show the operating system, privileges, and responsibilities of each industrial plant. In December 1961, a group of government officials started to study the possible assignment of integration industries to each country, at the same time preparing the bases for the respective protocols.

401. As a complement to the policy of industrialization, the Central American countries, in the General Treaty, agreed to adopt a uniform policy of tax incentives for industrial development. The pertinent Agreement was signed in July 1962 and is based on a series of criteria that take into account the stage of development of each country, assigning the tax benefits according to the importance of the industries to economic and social development.

402. Central America, like the rest of Latin America, suffers from a shortage of financial resources. Aware of that problem, the Central American countries established the Central American Bank for Economic Integration, which has its headquarters in Tegucigalpa, Honduras.

403. The aims of the Bank are: a) to furnish funds for integration; b) to encourage the balanced economic development of the member countries; and c) to study and promote the investment opportunities created by the economic integration of the member countries, establishing proper programming of its activities and the necessary priorities for financing.

404. The Bank furnished financing in four fields: a) infrastructure; b) manufacturing; c) agriculture; and d) services, provided the projects initiated in those fields are of regional interest.

405. At the end of 1961, the central banks created the Central American Clearing House, which also has its headquarters in Tegucigalpa and operates in conjunction with the Central American Bank. Its importance is evident when one notes that up to September 1962, it cleared approximately 60 per cent of the Central American transactions. This mechanism can also serve to coordinate monetary and exchange policies of the central banks.

406. In addition to the Central American Bank, ICAITI, and the Advanced School of Public Administration, other agencies were created in the General Treaty to fill vitally important roles in the common market. These agencies are the Central American Economic Council, composed of the ministers of economy; the Executive Council composed of government representatives; and the Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA), which has its headquarters in Guatemala City. The Executive Council and SIECA are responsible for administering and superintending compliance with the economic integration treaties.

407. The year 1962 witnessed a very significant occurrence within this regional movement: the full incorporation of Costa Rica into the Central American economic integration program. In July 1962, the government of that country adhered to the General Treaty for Central American Economic Integration and the other instruments of the program.

408. In addition to the adherence of Costa Rica and the signing of new agreements, Central America has taken, in 1962, other steps toward a regional common market. Among those which should be emphasized are price stabilization programs, a grain storage system, the drafting of a Central American highway plan, and a cadastral project of regional scope.

409. In summary, during the first year of the Alliance for Progress, the common market and Central American economic integration have continued to take effective steps toward improvement. Their effect on the economic development of that region is beginning to be noted in the establishment and expansion of industrial and agricultural enterprises, and in the rapid increase of intra-Area trade.

3. Transportation and Communications

a. Transportation

410. Transportation plays a vital role both in over-all economic and social development and in the processes of economic integration. The investments that Latin America will have to make in this sector in the coming decades represent, in some cases, close to 20 per cent of total gross investment earmarked for development.

411. In view of the enormous investment effort that transportation will require, it is necessary to achieve, above all, the most efficient utilization possible of existing transport capacity. In this regard, the most suitable criteria must be applied both in maintaining and in coordinating existing means of transportation, in order to overcome obvious deficiencies.

412. Nevertheless, for the sake of an objective evaluation of the situation, it should be stated that "deterioration in maintenance conditions is not exclusively or even fundamentally due to a lack of foresight, ability or interest... other factors... have also had a decisive influence. Among them we should mention particularly the effect the inflationary processes have had on possibilities of financing replacement and maintenance in periods in which the rates have not been properly adjusted to costs. Frequently, there has also been an insufficiency of foreign exchange required to buy imported spare parts. At times, particularly in the case of railroads, the approach of the date on which facilities operated under a concession system were to revert to public ownership has meant that the concessionaire did not make the replacements that would have been required over a long period to meet wear on equipment and facilities. In general, the serious, sometimes chronic, maladjustments suffered by various Latin American economies have had a particularly injurious effect on transportation management, and it is natural that in such circumstances maintenance processes and mechanisms should be among those most seriously damaged." 23/

413. The coordination of transportation media leads, in turn, to the fuller utilization of existing capacity, in both domestic and international

23. See OEA/Ser.H/X.3, Document 18-A, Corr., pp. 11-12.

service. Coordination is not concerned only with physical installations but also embraces a series of economic and institutional factors that must be taken into consideration in order that proper compatibility may be achieved. Much can be done along this line in Latin America.

414. Together with the need to make the most effective use possible of present investments in Latin American transportation, careful consideration should be given to future expansion of capacity. To this end, transportation planning must be a part of specific economic and social development programs. In that planning it is important from every standpoint to keep very much in mind the impact of the technological progress that is accumulating in this field.

415. Waste of resources should be avoided when investments are made in transportation with a view to the expansion of capacity. For this purpose it is advisable to consider different control factors including, among others, the jobs that will be created and the foreign-exchange expenditures or receipts that are involved. These criteria, strictly economic, have a different significance for each country and should go hand in hand with other, highly estimable criteria of a noneconomic nature, among which are those that emerge from the regional integration programs in which the Latin American countries are engaged.

416. It is also important to strive for the economic self-sufficiency of transportation, for each medium in particular as well as for the media as a whole. However, in practice, it will be advisable to take a somewhat relative view of this matter. Furthermore, the correction of existing maladjustments should be carried out gradually.

417. The relative expansion of the different transportation media will depend fundamentally a) on the economic development achieved and progress made in the process of regional economic integration; b) on the degree of specialization attained and the characteristics of goods to be produced; c) on the process of population settlement; d) on the policy adopted in regard to urban concentration or dispersal, etc. In relation to the role that transportation services play in regional economic integration processes, highway transport for the Central American area and maritime transport for the member nations of the Latin American Free Trade Association are of exceptional importance.

418. As for the last type of transportation, port conditions must be improved, both in regard to installations and to labor, administrative, and general operating conditions, since the costs they represent are of singular importance in determining national and international maritime freight rate. It is also of vital importance to see that Latin America's merchant fleets make the fullest possible use of their cargo-carrying capacity in order that both the quality and the cost of their services constitute a decisive factor in the processes of economic integration.

419. For both the planning and the management of transportation, it is essential that Latin America have the personnel required to ensure that the investments to be made for the maintenance, coordination and expansion of transportation systems are well conceived and that transportation plant

and equipment are properly utilized. The systematic training of transportation planners has merited special attention in the curricula of the recently created Latin American Institute for Economic and Social Planning.

420. In turn, the personnel to be trained to operate the transportation media will have to include everyone from the highest executive and administrative officers to the entire vast range of specialists, technicians, foremen, and skilled workers required for the more effective utilization of Latin American transportation systems.

b. Telecommunications

421. The Meeting of the IA-ECOSOC at the Expert Level studied the topic of telecommunications in Latin America with great interest, principally because a) it is an essential factor in many aspects of the general development of each country and in regional integration and b) Latin America is behind in investments for the improvement of telecommunications, as is shown by a comparison of the amount invested with the growth in population, volume of trade, output rates, and other variables in the last ten years.

422. A particularly notable characteristic of all telecommunications is their interdependence, both at the national level and at the international. For this reason the need to prepare an integrated telecommunications plan for Latin America has been repeatedly stressed. To prepare such a plan it will be necessary, on the one hand, to analyse each one of the problems presented by the various countries in this field and, on the other, to make a complete evaluation of the possibilities of integrating existing services.

423. In view of the foregoing, it is the consensus that each country or group of countries in Latin America should formulate a national--or regional, as the case may be--telecommunications plan in accordance with certain basic criteria, including its interconnections with international networks, and keeping in mind basically the need to establish and coordinate direct channels of communication among all the countries in the area.

424. It also bears repeating that particular attention should be paid to the training of specialized personnel, utilizing, wherever possible, the experience obtained in other countries and the cooperation that can be received from international organizations.

425. The work carried out by the International Telecommunications Union, both through its Plan Subcommittee for Latin America and through its mixed CCIR-CCITT Study Group for the Inter-American Telecommunications Network, deserves special mention. It is the task of these committees to work out a plan for international channels of telecommunications in Latin America.

426. In order to give continuity and congruity to the efforts to develop telecommunications in the member states of the Organization of American States, it was recommended that an Inter-American Telecommunications Commission be created as an autonomous agency of a specialized nature to function within the OAS, especially within the sphere of activities of the IA-ECOSOC.

F. Problems Affecting Commodity Exports

427. The outlook for Latin American exports in general has not been very favorable in recent years. Since 1960, supply has exceeded existing possibilities of consumption in most international commodity markets. The restrictive prevailing policies have affected the free play of the economies and have resulted in a downward price trend.

428. In 1961, the unit values of total exports dropped 12 per cent in comparison with the 1957 level, which was, in turn, lower than that of 1953; and in the first half of 1962 the weighted price index for nine products that make up the bulk of Latin American exports declined 4 per cent in comparison to 1961. Thus, far from improving, the price situation of Latin American exports has become increasingly worse. Furthermore, the share of Latin American exports in the free world total has continued to decline. In 1961 it amounted to only 7.3 per cent.

429. Actions directed toward easing protectionist measures and restrictions on consumption that are in force in some industrialized countries have been too limited in scope to produce positive results in the solution of the problems mentioned above. Some of the principal basic products of Latin America continued to be subject to import quotas and other restrictive measures in certain consumer countries, and, as a result of these restrictions, the volume of exports continued to decrease or remained stationary.

430. The European Economic Community has continued its process of liberalizing trade within the area and with the associated countries, and the further it advances the more evident the discriminatory effect of its common tariff on imports from the rest of the world becomes. Likewise, the common agricultural policy is creating instruments that leave to the discretion of the authorities of the European Economic Community the adoption of measures that might considerably restrict, and even close off, the access of basic Latin American products to their most important market. This creates a new factor of uncertainty, disturbing to the development of the economies of many member countries. Furthermore, the incorporation of the United Kingdom into the EEC could bring with it a considerable extension of the area of discrimination and supply. The situation could become considerably worse in the probable event that the member countries of the British Commonwealth were to receive preferential treatment in the broadened framework of the EEC.

431. However, on repeated occasions the authorities of the Community have declared that they are highly conscious of the importance of their Latin American markets and that, consequently, the aforementioned instruments of trade policy will be applied in such a way as to reflect that awareness. One can therefore envisage the possibility of an understanding between the two regions that will facilitate not merely maintaining but expanding their reciprocal trade.

432. The deterioration in the prices of export products was partially offset in 1961 by a parallel decline in the unit values of Latin American imports. Nevertheless, so far this year, there are signs that the drop in prices has been much greater in exports than in imports.

433. Title IV of the Charter of Punta del Este sets forth a series of measures and guidelines in the area of commercial policy, directed toward conciliating and promoting the interests of the signatory countries as regards the exportation of basic products. In this field--as important as it is delicate, and a subject of close attention by the governments at Punta del Este--a great deal of work has been done during the past year, and some interesting events have taken place.

434. First, it should be pointed out that the change in United States policy with regard to the conclusion of world agreements on basic products was made clearly evident in the negotiations for the new International Coffee Agreement.

435. Second, collective action designed to protect the position of Latin American producers in EEC markets has had its first expression in the activities of the committee to negotiate the elimination of restrictions on coffee consumption.

436. Finally, there have been advances in the efforts to establish a financing mechanism to compensate for fluctuations in the export receipts of less-developed countries. The member states of the OAS have taken the lead in seeking a world understanding in this matter and have drawn up a proposed agreement for a mechanism of this sort.

1. Inter-American Cooperation in the Negotiation
of Commodity Agreements

437. After several years of effort, in August 1962 accord was reached on a 5-year world coffee agreement, in which both exporting and importing countries participate. The member states of the OAS, in active collaboration, played a decisive role in bringing about this agreement--especially the United States, which gave encouragement and helped reconcile interests. The text of the agreement includes practically all the principles that the Punta del Este meeting recommended to the Coffee Study Group for inclusion in the proposed world agreement. 24/

438. The new coffee agreement establishes very important precedents for the conclusion of world agreements on basic agricultural products, since it contains clauses dealing with measures that the consuming countries should adopt in order progressively to reduce obstacles to the expansion of trade and consumption. It also includes other measures whereby producer countries are to adjust production to consumer needs. The agreement further favors the promotion of "new markets."

439. Much progress has also been made toward the conclusion of an agreement between the United States, the Central American countries, and Mexico, in order to establish a fund to provide support for measures taken by the above-mentioned coffee-exporting countries to correct seasonal fluctuations in the price of the product caused by the present marketing systems, which tend to disturb the international market during period of harvesting and accumulating stocks.

24. See CEA/Ser.H/X.3, Doc. 7.

440. As regards cacao, another very important product for Latin America, and one that is in a precarious position in the world market, the FAO has held international meetings which have produced the draft of an agreement that will shortly be submitted for consideration by the interested governments, in order to determine whether a conference for purposes of negotiation should be convoked by the United Nations in mid-1963.

2. Stabilization of Export Receipts

441. The Group of Experts on Stabilization of Export Receipts convoked by the Secretary General of the OAS in accordance with Title IV, Chapter II, paragraph 5, of the Charter of Punta del Este has prepared a report that is accompanied by proposed articles of agreement for the establishment of an International Fund for Stabilization of Export Receipts. 25/

442. Both documents are now being considered by the governments of the OAS member states. At the same time, they are being studied by a Technical Working Group, consisting of representatives of ten member governments of the Commission on International Commodity Trade of the United Nations. This group has been entrusted with the preparation of a draft agreement that would include the variants necessary to illustrate the alternative features that might be offered by a world compensatory financing mechanism. This task should be concluded in January 1963, in order that the proposal may be discussed at the next meeting of the aforementioned United Nations commission, which is to be held in May 1963.

3. Economic Relations of Latin America with the European Economic Community

443. As a result of the work of the Committee to Negotiate the Elimination of Restrictions on Coffee Consumption, created by virtue of Resolution C-3, appended to the Charter of Punta del Este, 26/ joint action was initiated in defense of Latin American coffee in the EEC market. In accordance with decisions taken by the IA-ECOSOC, the Secretary General of the OAS sent to the Chairman of the Commission of the EEC, in the name of all the member states, a note in which he stated the position of the OAS in regard to the Community's coffee policy, which is again being brought up because of the review of the agreement on the association of overseas countries and territories with the EEC. At the same time, the OAS member countries presented individual notes or gave their support in some other way to the Secretary General's statement.

444. Later, the Secretary General himself visited the Chairman and members of the Commission, and the capitals of the EEC countries, where he informed government authorities of the need for solving the problems affecting Latin American coffee, meat, cacao, and banana exports in their markets. Two notes were also presented to the Chairman of the Commission of the EEC, suggesting a possible course of action to be taken so that the establishment of a common agricultural policy by the member countries of the Community would not affect Latin American meat exports adversely.

25. See OEA/Ser.H/X.3, Doc. 7.

26. See OEA/Ser.H/X.3, Doc. 8.

445. As a result of those negotiations, machinery for the exchange of information and for consultation between the Commission of the EEC and the General Secretariat of the OAS is in the process of establishment. This might signify assurance of a more propitious climate for proper consideration of the commercial interests of Latin America. Evidence of such a climate seems to be provided by the attitude firmly adopted by the countries of the EEC with regard to the new International Coffee Agreement.

446. At the present time, the Council of the EEC is considering a memorandum containing a general statement of its future policy with respect to Latin America. If it is adopted, this would initiate an era of true cooperation between the two regions.

4. Other Aspects of Cooperation

447. In order that the principles of the Charter of Punta del Este pertaining to basic export products may find more effective application, a Special Committee on Basic Products was created and has begun its work.

448. The United States Congress, at the end of September 1962, approved a new law on international trade policy, calling for expansion of trade and establishing guidelines that may have great importance for future Latin American exports. This act, in fact, authorizes the President of the United States to reduce or eliminate tariffs on imports of tropical commodities not produced in quantity in that country, provided other industrialized consumer countries make similar reductions or cancellations.

449. Thus reductions may not come about from tariff negotiations between the United States and the countries exporting tropical products, but as a joint initiative of the industrial countries, with a view to facilitating the expansion of world trade. In addition to the provisions concerning tropical commodities, the law contains ones referring to agricultural and manufactured products that open up highly significant prospects for the expansion of trade between the member states and various areas of the world.

450. At the same time, the first cycle of negotiations held by the Contracting Parties of the Latin American Free Trade Association achieved a lessening of obstacles to the development of intra-Area trade in basic products. There is reason to believe that during the second cycle of negotiations, held in Mexico City from September to November 1962, an additional reduction will be achieved in barriers to the expansion of intra-Area trade and that broader bases will be provided for the expansion of trade throughout Latin America. Moreover, definite measures will be taken to specify benefits to be granted to member states classified as being in a state of relatively less development.

451. Latin American basic products seem to constitute the area in which the least advance has been made since the signing of the Alliance for Progress. In particular, little attention has been given to the restrictions imposed by many consumer countries on imports of basic products processed in the producer countries. This situation is the more serious in view of the fact that foreign trade is one of the most important variables in the equation of economic development.

III. THE ROLE OF INTERNATIONAL ORGANIZATIONS IN THE ALLIANCE FOR PROGRESS

452. The Alliance for Progress, is in all respects a multilateral effort which, by interposing international and regional bodies between the interested parties, serves to enhance the dignity of the nations, and, what is more important, the dignity of the individuals. This multi-national mechanism, though often complex and cumbersome, is thus far perhaps the best safeguard against incursion on sovereignty that may accompany dependence on external aid.

453. At the core of all the international agencies concerned with administering the Alliance are the Organization of American States (OAS), with its component bodies and specialized agencies, the United Nations Economic Commission for Latin America (ECLA), and the Inter-American Development Bank (IDB). Beyond this nucleus, there are the global institutions, notably the United Nations proper and its specialized agencies, the International Monetary Fund (IMF), the World Bank (IBRD), the International Finance Corporation (IFC), and the International Development Association (IDA). At the outer fringe are the Organization for Economic Cooperation and Development (OECD), including the Development Assistance Committee; and the European Economic Community (EEC), whose relationship to the Alliance for Progress is now being worked out through the Organization of American States and the Inter-American Development Bank.

454. There are, of course, many other international or regional bodies and organizations whose activities bear either directly or indirectly on certain elements of the Alliance. The work of GATT, for example, in harmonizing the trade relations among the emerging regional markets and between industrialized and less developed countries, involves important elements of the Alliance. The same applies to the International Coffee Agreement and other commodity accords of which Latin American countries form a part.

455. Finally, within the Latin American orbit itself, there are three zonal entities with key responsibilities under the Alliance: the Latin American Free Trade Association (LAFTA); the Secretariat of the General Treaty for Central American Economic Integration; and the Central American Bank for Economic Integration. There are of course many other multi-national institutions within the hemisphere both of a public and private character, with specialized functions that make them part of the multilateral mechanisms for carrying out the objectives of the Alliance.

456. This array of international and regional organizations and bodies creates serious problems of coordination and synchronization that have been tackled during this first year of the Alliance, with determination, imagination and a good measure of success. Yet, much still remains to be done for the multilateral approach to evolve into a fully effective instrument of international cooperation for development. The course must be a pragmatic one and it must be based on arrangements for coordination and cooperation among international and regional agencies which are malleable enough to fit new situations and conditions.

A. The Organization of American States (OAS)

1. The Inter-American Economic and Social Council

457. The Inter-American Economic and Social Council (IA-ECOSOC), is an organ of the Council of the Organization of American States, charged with the task of promoting the economic and social welfare of the member states.

458. Since its establishment as a component body of the Organization of American States in 1948, and until November 1961, the Council functioned under many statutory and substantive handicaps. One of the most serious problems under which the Council labored until the advent of the Alliance for Progress was the absence of any broadly-based program for the Americas, and the lack of resources to translate the Council's recommendations into practice. The United States was heavily involved in assisting Europe and other war-torn areas, while many Latin American countries were riding the crest of the postwar period, which masked its many deep-seated structural problems that only recently have been laid bare. The lack of agreement among the countries regarding the methods and instruments of promoting development complicated the Council's tasks. Few of the elements which today form the pillars of the Alliance--development planning, social investment, commodity stabilization, land reform, and the channeling of foreign investment--were regarded as acceptable instrumentalities for development by all member states.

459. The Act of Bogotá and the Charter of Punta del Este brought, for the first time in the history of inter-American relations, full agreement among the member states on the basic means and objectives for development. As a result, a new basis for inter-American cooperation in the economic and social field was created, with sufficient external assistance, resources and commitments by all participating countries, to give the Council a proper basis of operation. Moreover, to attune the Council's functions to the requirements of the Alliance, its statutes were revised in November 1961.

460. Under its new statutes, the IA-ECOSOC is the principal organ of coordination and review of the Alliance for Progress. Instead of sitting in permanent session, as previously, the Council now holds only two brief consecutive meetings annually, one at the expert and one at the ministerial level. This arrangement, which parallels that in effect among the Colombo Plan countries, enhances considerably the stature of the Council as a body charged not only with formulating collective action in the economic and social fields, but also with reviewing, in a multilateral framework, the progress achieved by individual member countries in fulfilling the objectives of the Act of Bogotá and the Charter of Punta del Este. For that purpose, the Council should receive annual reports on economic and social developments from the member countries which, together with the Economic and Social Survey of Latin America, prepared by the Secretariat with the cooperation of ECLA, and other documentation, provide the basis for evaluating progress. Thus, the Council is now a forum for multilateral confrontation. This

is an innovation of fundamental importance to inter-American cooperation, for it furnishes a mechanism for exchanging experiences, learning about common problems and how they are overcome. However, it is recognized that it will be necessary to have the IA-ECOSOC committees meet more frequently.

461. An additional role of the IA-ECOSOC is to examine and give its preliminary approval to the programs and budget of the Secretariat in fields within its sphere of competence, final approval remaining with the Council of the OAS. This procedure makes it possible for the IA-ECOSOC to decide upon the activities of the Secretariat in the economic and social fields on the basis of technical criteria. It is also the duty of this body to definitely approve the Program and Budget of the OAS Technical Cooperation Program.

2. The Panel of Experts

462. The Charter of Punta del Este establishes (Title II, Chapter V) a regular procedure for considering national economic and social development plans by a panel of experts designated on the basis of their experience and ability. The purpose of inaugurating such a process is two-fold: it subjects the plans to an assessment of technical feasibility and comprehensiveness, as well as to conformity to the principles of the Act of Bogotá and the Charter of Punta del Este; and it assists the countries submitting plans to obtain resources, and helps financial institutions in selecting particular projects in the knowledge that they are integral parts of an over-all development design, elaborated on the basis of proper priorities.

463. In conformance with the provisions of the Charter of Punta del Este, the designation of the Panel was made effective on January 1, 1962, but it was officially constituted on February 26. Due to various circumstances, during this initial period the Panel has functioned with only seven of its members.

464. The Panel adopted certain preliminary standards for internal functions: its main functions are the following:

- i. To define standards and guidelines for the presentation of development plans and to establish methodology and criteria for their evaluation;
- ii. To learn of the progress of the ad hoc committees referred to in the Charter of Punta del Este and to exchange experiences, carry out studies of general interest and collaborate in the dissemination of information about the Alliance;
- iii. To prepare an annual report;
- iv. To cooperate with the other agencies interested in the Alliance.

465. As provided in the Special IA-ECOSOC Meeting (Washington, December 1961) a coordinator was named to carry out the preparatory work of organizing the committees, conducting the discussions of the Panel members and direct the progress of the administrative and technical organization of the personnel. The technical personnel is composed of some fifteen professional men and the administrative personnel is essentially that of the Secretariat, for all the administrative functions are carried out through the services of the OAS.

466. Apart from the organizational work described and the participation of the Panel in numerous general meetings--and especially in the Latin American Planning Seminar and the Meeting of Consultations on Economic and Social Development Planning (Santiago, February 1962)--the main activity of its members has been the formation of four ad hoc committees and the evaluation of the national development programs of Bolivia, Colombia and Chile.

467. The reports and recommendations of these three plans have been approved by the respective governments. The Bolivian plan originated a financial arrangement between the IDB and AID, destined mainly to facilitate financial resources to that country for the pre-investment studies, preparation and execution of economic and social projects and the strengthening of financial and credit institutions. The other two reports are at different stages of study and discussion by international financial agencies and countries exporting capital.

468. Even after presentation of the aforementioned reports, the ad hoc committees have continued to collaborate with the countries in the most detailed analysis of certain aspects of the development programs. Some countries have mentioned their interest in having the respective ad hoc committee's follow closely the execution of the program and study opportu- nely the changes that may be advisable to introduce.

3. The OAS General Secretariat

469. In line with the monumental tasks imposed upon it by the Act of Bogotá and the Charter of Punta del Este, the Secretariat of the OAS has undergone a profound reorganization of its structure and activities and a considerable expansion of its technical staff. Shortly after the signing of the Act of Bogotá, the Secretary General created the new position of Assistant Secretary for Economic and Social Affairs and, recently, the new position of Assistant Secretary for Cultural, Scientific and Informational Affairs, which are important steps in administrative organization whereby the departments of economic affairs, social affairs, statistics, and technical cooperation were assigned to the former position and three departments to the latter.

470. Over the past year, the four departments directly concerned with the work of the IA-ECOSOC, have undergone marked expansion to attend to the greater needs resulting from the new responsibilities of the OAS.

471. The OAS has broadened its activities, particularly in the provision of direct technical assistance in such fields as taxation, agricultural economics, program budgeting, manpower planning, and community development. A parallel increase has taken place in the scope and number of specialized training programs in subjects and areas related directly to the goals of the Alliance and the Act of Bogotá. Arrangements have been made with the OECD and its Development Assistance Committee for initiating a sizeable fellowship program in Europe, and a number of study grants have been obtained from other countries, notably Israel.

472. The Pan American Union's Department of Social Affairs has also widened its scope and augmented its technical staff initiating the systematic collection and analysis of data on Latin American social conditions, thus strengthening the basis for planning in this area. The Department's expanded, or newly launched activities in the social aspects of housing, in community development and in labor relations will provide the studies, the methodology, and the technical experts needed for speeding social development.

473. The Department of Economic Affairs carries the principal share of the Technical responsibility for the work of the IA-ECOSOC. Among the new programs initiated since the promulgation of the Alliance are those of planning and programming, tax and agrarian problems and reform, and engineering and natural resources studies; new activities have also been started in manpower planning and development, productivity, technology, transportation and general economic research.

474. One of the fields in which substantial responsibilities have been placed on the Department has been that of primary commodity exports, due to the urgent and immediate problems affecting Latin America. The Department has assumed a major role in the technical work connected with the elaboration of a draft project for export income stabilization, and technical support to the International Coffee Study Group and the Committee on Basic Products. Moreover, it has prepared various specialized studies for the Committee to Negotiate the Elimination of Restrictions on Coffee Consumption which ultimately served as the basis for the recent representations made in Europe by the Secretary General.

475. Apart from cooperating in the work of the Panel of Experts, the Department has also begun to make available some of its technicians to assist member countries in the elaboration of their development programs.

476. The far-reaching transformation which the Secretariat of the OAS has undergone over the past two years is now nearing completion, and it has assumed its full technical responsibilities to provide the member countries with the specialized services required to carry forward their development effort.

a. OAS Technical Cooperation and Training

477. The technical cooperation function of the Organization of American States has been a continuous and rapidly expanding program for over a decade. In the main, it embraces the establishment and administration of regional training centers, the allocation of direct technical assistance in a variety of specialized fields, and the management of a fellowship and exchange of persons program under which Latin American and United States scholars visit each other's region for special studies, teaching and research.

i. Regional training centers

478. With the advent of the Alliance for Progress, the 17 training centers previously established have been substantially expanded, particularly those in agriculture, social welfare, agricultural credit, and urban and regional planning. At the same time, several new programs have been inaugurated, notably in agrarian reform and in industrial standardization. In the Technical Cooperation Program of the OAS about 10 000 specialists have been trained and 800 have been employed in supervising the substantive aspects of the programs. In 1961, training was given 1 242 specialists.

ii. Direct technical assistance

479. Since the start of the OAS direct technical assistance program in 1958, 92 missions have been sent to the field at the request of the governments. It is interesting to note that more than 50 per cent have been in the fields of economics, statistics, and rural development while about 15 per cent have been in the fields of health, education, and housing. The majority of these missions have been organized since the signing of the Act of Bogotá.

iii. Advisory group for development planning

480. As part of its special operations under the Alliance, the OAS has also begun to carry out substantial technical assistance activities in the formulation of over-all national development plans, as called for by the Charter of Punta del Este and the Act of Bogotá. It has furnished advisory services--either unilaterally or under the Tripartite Cooperation Agreement between the OAS/ECLA/IDB and the ICAD.

481. Since the beginning of 1961, "global" missions dealing with the preparation of general economic or agricultural planning have been sent to Colombia, The Dominican Republic, Ecuador, Haiti, Honduras, Guatemala, Panama, and Uruguay.

482. Within the framework of the Tripartite Agreement, requests have been received from various countries for programming missions. Among these, the Advisory Group for Central America should be mentioned, which will help the five countries prepare national and regional development programs and the technical group of Paraguay in the preparation of long and short-term plans.

iv. Fellowships

483. During 1961, 539 fellowships were awarded in the fields of economics, business, public administration, engineering, architecture, and statistics representing 90 per cent of the total granted; this compares with 75 fellowships, representing 25 per cent of the total during 1959.

484. In February 1962, the OAS took steps to substantially expand this program by obtaining grants from Western Europe and other extra-continental countries. To that end, the OAS made official contact with the Development Assistance Committee of the OECD. Later, at its July 13, 1962 meeting, the technical assistance subcommittee of the DAC approved the fellowship program and commitments for a total of approximately 300 fellowship grants have been made by Belgium, the Netherlands, Italy, Germany and France as a first step in the participation of these countries in the Alliance for Progress.

485. From the discussions held with the Government of Israel during August 1962, 200 fellowships are to be distributed to Latin American countries by the OAS for study in Israel in such fields as agricultural engineering, arid-zone agriculture, cooperatives, and others. Most of these courses will be offered in Spanish.

b. Task Forces and Action Programs

486. In accordance with the Charter of Punta del Este, the OAS organized task forces in the fields of education, agrarian reform, agricultural development, taxation, fiscal policy, public administration, housing, and public information, which have begun to build a vast store of information and have made recommendations on the policies to be applied.

i. Agricultural development

487. The Inter-American Committee on Agricultural Development (ICAD) was established in August 1961 and was initially composed of the OAS, the ECLA, the FAO, and the Inter-American Institute of Agricultural Sciences. In December, the IDB also joined. ICAD's primary function is to coordinate the activities of the participating institutions in agricultural matters.

488. The Committee is presently compiling data for an inventory--the first of its kind--of natural resources and the availability of agricultural services.

489. The ICAD has approved the organization and establishment of agricultural missions to Bolivia, Brazil, Colombia, and Venezuela; the mission to Colombia is now preparing a program to diversify agricultural production and improve the Caldas region.

ii. Taxation

490. The Joint OAS/IDB/ECLA Program on Taxation seeks to promote reforms of Latin American tax administration and systems. One of the activities of the program involves the holding of two conferences. The first, on tax administration, was held in Buenos Aires in October 1961, and the second, on tax policy, took place in Santiago, Chile, in December 1962. Tax surveys are now under way in Ecuador, Panama, Argentina, and Central America for the purpose of analyzing the effects of the tax systems on the economy of those countries.

iii. Education, science, and culture

491. The Task Force for the Programming and Development of Education, Science and Culture, which was established under the auspices of the OAS, began its activities in November 1961 with a survey of the structure and functioning of educational planning in various Latin American countries.

492. This group has drawn up a program for immediate action in which it recommends that governments, international organizations, and private agencies provide technical and financial assistance for the establishment of educational planning offices; the creation of educational research institutes; the establishment, in CINVA or in the aforesaid institutes, of a branch for the study of standards and programs for school construction; the creation of a special inter-American fund for Latin American universities; and the establishment of a clearing house to compile, analyze, and make available in Latin America information on activities in the educational field.

iv. Public health

493. Important work is being done in the field of public health, much of it under the direction of the Pan American Sanitary Bureau (PASB), which now has a planning office to help the governments to incorporate their health programs into their over-all development plans. A manual for the planning of public health programs has already been completed. At their meeting in December 1961, the advisory committees on public health studied the feasibility of a potable water supply program and also problems in public health related to medical education, nutrition, health planning, and research.

v. Housing

494. Following the guidelines of an OAS Advisory Committee on Housing in Latin America, which met in Bogotá in September 1961, the task force on housing began its work in May 1962, which consists of surveying housing needs, financing resources, and the elements necessary for drawing up national housing programs.

vi. Public administration

495. The OAS is now undertaking an Administration for Development program, which began with a meeting of experts in public administration in May 1962. Studies were begun in October 1962 on the principal problems of administration in ten Latin American countries and will be extended to the rest of the countries in 1963. Training and technical assistance, especially with reference to programming, are other important activities of this program.

vii. Public information

496. The need for a program of public information on the Alliance for Progress gave rise to the March 1962 meeting of a Technical Advisory Group on Public Information to consider the most appropriate means of publicizing the Alliance and of encouraging the formation of national committees in each of the participating countries. These committees would represent the different sectors of national life and would plan and conduct local campaigns to publicize the objectives and methods of the country's economic and social development programs. It was recommended that the OAS Secretariat serve as a clearing house and source of information for the national Alliance-for-Progress committees, and that it call a meeting of representatives of the principal inter-American mass media federations to elicit their cooperation, raise the level of public information about the Alliance, and win popular support and endorsement of its activities.

4. OAS/ECLA/IDB Joint and Cooperative Activities

497. The vigorous collective development push, called for under Operation Pan America in 1958, underscored the need for closer cooperation in, and coordination of, the work of the existing regional organizations, notably the OAS and ECLA. With the inauguration of the Inter-American Development Bank and the signing of the Act of Bogotá, this need was further amplified. Thus, the heads of the three organizations began immediately thereafter to explore the possibilities for cooperation and joint action in a number of fields. These discussions led to the formation of an ad hoc committee of cooperation--composed of the heads of the three organizations--and to an agreement on specific areas of cooperation, contained in the formal act of their first meeting during March 6-14, 1961. The Charter of Punta del Este ratified this agreement and calls upon the three organizations to "continue and strengthen their agreements for coordination."

498. As agreed, the three organizations singled out several fields for cooperation or joint action. Among the most important of these were the preparation of the annual Economic and Social Survey of Latin America, the organization of advisory groups on development planning, Latin American economic integration and basic products problems, taxation, agrarian reform and skilled manpower and productivity. The specific steps taken with respect to these fields consisted in the setting up of

joint working parties or full-fledged tripartite programs, as for example in the fields of taxation, agrarian reform, and skilled manpower. In the other fields, the responsibilities were divided. Thus, it was agreed that while ECLA would take charge of economic integration and related transportation problems, the OAS would be responsible for work relating to basic exports and Latin American port studies.

499. With regard to the Economic and Social Survey of Latin America it was agreed that this study would henceforth be prepared jointly by the OAS and the ECLA, with the OAS acting as executing organ. As regards advisory services for development planning, it was also agreed that these would be organized jointly, except that executive responsibility would be assigned to ECLA.

500. Since these agreements were concluded, an increasing degree of cooperation and collaboration has developed among the three institutions and the joint programs in the fields of taxation, agriculture, and advisory services have been fitted into the general framework of the Alliance for Progress and the Charter of Punta del Este. Indeed, the Tripartite Committee has served as an effective forum for an exchange of views, consultation and ad hoc cooperation in many circumstances not included in the original agreement. In this connection, for example, it is worth noting that the OAS and ECLA have joined to develop a common methodology and technique for planning and for that purpose organized a Joint Seminar on Development Planning which was held in February 1962, in Santiago, Chile.

501. After having been in force for more than eighteen months, the cooperation accord was amended on September 24, 1962 taking into account the establishment of the Latin American Institute for Economic and Social Planning, the Charter of Punta del Este, and the agreement with the United States governing the 6 million dollar subsidy for Alliance for Progress activities, which give to the Secretary General of the OAS primary responsibility over the organization and supervision of development planning assistance.

502. Under the modified agreement, advisory services in development planning will be a joint program of the three organizations subject to direction by the Tripartite Committee itself, rather than a cooperative program with one institution assuming executing responsibility. The revisions of the accord also cover the inclusion of the Latin American Institute for Economic and Social Planning as long as the Executive Secretary of the ECLA represents both this entity and the Institute. Under these amendments, the role of the three organizations is one of full equality, and each remains responsible to its governing body under its existing charters or statutes.

B. The Inter-American Development Bank

503. The Inter-American Development Bank (IDB), which commenced operations in October 1960, has an authorized capital of 850 million dollars for financing regular loan operations, and a 150 million dollar fund for special operations. ^{27/}

504. Through its regular operations, the IDB grants loans which are generally in line with the current standards of international development banks. Loans from the Fund for Special Operations are granted on more favorable conditions and terms in regard to repayment time, interest rates, and repayment currency in order to meet special circumstances that may arise in certain countries or projects.

505. The IDB's resources also include the Social Progress Trust Fund, which it administers under the terms of an agreement with the Government of the United States signed on June 19, 1961. This Fund --established with an initial United States contribution of 394 million dollars--now represents the principal source of funds for investments of a social character considered indispensable in the Act of Bogotá and the Charter of Punta del Este.

506. Under the Alliance for Progress, the IDB performs three principal functions: a) it engages in loan operations from its own resources as well as from the Social Progress Trust Fund; b) it provides technical assistance to its member countries; and c) under the Charter of Punta del Este, it is charged with obtaining financing for the development plans of the Latin American countries that have been examined by an ad hoc committee and for which such financing is requested. The last includes the organization of consortiums from among the credit institutions and the governments disposed to contribute to the financing of a particular development program.

507. During the year ended July 1, 1962, the IDB made 51 loans totaling 155.2 million dollars from its own resources. The total cost of the projects assisted by the Bank's own resources in that period

^{27.} Cuba, whose position as member country was counted upon in the preliminary studies, did not ratify the Agreement Establishing the Bank. As a result, the regular fund has been reduced to 813.2 million dollars and the fund for special operations to 146.3 million dollars.

amounted to 404.1 million. The IDB's participation thus represents 38.2 per cent of the total resources mobilized. The rest is contributed almost entirely by the beneficiary countries since the funds coming from other external sources represent a very moderate total. 28/

508. With respect to loans made from the Social Progress Trust Fund, as of July 1, 1962--date on which the Fund completed one full year of operations--36 loans amounting to 223.8 million dollars had been approved for 14 Latin American countries. These loans represent 45 per cent of the total cost of the projects receiving financial assistance. Fifty per cent of the cost will be met by the beneficiary countries and 5 per cent will come from other sources of external financing.

509. By the same date, in 10 loans made from the Social Progress Trust Fund--representing 31 per cent of the total amount approved--the borrowers had fulfilled the requirements for disbursements. In connection with this last aspect, it may be noted that an appreciable part--a little over 50 per cent--of the loans from the Social Progress Trust Fund have been approved by the IDB during the last few months. Therefore, the disbursements made cannot yet represent a very high proportion of the approved loans. Withal, it should be noted that funds are being made available to the countries with ever-increasing speed.

510. Regarding the composition of the loans, approximately 46 per cent of the operations carried out to date with the Bank's own fund have been directly or indirectly assigned to private activity and 54 per cent to the public sector. The IDB has stressed operations that strengthen national development organizations: channeling 34 per cent of the loans from its own funds through such organizations.

511. Moreover, examination of distribution by sectors of activity of the loans from the IDB's own funds shows that 28.4 per cent have gone to the primary sector (agricultural and mining projects), 37 per cent to the industrial sector, and 32.7 per cent to infrastructure projects (electric power, transportation, sanitary works). This operations total, should also include 1.9 per cent of technical assistance loans for the execution of different projects.

28. Between February 3, 1961, when it made its first loan, and August 31, 1962, the IDB approved, for all of the Latin American member countries, 55 regular loans for a total of 190.4 million dollars and 24 special operations for a total of 66.3 million. As of August 31, 1962, 38 of the loans from the IDB's ordinary capital resources, that is, 65.8 per cent of the total amount approved in this category, and 9 loans from the fund for Special Operations, representing 43.8 per cent of the total approved in this category, were already eligible for disbursement since the requirements stipulated in the loan contracts had been met.

512. In connection with the distribution of loans from the Social Progress Trust Fund, it is interesting to note that 44 per cent has been for low-cost housing, one of the pressing needs of Latin America. Public health--through the development of aqueduct and sewerage services--has received 42.5 per cent; resettlement and better land use, 11 per cent; and the expansion of facilities for higher education and advanced training, 2.5 per cent.

513. IDB technical assistance activities, which have also been very important, cover three different categories: assistance in preparing loan applications, in preparing feasibility studies, and in carrying out projects; basic studies in the fields mentioned in the Contract of the Social Progress Trust Fund are financed; and activities are sponsored, such as the joint IDB-CEMLA program for training officials of Latin American development organizations. There have already been two courses, with a total of 73 participants.

514. Finally, attention should be called, in the field of technical assistance, to the subsidy extended by the IDB to the Latin American Institute of Economic and Social Planning. This totals 1 million dollars of which 700 000 dollars comes from the Social Progress Trust Fund and 300 000 dollars from the Bank's own funds. To date the IDB has expended a total of 10.4 million dollars (in reimbursable or nonreimbursable funds) on technical assistance.

C. The United Nations

1. The Economic Commission for Latin America (ECLA)

515. The Economic Commission for Latin America, long at the intellectual forefront of development planning, has concentrated its efforts under the Alliance for Progress on attempts to refine the techniques and methods of planning and on undertaking the basic economic research required before concrete policies and action programs can be developed. In addition, ECLA technicians have continued their work in speeding the tempo of Latin American economic integration. To aid in the formulation of development plans, they have also furnished advisory services, either alone or jointly with the OAS and the IDB, to several Latin American countries, notably Bolivia, Chile, Colombia, Haiti, Uruguay and Venezuela. Moreover, ECLA has been a co-sponsor, together with the OAS and other organizations, of several regional conferences and joint programs, such as the Seminar on Development Planning, held last February in Santiago, the Conference on Education and Economic and Social Development held in Santiago in March; the OAS/ECLA/IDB tax program, and the agricultural program of the Inter-American Committee on Agricultural Development (ICAD).

516. As a result of these joint programs, ECLA's activities have been coordinated in increasing degree with those of other regional organizations, with the beneficial effect of an interchange of ideas, attitudes, and work methods. Last July ECLA sponsored a meeting of trade

policy experts to consider Latin American relations with the European Economic Community and at present ECLA is preparing a seminar on trade policy, which will probably take place next November and will treat the significance to Latin American trade and development of the EEC, the Organization for Economic Cooperation and Development, and General Agreement on Tariffs and Trade. These efforts lend support to the vigorous OAS action in the field of commodities recently begun by the IA-ECOSOC and the Secretary General.

517. ECLA's program of basic studies, which remain its primary function, is heavily geared toward the problems of economic integration and industrial development. Apart from a study of agricultural trade among the LAFTA countries, which may serve as the basis for a common agricultural policy, detailed studies of specific industries have now been undertaken, notably on machine tools, textiles, chemicals, and wood products. Moreover, intensive work is also being carried on regarding the problem of scaled economies and industrial programming. A basic program of studies on economic development and external financing, functional, and personal income distribution in Latin America, and the role of foreign trade in Latin American economic development is now also under way.

2. The Latin American Institute for Economic and Social Planning

518. The Latin American Institute for Economic and Social Planning, an autonomous training center within the framework of ECLA was formally established on July 1, 1962; and on July 2 the first training course, with 62 participants from 19 Latin American countries, was inaugurated, with fellowships provided by the United Nations, the IDB, and the OAS.

519. The creation of the Institute, with funds provided by the member countries, the United Nations Special Fund, and the IDB, fills a long-felt and increasingly acute need to organize a center for the training of development planning specialists. The heavy reliance of countries on outside technicians and advisory groups, also in exceedingly short supply, attests to the urgent need to train large numbers of economic technicians and administrators to guide their countries' economic advance.

520. To that end, the basic purposes of the Institute are to train government officials in the field of economic and social planning; to assist governments in establishing the technical organizations required for programming and in formulating their development plans; and to carry out the theoretical studies required for the improvement of planning techniques in Latin America. While the Institute's training functions will be carried out unilaterally, the function of providing technical assistance in economic and social programming will be carried out jointly with the OAS and the IDB, under the Tripartite Cooperation Agreement to which the three organizations have subscribed, and which is discussed in another part of this report. 29/

29. See Chapter III, section A-4, paragraphs 497-502.

3. Technical Assistance

521. During 1961, the United Nations Expanded Technical Assistance Program for Latin America had an approved budget of nearly 16 million dollars, which compares with less than 10 million dollars the previous year. These totals reflected the assignment of 1 259 experts, compared with 802 during 1960; and 83⁴ fellowship awards, in contrast to 691 the preceding year. In terms of amounts expended, Chile was first, with Brazil and Bolivia following in that order. Measured in terms of the number of experts assigned, Chile still occupied top rank, followed by Brazil and Argentina.

522. ECLA/BTAO advisory groups in development planning functioned in four countries: Bolivia, Chile, Colombia and Venezuela. Individual advisers in economic programming were active in Ecuador, El Salvador, Mexico, Paraguay, and Venezuela.

523. In the area of natural resources surveys, United Nations experts were assigned last year to Bolivia and Panama; while in the sphere of public administration experts were working with the government or local training institutions in Argentina, Chile, Colombia, and in the Advanced School of Public Administration for Central America (ESAPAC).

524. Technical assistance in the development of public utilities was supplied to Argentina in the field of energy and power, to Chile in the matter of ports, and to Costa Rica in docking and storage installations. Air traffic control experts advised the Central American countries in their efforts to integrate air transportation, and in Venezuela, transport and telecommunications experts provided assistance in the modernization of these services.

525. Apart from such fields as industrial and agricultural production and programming--where the UN and FAO have carried on extensive activities in Bolivia, Brazil, Colombia, Ecuador, Haiti, Paraguay, Peru, and Venezuela--important technical assistance services have also been rendered in the social field. An extensive malaria eradication training program was carried out in Mexico, while broad technical assistance operations were carried out in nutrition in Bolivia, Brazil, Colombia, Ecuador, Mexico, and Central America. Moreover, with the assistance of UNESCO, educational planning offices were established in Argentina, Colombia, Ecuador, Paraguay, and Uruguay. Comprehensive programs on educational techniques have also been developed for Guatemala, while Bolivia, Guatemala, Haiti, Honduras, and Mexico, UN experts advised on social welfare and carried out general social work, and in Peru assistance was given in the social aspects of housing.

PART II

THE OUTLOOK FOR THE FUTURE

526. As the Alliance for Progress moves into its second year, there is good reason to be optimistic about its success. Its first year was one of organizing for the enormous tasks ahead, of defining problems and objectives, and of formulating programs and policies. While a start has been made in launching a number of specific programs and projects, in both the economic and social fields, the next year may be expected to see an acceleration of this process. 1962 was a year of preparation, and 1963 should be one of action and continued coordination.

527. The first annual meetings, held by the IA-ECOSOC since the signing of the Charter of Punta del Este, are significant as the starting point for the task ahead and set goals for the next phase of the Alliance. For the first time in the history of the inter-American system the countries participating in the Alliance have met in an open forum to examine and discuss each other's economic and social development programs, and their policies and problems, in a spirit of mutual confidence and cooperation. This precedent of mutual review of the progress made and the difficulties encountered will, in the coming years, spur countries into common action for solving common problems.

528. It is particularly important for the future of the Alliance that all the participants fully recognize the close interdependence between the economic and social aspects of development. The strong emphasis now being placed on systematic programming, not only in the economic field, but also in education, health, housing, community development, and related areas may in the future ease social tensions in Latin America. Moreover, the key role that the governments now assign to agrarian and tax reform and to planning on the basis of specific projects augurs well for the next phase of the Alliance.

A. The General Economic Outlook

529. It must be recognized that, despite this over-all appearance of progress, there are no indications that the general development of Latin American economies will improve soon. As long as export receipts remain one of the governing factors of public and private economic activity in Latin America, the continued lack of growth of external markets--partly the result of restrictive or discriminatory commercial policies abroad--may make the carrying out of the Alliance program somewhat more difficult, but also more urgent.

530. Although the launching of new projects and programs in the fields of agriculture and industry will undoubtedly have to gain speed next year, their economic and social effects may not be fully felt until later years. At this time it is difficult to attain the 2.5 per cent annual rate of growth of per capita income stipulated in the Charter of Punta del Este. With the speedy implementation of short-term plans and

efforts to compensate for fluctuations in export receipts and to speed up the mobilization of domestic resources, particularly through measures in the tax field, the growth rate in Latin America may come close to the aforementioned figure next year. Even under the most favorable assumptions, however, growth in the agricultural sector is likely to continue to lag behind that of other segments of the economy, notably manufacturing, thereby accentuating the sectorial imbalances that have been developing in recent years. This imbalance will require particular attention in the future, in order to create the best possible environment for carrying out the program of the Alliance.

531. In the long run, one of the main accomplishments of the Alliance should be to transform the productive structure of Latin America to such a degree that the weaknesses of the external sector cease to be an insurmountable obstacle to growth. While the countries must make every effort to increase their exports, this situation requires a rapid expansion of production for domestic use. While these goals are being attained, the external assistance offered through the Alliance to supplement their domestic resources is therefore even more essential.

532. Moreover, many of the structural reforms to be carried out under the Alliance--land reform for instance--will require substantial financial outlays to be effective. When there is a lack of foreign exchange, these reforms are much more difficult to achieve than when exports are high. Nevertheless, since they are essential to the achievement of the structural changes sought through the Alliance, current and future difficulties in the export sector ought to serve as a spur to the immediate initiation of domestic reforms. Consequently, the need for external assistance for the carrying out of these reforms is clear.

533. The extent of the flight of private capital from Latin America should be a matter of particular concern. Only a spirit of confidence in economic progress and in the rule of law and democratic institutions can reverse the present outward flow of domestic and foreign funds, which have deprived Latin America of substantial amounts of investment capital

B. Economic and Social Planning

534. Generally speaking, and as has already been seen, significant progress has been made in the field of planning. In the present stage, the formulation of an overall plan need not be a requisite for obtaining external financing. But there is no doubt that the gradual preparation of over-all plans will permit more efficient utilization of all the domestic and foreign resources available and better harmony between the objectives being sought.

535. Several countries have finished preparing their programs and are about to start putting them into effect, whereas others are still preparing their development plans. The need for completing preliminary technical studies on the evaluation of resources for certain projects will delay the execution of the programs.

536. It should be recognized that, in the great majority of cases, the execution of programs requires domestic efforts, which are not only financial, but also administrative, since it is upon these efforts that the development foreseen in the Program depends. The governments must adopt measures to make sure that the necessary funds are obtained and that the degree of administrative efficiency required by the programs is achieved. Everything seems to indicate that if as much effort is put into this as into the preparation of the plans, the aims of the programs will be reached, especially when these accomplishments cumulatively serve to accelerate the pace of the program as a whole.

C. Agrarian Reform

537. The agrarian reform picture is less satisfactory. In many cases, considerable effort is required to overcome the resistance of the sectors opposed to the initiation of reform measures and the continuation of those already in progress, and to gain the support of all sectors of the public. Although only a few countries have actually made, or are in the process of making, a change in the agrarian structure, the legal foundations have in many cases been established and the necessary mechanisms organized for instituting the essential aspects of reform. In other instances, however, it is still necessary to undertake or finish studies on natural resources, and to make cadastral surveys and other technical studies, without which it is impossible to act effectively.

538. Generally speaking, in spite of the advances made in agricultural techniques in various places, the reform programs lack many of the complementary measures required for introduction of methods that will raise agricultural productivity, for improving the marketing of products, for adequately organizing the producers, for providing credit, and so on. A more optimistic outlook for the development of agrarian reform programs depends upon the extent, scope, and continuity of the efforts to overcome the difficulties described.

D. Tax Reform

539. In the field of taxation, it may be said that a process of tax reform is now under way, which is tending to make the tax burden more equitable and to raise the public revenues for use in development programs. The effects of the reforms established, or to be established, will depend upon the efforts made to set up an adequate administrative organization, a task that is usually slow. In public administration, that problem is generally magnified, and only if the governments undertake extensive, continuous programs, can worthwhile improvements be hoped for, which, in any case, cannot be achieved in a short time.

540. The initiation of tax reform has been encouraging, and if the process continues in the same way, by the end of 1963 more than ten countries will have made fundamental changes in their tax structure. The effective application of these reforms, together with other measures within the Alliance, will help to alleviate social tensions by

distributing the tax burden more equitably and, through greater public expenditure in development projects and social programs, by raising living standards and productive capacity, thereby improving the distribution of income.

E. Progress in the Social Field

541. The first year's experience of the Alliance for Progress does not permit us to ascertain whether the advances in the social field --particularly in education, housing, public health, and rural welfare-- have been sufficient to meet the increased needs resulting from the rapid growth of population and its continuous and sometimes excessive move to the cities. It seems reasonable to expect, however, that during 1963 many of the advances made will be consolidated and that there will also be further gains, owing to the various programs being started, or to be started shortly. As the information required in the social field is systematically compiled, needs will be more clearly evident and it will be possible to evaluate more accurately the problems to be solved and the degree of success obtained in so doing.

542. As there is a great scarcity of technical personnel qualified in social matters, one of the first jobs is to intensify training programs for such people. In the first stage, the help of technical cooperation programs and the work of institutes of planning and universities will be of decisive importance.

543. There is room to hope that very significant steps will be taken in Latin America to extend educational systems, raise school attendance, and improve teaching methods. The importance of education to economic development has been recognized, and many countries have begun educational planning programs to make sure that this field will be given the priority it must have for the sake of over-all development. Nevertheless, it must be acknowledged that there are still many difficulties to be overcome with regard to specific needs for skilled labor and technical personnel, and to the actual possibilities for financing educational plans. In this respect, further increases in educational budgets are necessary and supplementary external aid must be obtained for these purposes.

544. In the field of housing, public programs of social interest are underway that represent an advance over the preceding year, but over-all programs must still be formulated in which the role to be played by private enterprise is specified and means of financing it are coordinated. There is also considerable work to be done on methodology to reconcile the social aspects of the problem with the economic and financial ones. It is to be hoped that the financing institutions of the Alliance for Progress will continue to give particular attention to the problem in the next year and that--to the extent that projects are planned that respond better to the needs of the urban and rural areas and financial backing for them to a greater extent from domestic resources is assured--there may be a considerably greater degree of

progress. We must not lose sight of the fact that the housing deficit is so huge that, even by greatly speeding up the present rate of construction, it will be many years before it can be appreciably reduced.

545. Although the Charter of Punta del Este called attention to the need for broadening public health programs, and despite the significant work done by international and regional organizations in Latin America in cooperation with the governments, which for many years have been carrying on programs in this field, in 1961-62 it was barely possible to speed up public health programs, obtaining modest successes, particularly with reference to control and eradication of disease, environmental sanitation, and health education. It must be emphasized that the growth of population in Latin America demands careful planning of future activities in public health matters and the concentration of international cooperation and available funds in the most essential aspects of this field.

546. The community development programs on local, regional, and national levels begun in various countries in the last few years will also need to be expanded in the future, since it is recognized that they constitute an important social technique for helping to solve the problems that have been listed, in rural as well as urban area.

547. In studying the social situation in Latin America as a whole during the discussions, the impression was reached that during the first year of the Alliance, planning, economic investment, and other related programs have not resulted in better distribution of national income. Achievement of this aim of the Alliance has been handicapped by lack of information concerning the structure of income. In addition, adequate labor statistics and research centers to prepare them in a continuing, systematic, and logical manner are needed.

548. For two fundamental reasons, the participation of the private sector and of its various strata and representative organizations has not been sufficient. On the one hand, as a result of the interpretation given to the Alliance, it has been thought of purely as a governmental undertaking that does not require, and even at times discourages, participation by the private sector. On the other, expectations from the Alliance among some sectors were so high that when they did not materialize into practical realities, a certain amount of pessimism and increased social and political tension resulted. It is to be hoped that to the extent that the mechanisms of the Alliance go into full operation and the practical achievements of the program are extended to all sectors of the population the present difficulties will begin to disappear and the total participation required by this important collective effort will increase.

F. Internal and External Financing

549. A larger contribution to economic development in the future, from domestic financial resources will depend to some extent upon the tax

reforms that have been undertaken, as well as upon more effective distribution of the available revenues of the whole public sector, and strengthening of the institutional mechanisms of the domestic capital market.

550. Many countries have adopted specific measures for better utilization of savings and for channeling them into industrial investment, housing programs, and others. Also banking reforms have been initiated with the creation of new instruments for attracting savings and the establishment of specialized institutions for agricultural and industrial development.

551. Furthermore, the mobilization of domestic savings will depend upon creating generally favorable conditions for investment--including a favorable political climate--and upon the ability of the countries to maintain relative monetary stability, and, in cases where this is still lacking, to be more successful in the efforts already undertaken to combat inflation. To attain domestic monetary stabilization will, in turn, require effective and timely external financial cooperation.

552. The outlook for the flow of external financing during the coming years, from the United States as well as from international organizations, appears favorable, as the figures from the last fiscal year indicate. As economic programming and the preparation and execution of projects are expanded and improved, external funds will be more readily and quickly available. In turn, the organizations providing long-term financing are making efforts, on the basis of past experience, to expedite the processing of requests and the evaluation of the projects presented to them. In addition, it is also necessary for the countries making the requests to finish the particular projects in their programs more rapidly and in accordance with the specifications set.

553. With reference to external resources of public origin, it is to be hoped that these may be available in larger amount through the international and regional financing organizations and that larger investment funds may be obtained from the governments of Western Europe and of other countries. Regarding private capital, there are no indications that the United States will substantially increase its direct investments in Latin America in the immediate future despite the fact that the investment of U. S. private capital in some countries and in the industrial sector has continued to increase. In addition, European and Japanese investors have shown growing interest in participating in the industrial development of Latin America. There is also more possibilities for obtaining private credit for development, both in the United States and in Europe.

554. Altogether, it may be expected that during the fiscal year ending in June 1963 foreign financing will amount to more than 2 billion dollars and that the rate of disbursement will be higher than it is at present.

G. Economic Integration

555. In the field of economic integration, there is good likelihood of a more vigorous effort to liberalize intra-Area trade among the LAFTA countries, especially as the result of further agreements on an industrial complement. In this respect, it is encouraging to note that special attention is being given to the development of transportation and communications as an essential requisite for effective integration. On the other hand, unless the economic considerations that have guided the move toward integration are matched by more determined political support, the process of freeing intra-Area trade will gradually become more difficult.

556. Among the Central American countries, the integration process has already gained strong momentum and it is likely to come closer to full realization in 1963. The start now being made on the coordination of national economic and social planning will undoubtedly lend further impetus to the economic integration of Central America.

H. Stabilization of Basic Products and Export Markets

557. The outlook for further advances in stabilizing the markets for basic products and export receipts is still doubtful. The recent conclusion of the International Coffee Agreement, the prospect of similar arrangements for other products, and the discussions of the possibility of creating a mechanism for automatically compensating for reductions in the value of exports represent efforts to find positive solutions.

558. On the other hand, the restrictive or discriminatory policies of the European Economic Community, which have unfavorable effects on the basic products of Latin America, remain a source of grave concern. The collective approach in Latin America to solving this problem and the relations already established between the OAS and the EEC hold out some hope that the problem is on the way to being solved.

I. Functioning of the Inter-American System

559. During the 1962 Annual Meeting of the IA-ECOSOC at the Expert Level, several resolutions were approved that should contribute to the more effective functioning of the Alliance. The creation of five special committees under the IA-ECOSOC--each to be concerned with specific aspects of the Alliance and to meet at least twice annually to consider special problems and advances in its respective field--will make it possible to achieve the objectives of the Charter of Punta del Este more rapidly and will facilitate the work of the IA-ECOSOC itself.

560. There is also the conviction that it is necessary to make a thorough examination of the operations of the Alliance and of the inter-American system and to adapt the present institutional structure, much of which was established before the Alliance, to the present needs.

561. One of the problems for which greatest concern is felt, with regard to the immediate future of the Alliance for Progress, is the necessity for establishing an effective and simple system of coordination, capable of producing harmonious orientation in the policies of each and every one of the institutions now participating in that machinery. The degree to which the coordination problem is solved on the international level will have a considerable influence on domestic coordination, so that each country may act effectively and as quickly as possible in endeavoring to attain the goals and objectives agreed upon at Punta del Este.

562. Equally important are the resolutions calling for greater emphasis upon the preparation of specific projects, the undertaking of cadastral surveys, and the broadening of technical assistance programs, especially training programs and programs for community development, all of these tend to call attention to the problems of the Alliance that will require more attention in the immediate future.

J. Final Comment

563. This cursory estimate of the outlook for the Alliance for Progress should not be interpreted as a pessimistic one, in view of the magnitude and extent of this program, which is directed toward launching a peaceful revolution in Latin America. The task of breaking with the past and of reconstructing a society, which, in many cases, is characterized by economic and social rigidity, is not one that can be accomplished in a few years. What justified an optimistic view of the future of the Alliance is not the number of projects and programs initiated during the first year, but, rather, the accelerated pace with which the Latin American countries have begun those programs and the growing understanding of their objectives and nature. It cannot be said that the Alliance has been successful in creating a widely disseminated ideology of its own. Nevertheless, there is room to hope that the programs and projects themselves and the benefits to be derived from them by vast sectors of the population will give the people of the Americas a feeling of identity with what has already been done and what is yet to be accomplished.

PART III

REPORTS BY THE COUNTRIES ON THEIR ECONOMIC AND SOCIAL DEVELOPMENT

564. This part of the report contains the reports that some countries presented to the First Annual Meeting of the Inter-American Economic and Social Council at the Expert Level on their economic and social development. Owing to the length of some of the reports they are given here in summary. The Spanish version of each summary which was presented to the delegation of the country concerned for technical approval is included in the following text in Spanish alphabetic order. The IA-ECOSOC meeting at the Ministerial Level made no recommendation on this part of the report as it neither examined nor discussed the national reports.

ARGENTINA 30/

I. General Economic Developments

A. Gross Domestic Product

565. Gross domestic product in 1961 amounted to 11 708 million dollars (in 1950 prices), an increase of four per cent over 1960. Although the aggregate gross domestic product has been increasing very slowly in recent years, certain sectors of the economy have shown more rapid progress. Notable among these are industrial production and the production of crude oil. The industrial sector has been expanding much faster than total product in the past five years, and crude oil production has increased so rapidly that by the end of 1960 domestic production was adequate to fully satisfy internal demand, and in 1961 the former deficit in supply was reversed to an exportable surplus. On the other hand, agricultural production suffered a sharp drop in both 1960 and 1961. Measures which were adopted to increase the internal price and to reduce export taxes on livestock products resulted in an increase in the stock of cattle in the past two years; but this progress was also limited by unfavorable climatic conditions.

30. Summary of the report presented by the Government of Argentina. Part of the material for this summary has been taken from the OAS-ECLA Economic and Social Survey of Latin America, 1961 (Doc. 5), the IDB Social Progress Trust Fund Annual Report, 1961 and Supplement (Doc. 47), and IMF, International Financial Statistics.

B. Investment

566. The coefficient of gross domestic investment to gross national product averaged 24.4 per cent between 1957 and 1961. Gross domestic investment had declined from 1957 to 1959 but rose sharply in 1960 and 1961. The large increase in 1961, estimated to have raised the coefficient to 29.0 per cent in that year, is largely attributable to an increase in foreign investment, whereas the increase in investment in 1960 was financed mainly with domestic resources.

C. Prices

567. Domestic prices, as measured by the cost-of-living index, quadrupled between 1957 and 1961; wholesale prices increased somewhat less. With the introduction of the stabilization program in 1958, the peso was devalued and the exchange rate unified at a level which was maintained through March 1962 when intense inflationary pressures made further support impracticable and resulted in a rapid decline in the price of the peso.

D. The External Sector

568. An extraordinarily large balance of payments deficit was incurred in 1961, as imports of goods and services far exceeded exports, reducing foreign exchange reserves to dangerously low levels. Consequently, numerous restrictions have been imposed in 1962 to lower imports and thus correct the trade imbalance. Estimates based on data at the end of six months of the current year suggest that the balance of payments deficit for 1962 may be reduced to about one half of the figure for 1961, which approached 500 million dollars. In addition to the detrimental effects of low yields on export volume, the terms of trade for Argentina's exports declined in 1961. The importance of this latter factor in 1962 cannot yet be determined. In any case the net result in terms of the trade balance deficit will depend mainly on the success of efforts to reduce imports.

569. The international financial assistance granted to Argentina in fiscal 1962 totalled 311.3 million dollars of which 211.3 million were development loans and 100 million stabilization funds. Disbursements of stabilization loans during 1962 exceeded new authorizations for that purpose, while disbursements of development loans lagged behind new commitments, totalling 78.3 million.

II. Economic and Social Progress under the Charter of Punta del Este

A. Health

570. At the end of 1960, the Argentine government announced a Three-Year Plan of Sanitary Works (Plan Trienal de Obras Sanitarias) whereby

the average annual investment in this field would be doubled in 1961-1963, compared with preceding years. In December 1961 measures were adopted to decentralize the Ministry of Public Works, in order to better use local resources, and to increase the financial contribution of the users of the services. A sanitation plan (Plan de Saneamiento) for Greater Buenos Aires which will represent an investment of 15 150 million pesos over a ten year period, has recently been approved.

B. Education

571. The Faculty of Technical Education and Regional Councils on Technical Education are among the institutional measures recently undertaken to improve and expand training of the skills essential to economic development. 31/

C. Housing

572. The Federal Housing Administration (AFV), created in July 1961, has prepared both an immediate-action and a long-run housing plan. Special emphasis is being placed on the following projects:

1. Construction of 24 200 units, at an approximate cost of 13.3 million pesos, for railroad personnel;
2. 17 500 units to be built by the Municipality of Buenos Aires at a cost of 6.2 million pesos;
3. 10 300 units being built by the National Mortgage Bank in 1961 and 1962 at a cost of 6.5 million pesos;
4. 13 000 units in 1961-62 at 1.5 million pesos a year being built by the General Guaranteed Personal Loan Administration. 32/

573. A detailed federal housing plan has since been drawn up whereby the National Mortgage Bank is to assume some of the administrative functions formerly attributed to AFV. The IDB is to provide 50 per cent of the costs of implementing the plan.

31. For changes suggested by the Delegation of Argentina, see Appendix, p.197.

32. See Social Progress Trust Fund, First Annual Report, 1961.

D. Other Fields

574. Through special decrees designed to promote industrial development, tax relief and exemption from import duties has been provided for production lines, and similar incentives have been offered to new industries established in specified regions of the country, especially Patagonia, Noreste, and Corrientes. To carry out and coordinate this policy a National Industrial Promotion Office was created within the Secretariat of State for Industry and Mining in 1961.

Response to these measures has been prompt and large, but the limited time period elapsed and the suspension of some of these privileges during the current balance of payments difficulties prevents a definite judgement as yet.

575. Plans have been made for the expansion and improvement of statistical data, through the system of mailed questionnaires and the addition of specific questions to the population census. More frequent censuses of economic activity and of industries will be made to gather more detailed information on composition of the labor force and changes in employment.

E. Planning

576. In August 1961 the National Development Council was created. It consists of seven members headed by the Minister of Economy. The council is placed directly under the Presidency and is responsible for both annual investment programs and for defining long run development objectives. With respect to the Alliance for Progress, a National Advisory Committee, composed of representatives of the private and public sector is being created to disseminate information and encourage cooperation on the development task.

577. Recently, an Interministerial Committee on the Budget, composed of the Subsecretaries of Economy and Finance and the Vice President of the National Development Council has been established. The Committee will be charged with modifying the traditional presentation of the budget in accordance with the classification by function and programs recommended by the United Nations.

578. To remedy the serious problem of tax evasion, a plan has been prepared and approved for the reorganization of the office concerned with such matters; the major objectives being greater decentralization and a separation of executive functions from those of investigation and planning. Simultaneously, measures were enacted to simplify the stamp tax and import and export duties and a Council of Coordination for the Prevention and Repression of Contraband was created.

F. Agrarian Reform

579. The report does not specify that new measures have been undertaken in this field.

G. Tax Reform

580. A series of tax innovations has been recently introduced, both to obtain additional revenue to meet urgent current obligations and to modernize the tax structure. The tax on extraordinary income (applicable to enterprises yielding more than 12 per cent on taxable capital) has been suspended for a period of three years in favor of a 20 per cent emergency tax on all income tax liabilities exceeding 50 000 pesos annually. In addition a 2 per cent tax on patrimonial property, representing capital of more than 3 million pesos, was introduced to repay the recent loan floated in the nation. Other sources of emergency revenue are being studied, with a view to distributing the larger share of the tax burden among those of the highest taxable incomes.

581. At the same time, simplification of the stamp tax and customs duties has been undertaken as part of the modernization program, the basic feature of which is a decentralization of the administrative structure of the General Tax Office. To prevent evasion, merchants and commercial establishments are now charged with withholding certain taxes when they make such payments as interest, commissions, etc., and in a renewed effort to reduce contraband, a special agency has been established to coordinate information and procedure on the detection and punishment of smuggling. To avoid understatement of the value of imported merchandise, it has been declared that import duties are henceforth to be paid on the current market price for any given product as of the date of the customs manifest and in a market characterized by free exchange between buyer and seller. Reduction of the free import permit of returning residents from 50 to 20 dollars is designed to supplement the anti-evasion measures mentioned above.

H. Administrative Reform

582. A project of administrative reform has been undertaken in Argentina in connection with the reorganization of public services and the reduction of the number of civil service employees. Up to date there has been a reduction of approximately 200 000 government jobs through a "rationalization" program and plans have been prepared for a further reduction of 150 000. The reduction in personnel took place in part in the railroads, modernization of which has been one of the top priority projects of the Argentine government.

I. Economic Integration

583. As a member of LAFTA, Argentina is participating in the program of trade liberalization within that region. Of the 902 concessions made on products of agriculture and livestock--according to an ECLA estimate--207 were made to Argentina. LAFTA countries have been specifically exempted from the current trade restrictions imposed by the balance of payments difficulties.

J. Credit Policy

584. In the course of the past year, the stability of the peso has been undermined and the domestic economy deteriorated by mounting debt. To alleviate the extreme degree of inconvertibility reached in recent months, both fiscal and monetary policies have been called into action. Tax reforms have been cited previously. ^{33/} Of major interest among the monetary devices is the temporary institution of a rediscount system as a means of providing emergency funds to large (over 300 employees) enterprises unable to meet their wage and tax payments. A new loan has also been issued to mobilize unutilized funds. Government bonds and pension payments are expected to be made before the close of the year and it is hoped that new credit can be held within the limits agreed on by the terms of the recently renewed arrangement with the IMF.

33. See paragraphs 580-81.

BRAZIL 34/

I. General Economic Developments

585. The gross domestic product of Brazil increased by 7 per cent in real terms in 1961, reaching a level of 20 billion dollars (based upon 1950 prices).

586. Brazil has been able in the past decade to maintain an annual rate of economic growth of 6 per cent in real terms and thus was one of the few countries in Latin America to reach or surpass the per capita growth rates proposed in the Charter of Punta del Este for the current ten year period. Furthermore, this growth in gross product has effected a real transformation in the industrial structure of the country with a shift toward heavy industry and the output of intermediate products and industrial equipment. Gross capital formation averaged about 16 per cent of the GDP in the fifties. A steady rise in the price level, averaging about 20 per cent per annum in the decade, reflected the intensity of the inflationary pressures associated with the development effort.

587. Until recently these price increases were constrained somewhat by a combination of factors: production increases, lagging wage adjustments, and overvalued exchange rates. Since 1959, however, the rate of inflation has accelerated sharply, to about 40 per cent per annum. A deterioration in the world coffee market in the late fifties reduced Brazil's capacity to import. This factor, together with ever larger federal government budget deficits (in large part related to financing the transportation system), and an acceleration of the monetary expansion have all contributed to this inflationary spiral.

II. Economic and Social Progress under the Charter of Punta del Este

A. Health

588. In the past, the Brazilian government, at all levels, federal, state, and municipal has devoted substantial resources to the improvement of community water supply and sanitation facilities. The federal government, as well as the states and municipalities are active in the provision of financial and technical assistance in these fields. The State of São Paulo, for example, plans to invest 1.2 billion cruzeiros in water supply and sewerage projects in the 1959-62 period, thereby meeting most of the needs of its urban population. The State of Guanabara is presently putting into operation an extensive program of expansion and improvement of these services, for which it received 35 million dollars in financial assistance from the IDB.

³⁴. A summary of the report presented by the Government of Brazil. The text is based on "The Social Progress Trust Fund, First Annual Report, 1961" of the IDB and the supplement on activities up to July 1st, 1961 (Doc. 47); and the OAS/ECLA 1961 Economic and Social Survey of Latin America (Doc. 5).

589. General progress in these fields has accelerated in recent years. Administrative and financial reforms in the agencies active in these areas have been undertaken to improve the over-all planning and coordination of these projects, and to provide for a more realistic rate of growth for these services, with due regard for the services rendered and the income of the recipients of these services. Reforms in the structure of water rates have been undertaken in the States of Guanabara and Bahia.

590. Some 600 000 additional individuals have been provided with potable water since the Act of Bogotá. Comparable data is not available on the provision of sewerage facilities.

591. In late 1961 and in 1962, the IDB authorized loans of 40.6 million dollars to improve the water supply and sewerage facilities in the major cities of Northeastern Brazil and in Guanabara. It is expected that these projects will eventually, and perhaps before 1965, provide these services to an additional 5 million persons.

B. Education

592. A comprehensive reform law was enacted in late 1961 designed to achieve a balanced distribution of resources between the different levels of education. At the university level, special attention has been given to post-graduate education, technical and scientific training and research. More recently, in February 1962, the Ministry of Education established a high level committee, the University Forum, to examine and coordinate these activities in the field of higher education in Brazil.

C. Housing

593. The Congress is considering a law that would establish a Brazilian Institute of Housing. In November 1961, the Ministry of Labor and Social Welfare created a National Commission of Housing for the purpose of elaborating a national plan of low-cost housing. The Federal Government estimates that during 1962 approximately 100 000 housing units will have been constructed for low-income families through the various projects of the National Commission of Housing.

D. Planning

594. In 1961, the National Planning Commission (CJPLAN) was created as an over-all planning agency and entrusted with the preparation of a national development plan. Its organizational predecessors retained important responsibilities; the Development Council in the preparation of sectorial plans in the fields of energy, transport, basic industries, education, agriculture, and food supply; and the various regional planning bodies, e.g., the Superintendency of Development in the Northeast (SUDENE), in their respective geographic areas.

595. The most recent information from Brazil indicates that COPLAN has established two major goals. First, there is a short-term objective of formulating the first national development plan for the period 1963-67,

to be started by the end of 1962 and perfected and modified in the course of its execution. The second, and long-term objective is to institutionalize a planning structure that will insure the continuity and constant improvement in the national development programs. This task includes both the functioning of COPLAN as a central coordinating agency of the sectorial programming units throughout the public administration. Recently, there was created the new post of Minister Without Portfolio, for the specific purpose of coordinating Brazil's economic and social development plans.

E. Agrarian Reform

596. In January 1962 draft legislation on agrarian reform was presented to the Congress where it is presently being studied. However, it must be pointed out that, since the Act of Bogotá two state programs of agrarian reform, in São Paulo and Rio Grande do Sul, have been established to promote the rational and economic utilization of land and to facilitate the acquisition of small rural properties. The SUDENE formulated, in 1961, a broad program of colonization designed to assist the migration of families to the State of Maranhão.

597. The National Institute of Immigration and Colonization (NIIC), established several agricultural settlements in various parts of the country, through which it is lending assistance to a large number of agricultural laborers. Other colonies are in the process of being established by NIIC and by SUDENE in the State of Pernambuco and in other federal units.

F. Tax Reform

598. In February 1961, the income tax law was revised to make the rate structure more realistic in view of the inflationary conditions, and to increase yields through more efficient administration. Recently, measures have been established which make it obligatory to submit a declaration of inheritance along with the declaration of income, in order to prevent tax evasion; there have also been approved legal dispositions concerning tax policy for economic development, whereby investments in the northeast of the country are granted an exemption of 50 per cent of the tax on physical and juridical persons.

599. An extensive project of tax reform has been presented to Congress by the Council of Ministers. Along with the increase of specific taxes as an incentive to reinvestment, substantial reforms of the income tax are introduced with respect to the adoption of a progressive rate schedule applicable to distributed profits. This proposal also includes measures intended to achieve a greater distribution of stock holdings among the public and to create more favorable conditions for the capital market. In addition, a general increase in the rates of taxation on consumption, especially the consumption of luxury items, has been proposed along with changes in the tax on power and fuels and adjustment of the tax on tires --the proceeds of which are earmarked for the financing of the highway program--in order to give fairer treatment to the users of these services.

COLOMBIA

I. General Economic Developments

600. The gross domestic product of Colombia amounted to 23.9 billion pesos (1958 value) in 1961, a real increase of approximately 4 per cent over the preceding year. This rate of growth is inferior to the average rate for the 1950-60 decade; the decrease being largely the result of the drop in coffee prices and a lack of vigor in the agricultural sector.

601. Per capita gross domestic product in 1961 was estimated at 1 575 pesos (1958 prices), that is, an increase of only one per cent over 1960, and lower than the 1.3 per cent per capita increases between 1959 and 1960. Principally responsible for the growth of the gross domestic product was the manufacturing sector, where output grew at approximately 6.8 per cent in 1961. Also important were the building industries, largely as a result of government programs designed to provide housing for low-income families.

602. Although the country report does not provide estimates of gross capital formation in the public or private sectors in 1961, a series of important measures have been taken to promote gross capital formation in the private sector. Investment associations have been established to channel the public's savings toward national development goals. These corporations operate on the basis of negotiable "investment certificates" which they issue under government supervision. In 1960, the government issued a decree authorizing and regulating the operation of mutual funds.

603. In 1960, the government issued government securities, labeled "Economic Development Bonds" whose proceeds were to be used for public works.

604. During 1961, there was a 7.8 per cent increase in consumer price indices for white-collar employees and for manual workers, and an equivalent increase in wholesale prices. These higher prices are related to increases in the costs of housing, clothing, and items other than foodstuffs.

605. In recent years, the balance of payments have been characterized by a decrease in exports and an increase in imports over the 1958-59 levels.

606. Total exports decreased from approximately 600 million dollars in 1957, to about 500 million dollars in 1961, due principally to lower coffee sales. During the same period, imports increased from 400 million to 520 million dollars. In the past two or three years, however, new export products have appeared; this modest trend toward diversification of exports is partly the result of coffee devaluation and the nation's efforts to replace imports.

607. The 60 million dollar deficit suffered in 1960 was totally covered by reserves accumulated in previous years. In 1961, in contrast, it was necessary to seek considerable foreign financial assistance, as it was not advisable or prudent to further reduce the country's exchange reserves.

II. Economic and Social Progress under the Charter of Punta del Este

A. Housing

608. Recent progress in the field of housing came under two headings: a) an increase in the number of housing units constructed during the past year, and b) recent measures taken by the government to give added impulse to low-cost housing.

609. The number of housing units constructed in urban areas in 1961, represented a considerable increase over past years. 18 793 housing units were constructed in that year, with an estimated value of 107.5 billion pesos. The rate of construction accelerated greatly in 1962 as, by June 30, 1962, close to 15 000 additional units had already reached advanced stages of construction.

610. Housing construction in Colombia is undertaken largely under two principal programs: a) that of the Territorial Credit Institute which is at present implementing a program of construction of 120 000 housing units in urban areas; and b) that of the Agrarian Credit Fund, which has completed the preparation of a four-year program for 1963-66 for the purpose of constructing approximately 35 000 rural housing units and of improving and repairing another 20 000 units.

611. The Administrative Department for Planning and Technical Services has been making progress in the basic researches that will permit the formulation of a detailed national housing policy. A recent decree also regulates urban development in Bogotá and in other cities with a population of 100 000 or more. The measure is designed to accelerate development in these centers by using the lands which have been earmarked for housing under the zoning laws, but have been removed from the market by speculation.

612. Efforts are continuing toward the establishment of a Central Bank for Housing and the organization of a system of savings institutions, which is essential to the channeling of national savings to the housing sector.

B. Education

613. The General Plan for Economic and Social Development is being implemented in the field of education. The program's aims are the expanding and improving of installations and services in the general field of education and training, and providing specialized training for

technicians and qualified workers. A four-year plan for school construction is designed to provide by 1965, 22 000 new urban and rural classrooms for 880 000 school children. Classroom construction is to be accelerated over the four-year period to conform to the growing supply of teachers over the period and to the operating capacity of responsible agencies. By the end of 1962, it is expected that 2 700 classrooms will be constructed; by mid-year, 40 per cent of this goal had been achieved despite a considerable period devoted to preparatory and organizational problems.

614. Teacher training programs have also been carried out successfully since 1961. At the beginning of the current year, 1 958 fourth-grade teachers and 662 third-grade teachers were registered. In rural areas, elementary education is now being coordinated with agrarian reform programs; in urban areas basic elementary education will be complemented with business and industry courses.

615. Colombia's program for secondary level education remains in a preliminary stage. The result of a detailed study of the human resources of the country is awaited, whose conclusions will permit the organization of integrated programs designed to train the type of labor skills that the country will need for its development. So far, priority has been given to the construction of teachers' colleges and normal schools because on them depend the adequacy of the supply of teachers for the new elementary classrooms. Emphasis has also been given to programs of agricultural vocational training and of industrial training.

616. Finally, work has been started on an inventory of the physical plant and equipment of the country's universities for the preparation of subsequent programs of investment. Studies are also being prepared with a view to the establishment of a revolving scholarship fund to provide needy Colombian students with financial assistance who desire to pursue higher studies.

C. Health

617. Total expenditures on public health for 1962 will amount to 418.8 million pesos. The program is concerned particularly with programs of environmental sanitation, construction and equipment of hospitals, and the establishment or re-equipment of district and local health centers.

618. The country is at present carrying out a large-scale program of urban aqueducts and sewerage disposal systems. Work costing a total of 141 million pesos is at present under construction. This includes the construction of 171 aqueducts, the extension and improvement of 234 aqueducts, the construction of 18 sewerage treatment plants and the construction, extension, and improvement of 129 sewerage systems.

619. An important rural-aqueducts program has also been prepared but arrangements for its financing have not yet been formalized, and the necessary funds for its immediate implementation are not available at present.

620. Progress has also been realized in the reorganization of the Ministry of Health. The reorganization will give greater unity and coherence to the national public health and social welfare policy and to ensure coordinated and efficient implementation of that policy, by a clear distribution of duties and responsibilities. At present, the Ministry now constitutes the central organization for technical and administrative strategy and guidance, and exercises general direction, planning, coordination and control of national policy in this respect. Responsibility for the administration of the program is delegated to the public health divisions and services of the Ministry and the provinces, leaving the provincial and municipal organizations to execute the programs, except for the more highly developed municipalities which have both administrative and executive functions.

D. Planning

621. Colombia has been developing gradually an administrative machinery capable of implementing development plans and programs and of executing specific projects. During 1961, coordination has shown improvement between the various public bodies, entrusted with the execution of investments and the agencies entrusted with the planning of economic activity, such as the Planning Agency and the Bureau of the Budget. The latter two organizations, in close cooperation, prepare the investment program which appears in the budget project. The technique of budgeting by programs, introduced gradually, is proving a valuable influence on public planning in Colombia.

622. The process of implementation of programs is also being improved increasingly through the request for information on the progress and the execution of investment programs.

623. The General Economic and Social Development Program drawn up by the national planning bodies (the Council of Economic Policy and Planning, and the Administrative Planning and Technical Services Department) was officially approved by the President of the Republic in November 1961. Since then, these bodies have been devoting their attention to the supervision, evaluation and execution of the program. These bodies carry out close supervision of the present status of projects, a list of which is presented in the country report.

E. Tax Reform

624. Colombia passed a tax reform law in 1960. The country report contains little information on the changes involved, except for a statement that lower taxes on earned incomes do not appear to be compensated by an increase in the rate of liabilities for capital incomes.

F. Administrative Reform

525. Some discussion of administrative reform is included in the sections on planning, health, education, and housing.

G. Agrarian Reform

626. The Agrarian Reform Law of December 13, 1961, and the decrees issued in implementation of it established INCORA, the Colombian Agrarian Reform Institute, the principal institution now entrusted with the execution of the program of agrarian reform. INCORA can carry out its duties either directly or by delegation of some of its powers to certain regional development corporations and to other public bodies or administrative agencies, at the national, provincial, or municipal level. INCORA's functions include the preparation of studies, improvement of land, the distribution of land, the elimination or prevention of undue concentration of ownership of rural land or its uneconomic fragmentation, the settlement of waste or untilled lands, assistance to new owners of land. The Institute also provides technical and social assistance, as well as effective coordination with other government and private bodies whose functions are to provide services of this nature. Through its national agrarian fund, INCORA receives a budget appropriation of no less than 100 million pesos a year for agrarian and social reform. In addition, it can negotiate domestic and external loans and float agrarian bonds.

627. The program has only started recently, with the appointment in 1962 of a general manager and a small staff of assistants. Work so far has consisted in the establishment of a technical and administrative structure, the consolidation of the financial basis of the Institute, and the carrying out of technical studies to serve as a basis for its program of agrarian and social reform. In July 1962, the Institute handed over the property titles to the first 80 new proprietors. Other projects will be completed during the second half of 1962 and will benefit a very substantial number of rural workers.

H. Economic Integration

628. The National Congress of Colombia passed Law 88 of September 1961, authorizing the government to adhere to the Treaty of Montevideo.

CHILE

I. General Economic Developments

629. In 1961, Chile experienced an economic recovery in many important sectors and maintained conditions of reasonable price stability. Manufacturing production, in particular, rose by 11.2 per cent in this year and impressive increases were also registered in other areas: in electric energy for industrial use (7 per cent increase); the production and export of fish products (26.5 per cent increase); the production of petroleum (28 per cent increase); and iron ore (15 per cent increase). The production of copper, the major export, also rose slightly despite the lowering of the price in the first months of the year. Agricultural production showed some increase but still remained the sector in a relative state of stagnation. There was an improvement in the employment situation as a result of the increased economic activity. The survey of this situation, which indicated a rate of 10.4 per cent of the labor force in 1959 fell to 5 per cent in December 1961. There were other apparent desirable social effects from the improved economic climate; an effective increase in the purchasing power of wage and salary earners and an increase in personal savings in banks and in savings and loan associations in the housing field.

630. Despite some weakening in the world market for copper, Chilean exports, in 1961, displayed a certain stability and some growth with respect to non-copper exports, notably iron ore. However, imports continued to rise sharply as in 1959 and 1960. The purchases of machinery transport equipment, and other capital goods were 100 per cent above the 1958 level in 1961; but the swelling imports also included consumer goods imports, e.g., through the free zones. The balance of payments deteriorated further in 1961, the deficit reaching 147 million dollars and finally the diminishing foreign exchange reserves forced the government to suspend operations in foreign exchange in December 1961, and to adopt a double exchange system and a range of restrictive measures regarding foreign travel, imports, etc., designed to improve the foreign exchange situation.

631. With respect to monetary policy, there was an extraordinary expansion of credit of 280 million escudos in 1961, both to the public and private sectors, and a net loss of external reserves of the banking system, of 132 million escudos, as a consequence of the deficit in the balance of payments. An increase in savings deposits and money held by the private sector has served to moderate price increases in 1961.

632. The revenues of the central government showed almost a 5 per cent increase in real terms in 1961 (with a real increase of 16 per cent projected for 1962), but the increase in current expenditures (both in 1961 and projected for 1962) has more than exceeded the increase in revenues. The surplus on current account is therefore estimated to fall in 1962, despite the intentions of the government to maintain and increase the level of public investment in order to advance the economic recovery.

II. Economic and Social Progress under the Charter of Punta del Este

A. Health

633. Attention has been concentrated on the operations of the existing health agencies in Chile. The National Health Service has formulated its programs in the context of the development plan, including basic programs for small rural communities, mother-child care, and hospital construction. A program of community education in health matters has been launched, including a Salk vaccine program. Given the high birth rate in Chile the mother-child care program has been emphasized and more than half of the cases treated by the Service are in this area. Programs in health protection; including water fluoridation, sanitation, industrial health, tuberculosis, poliomyelitis were continued in force. Efforts have also been made to improve recuperative methods, that is, to reduce the length of hospitalization and outpatient care.

B. Education

634. While Chile's educational standards are high, relative to the rest of Latin America, the government realizes the urgent need for improving and reorienting its educational system. In 1961, a study commission was established for this purpose. Some of the problems relate to the extension of coverage of the school system, school construction, and the encouragement of scientific and technical education.

C. Housing

635. The Housing Corporation (CORVI), the major agency in the housing field, contracted for the construction of 28 297 houses (and various other buildings) in 1961 with a total floor space of 1 071 363 square meters. The Housing Foundation is also active in the field, constructing 2 851 units, under varied arrangements during the year. The total housing outlays of the public sector in 1961 were 100.6 million escudos. There was also a sharp increase in savings accounts with CORVI for housing purposes in 1961 (64 648 new accounts, totalling 19.5 million escudos) that continued in the first half of 1962. The private savings and loan associations in the housing field have also demonstrated vigorous growth.

D. Planning

636. From 1939 to 1960, a semi-autonomous agency, the Chilean Development Corporation (CORFO), was in charge of the preparation of development plans. Since then, a new committee at the ministerial level, the Committee on Economic Programming and Reconstruction (COPERE) has been

entrusted with the supervision of the plan. Under this reorganization, CORFO has become the secretariat of COPERRE and its larger, well trained technical staff continues with the preparation of the details of plan and its execution.

637. Chile's national program of economic development for 1961-70, prepared by CORFO, contemplates an average annual rate of economic growth of 5.5 per cent in total output with a population increase of 2.5 per cent, equivalent to an annual per capita growth of 3 per cent. The plan will call for a total investment of approximately 9.5 billion escudos at 1960 prices, of which 20 per cent will be foreign financing. The success of the plan will require a substantial increase in gross domestic savings, from 10 to 18 per cent of the gross national product. It is hoped to achieve this through reforms in the field of tax policy and administration and by establishing saving and investment incentives. A number of these reforms have already been approved by the legislature. Chile's economic development plan was submitted to the OAS for consideration under the terms of the Charter of Punta del Este in March 1962 and the ad hoc committee of the Panel of Experts presented its report to the Chilean Government in which it approved the plan and recommended its financing.

E. Agrarian Reform

638. In Chile the Congress has approved the proposed Agrarian Reform Law, as a basis for continuing and focusing a series of projects that will lead to a solution of problems of agrarian structure, the low-standard of living, and the unequal distribution of income in the agriculture sector, as well as help to solve the problem of the low productivity of agriculture that shows a permanent deficit in certain agricultural products that are basic to the national diet.

639. In October 1961, the government requested the Food and Agriculture Organization to supply technical assistance in the formulation of concrete projects of land reform and agricultural development. This request was submitted to the Inter-American Committee for Agricultural Development (ICAD) for consideration and assistance will be given when the Agrarian Reform Law is applied.

F. Tax Reform

640. In September 1962 a new income tax law was presented to the Chilean legislature.

641. A far-reaching administrative reform was undertaken in March 1961. The organization of the Dirección de Impuestos Internos was improved, including the establishment of an internal inspection service and a special investigation department to handle tax evasion. The quality of the administrative staff has been raised through the training being

given in a modern and well equipped school. Tax collections have increased and public support has been enlisted for efficient tax administration. In Chile, also, cadastral surveys are underway preparatory to the introduction of new legislation on the taxation of land.

ECUADOR

I. General Economic Development

642. The rate of growth of the per capita gross national product, which during the five-year period 1950-55 had reached 3 per cent and in the subsequent five years declined to 0.9 per cent, was 0.33 per cent for 1961; this indicates that growth of the Ecuadorian economy stopped during the last year.

643. The distribution of the gross product by sectors from the beginning to the end of the last decade and in the early years of this one, shows only slight changes in form, which are reflected in a relative increase in secondary activities, manufacturing industries, crafts, and construction, and especially in the participation of the services. In 1961, 37 per cent of the gross national product came from agricultural activity, 18 per cent from industry and mining, 4 per cent construction, and 41 per cent from the government sector and other services.

644. It may be stated that industrial activity remained at the same level during the last decade, without ignoring a growth of 70 per cent in the gross value of production. The annual rate in this growth was not sufficiently large to constitute the greater relative importance of this activity in the aggregate of economic activities of the country.

645. The participation of the agricultural sector showed an almost constant absolute growth, with a 60 per cent increase in the last decade.

646. Nevertheless, productivity in both agriculture and the handicraft industry has, on the average, been quite low. This low productivity is caused by the non-complementary nature of the various productive factors, particularly as between the human and natural resources, on the one hand, and capital, technological, and managerial resources on the other.

647. The extent of the domestic market is limited and because of this it offers little inducement to investments of direct productivity since, lacking demand accompanied by adequate purchasing power, such investments face great risks and poor prospects for profits.

648. The marked inequality in the distribution of income has become increasingly evident as one of the determining factors in the limitation of the domestic market and, for the same reason, as a major obstacle to both industrial and agricultural development. The unequal distribution of the productive resources, especially of land, makes the problem of income and of a limited domestic market more serious. Therefore it is essential that both industrial and agricultural development be stimulated,

in order to broaden the market through a better distribution of real income. This objective can be attained only through structural reforms of an economic and social nature, the immediate achievement of which has been initiated by the Alliance for Progress.

649. In 1961, the growth of domestic capital formation was insignificant as compared with 1960.

650. The number of employed persons increased at a lower rate than did the total population, whose rate of growth was more than 3 per cent. This obviously accounts for the unemployment situation which has become more acute during the past twelve years. Slightly over one third of the total population makes up the labor force which when employed generates production. Population estimates indicate not only greater growth in urban centers, but also a movement of the rural population toward such centers.

651. It is obvious that since agriculture is not able to absorb the entire increase in the labor force, industry must furnish the solution for a large part of the problem. This is particularly true since, if the planned reforms in agriculture are introduced, such measures will mean the further liberation of manpower from this sector to other sectors, for they will be based on the principle of better technology and, consequently, on less use of human resources.

652. It has been recognized that a rapid and vigorous national effort is essential in order to arrive at a solution to this problem. If this is not done, the problem will become so complicated that it might be reflected in severe social conflicts with repercussions whose extent cannot be predicted at this time. In the domestic area, it is necessary to put both private and public savings to better use; to encourage private investment and to orient it, through incentives, toward the goals established in the plan for the economic development of the country; to centralize public savings, which are presently dispersed among many agencies; and to subject expenditures to the priority schedule set up in the abovementioned plan. In the foreign area, there is an urgency in orienting the efforts of the country with those of other countries of Latin America in order to achieve full-scale assistance in the form of capital and technology from the industrialized countries.

653. Among the problems related to the national economy, undoubtedly one of the most serious is centered in the area of real compensation for wage-earners. The defects in the mechanism for the distribution of real income are obvious particularly those regarding the real wages, which are not very effectual or are completely ineffectual, paid to a broad segment of the working population. Remuneration paid to salaried workers in 1961 continued to lose relative importance as a part of the national income, at the same time that domestic prices showed an increase that was moderate rather than inflationary.

654. The foreign trade of Ecuador, following its long-term trend, suffered a decline in 1961, as a result in part of its own structure and orientation as well as of the decline in prices on the international markets. As is generally known, Ecuadorian exports are made up principally of three agricultural products, which are subject to the risks and uncertainties of weather conditions, diseases and pests, and prices.

655. In 1961, these uncertainties presented themselves in a manner that was most disadvantageous for these three products. The drought of 1960, which extended into the beginning of 1961, affected banana and coffee yields especially, and export volumes declined by 5.8 and 19.5 per cent, respectively, in relation to the preceding year. Besides, the decline in international prices was general for cacao, coffee, and bananas, which showed the lowest prices for the past twelve years.

656. The deterioration of the price-exchange structure evidenced in recent years as a result of the decline in cacao and coffee prices in the world markets, and the simultaneous rise in the price of imported goods, brought about a fundamental imbalance in the balance of payments in 1961. Although the monetary devaluation put into effect on July 14, 1961, helped to free the balance of payments of the undue pressures arising from the demand for foreign exchange, and gave encouragement to exports that will only become effective on a long-term basis, it did not exert great influence on exchange prices, which form the central problem, because the unfavorable impact of this phenomenon on the balance of payments of countries exporting primary products cannot be resolved by isolated measures such as this, but by a joint policy of price stabilization.

II. Economic and Social Progress under the Charter of Punta del Este

A. Housing

657. The deficit in housing for 1961 was estimated at 580 000 units. The solution to this problem requires an investment of approximately 1 billion dollars. The scarcity of suitable housing is acute in both the urban and rural sectors, and is most critical in the two principal cities, Quito and Guayaquil. There is a nucleus of 250 000 people in the latter city, who live in substandard conditions with respect to housing facilities and drinking-water and sewerage services.

658. The problem of population concentration in the two cities is becoming steadily more acute because of their increasing attraction for the rural population, which migrates in search of a higher income level.

659. The state intervened some time ago in attempting a solution of the housing problem through Social Security Funds, but up to now only a small percentage of their members have been able to derive benefit through loans from the funds for this purpose.

660. Besides, the Social Security Funds have undertaken the construction of public housing on their own account, and at the same time the state has intervened isolated provincial efforts to fill the housing need in earthquake disaster areas. Despite all these efforts, hardly 10 000 housing units have been constructed in the past nine years.

661. As the national authorities are clearly aware of the necessity of effecting a solution to the problem through concerted effort and a uniform plan of energetic action, the National Housing Institute was

established in August 1961 and made responsible for establishing the policy to be carried out by the government in this field; for drawing up a national housing plan based upon research and economic and social studies; for coordinating all activities of this kind in the country; and for setting up operating standards for housing cooperatives.

662. All fiscal and credit aspects of the programs outlined by the National Housing Institute will be financed by the Banco Ecuatoriano de la Vivienda (Ecuadorian Housing Bank), which will be responsible for the development of a policy directed toward the accumulation and providing of funds for the construction and improvement of low-cost housing as well as promoting and encouraging the establishment of savings and loan associations.

663. The Bank operates with an initial capital of 90 million sucres subscribed by the Ecuadorian Social Security. For its part, the National Housing Institute has an annual appropriation of 10 million sucres.

664. In 1961 a loan was obtained from the Development Loan Fund for 5 million dollars, to be used to pay 50 per cent of the total cost of a program to be carried out through Mutual Savings and Credit Associations for Housing; another was secured from the IDB for 10.6 million dollars, to be used to expand the low-cost-housing programs in the entire country.

665. As part of the planned policy in the housing field, the construction of 9 100 units is proposed, of which 66 per cent, or 5 950 units, will be allotted to the city of Guayaquil, where the problem is more critical; 21 per cent of the total, or 1 950 units, will be constructed in Quito; and the remaining 1 200 units (13 per cent) will be built in other cities throughout the republic.

666. It is expected that the system of Savings and Credit Associations will be able to finance the construction of an additional number of units, which will help to lessen the seriousness of the problem.

B. Education

667. It is estimated that in 1960, 370 000 children were outside of primary schools; and to fill their educational needs, 4 800 more teachers and 2 000 more schools would have to be provided.

668. Only 7 per cent of the children who complete primary school enter secondary school, although considerable progress has been noted in this respect in the past ten years, as well as in technical education at the intermediate level. Technical education at the advanced level is given in six universities and two polytechnic schools. With regard to university education, registrations have increased 70 per cent in the past ten years, but not the number leaving the universities, which has tended to decline. In the selection of careers, a marked preference has been noted for: a) courses of instruction related to the production processes and to applied sciences; b) courses of a social and health nature; and c) courses related to law and culture; this is a favorable indication of a necessary evolution.

669. All programs related to the educational system are being studied and revised. A Technical Department has been established within the Ministry of Education for the over-all planning of education. Its principal objectives will be to reform study programs, plan courses for the systematic training of actively engaged teachers, and for standardizing educational technique and the general technical and scientific principles used in teaching, set up vocational guidance programs, and reorganize the administrative system of the Ministry of Education.

670. Since 1956, a plan of construction has been under way, and there are now 78 sites in the process of building, at a cost of 82 million sucres (4.6 million dollars), financed from national funds. The National Planning and Economic Coordination Board, in cooperation with state development agencies and with representatives of interested organizations, worked out a general program of fellowship applications for presentation to the OAS and other international organizations. The technical assistance and fellowships that it is hoped will be obtained from the OAS will facilitate the training of qualified personnel for activities in agriculture and fisheries, electrotechnics and hydraulics, industry and mining, statistics and economics, civil aviation, and social service.

671. Besides, the government has contracted for the loan of technical and financial assistance from the governments of the United States, France, and the Federal Republic of Germany for the establishment and modernization of technical and vocational schools, to which adequate technical equipment would be given for the training of qualified workers, whose lack constitutes one of the major obstacles to the expansion of industrial activity.

C. Health

672. It is estimated that 72 per cent of the urban population are provided with water service and 7 per cent with sewerage facilities. No data are available on such facilities for the rural population, but it is considered that sanitary conditions are extremely backward.

673. The mortality rate due to contaminated water is 148 out of every 100 000 inhabitants, and diseases caused by intestinal parasites and bacteria are endemic in a majority of the cities and small towns.

674. The supply of drinking water and the construction of sanitary facilities have been the responsibility of the municipal councils, who have financed the construction and maintenance of such services with public funds obtained from specific taxes.

675. There has been no change in the financial-administrative system of such services, but the National Planning Board has proposed that the Inter-American Cooperative Public Health Service be given charge of projects financed by foreign loans. This would be a temporary solution pending the creation of the national health agency, which is in process of being established by the government.

676. The Inter-American Cooperative Public Health Service has been conducting a national health survey for a year to get a better understanding

of the supply treatment and distribution of drinking water, as well as water conduits and environmental sanitation in a majority of the cities. The results obtained will serve as a basis for the systematic and effective programming of future national efforts to develop these services. This agency has completed studies on the sanitary projects that are needed in various towns. Nevertheless, these projects could not be initiated due to the lack of sufficient funds.

677. The municipalities of Bahía de Caraquez and Guaranda have requested financial assistance from the Social Progress Trust Fund for the construction of sanitary facilities, and the Economic Planning Board has prepared a program for similar projects in nineteen cities, for whose execution it is also proposed to request external financing.

D. Planning

678. In relation to other Latin American countries, Ecuador concerned itself with the programming of its economic and social development relatively early. In 1954, the National Planning and Economic Coordination Board was established and made responsible for formulating development plans. In 1958, it published "Standards for Programming Economic Development" and pointed out the various stages in the goals it was hoped to reach. In 1961, the "Immediate Plan of Development" was made public; this will cover a three-year period, and the government has already begun to implement it.

679. With the publication of the "Immediate Plan of Development", a real attempt has been started to carry out a planned development policy in Ecuador. Its scope was especially limited to the central government although it also touches upon the sphere of action of certain national entities, and the philosophy that inspired it was that of increasing effectiveness and order in public investment and of preparing the administrative and financial machinery for the following stage, which it is expected will carry with it a concerted effort for the carrying out of a planned development policy.

680. The Immediate Plan proposes to give the government a list of projects whose completion does not depend upon complicated administrative procedures, and which could bring back to the economy the vigor it has lost with the relative decline of the export sector. In the field of agriculture, particular emphasis has been put on strengthening agricultural research, extension, and education, including higher education. The main purpose is to prepare the way for investments intended to hasten the maturity of the many infrastructural investments that have been made in the past. Aside from that, there were included simple programs on products designed to stimulate traditional exports, to investigate the possibilities for new exports, and to replace agricultural and livestock imports. In regard to fishing, a modest initial program was drawn up intended primarily to improve primitive fishing skills as well as the organization of domestic marketing.

681. In regard to industry the program points out to the government certain measures designed to encourage this activity, indicates the

financial and technical requirements for industrial development, draws up a list of industrial possibilities where the policy of promotion and corresponding priorities should be concentrated. Above all, it is a question of creating an institutional system of industrial development and of determining the most effective courses for achieving industrial expansion.

682. The Plan includes programs intended to improve and expand the economic and social infrastructure: highways, bridges, electrification projects, irrigation, and education. In regard to electrification and irrigation, it is intended only to speed up construction and make due use of the imperfect projects that have been carried out in the past few years. The lack of basic studies precludes a program of wider scope. In regard to roads and bridges, the completion of the basic public road system called for is proposed along with the corresponding port facilities. This is undoubtedly the most ambitious and costly of the programs included in the Plan, but it is also the easiest of fulfillment because of the existence of administrative and technical units that are capable and experienced. In regard to education, the program concentrates upon primary and technical education; in the former, emphasis has been put primarily on the construction of schools, and in the latter, on the furnishing of equipment and other facilities.

683. The Plan also includes the general lines of a policy of resettlement and agrarian reforms as well as certain basic research: aerophotogrammetric map, census program, establishment of meteorological and hydrological stations, etc.

684. The Board proposes to present for consideration by the government in 1963 (second quarter of the year) a General Development Plan for the period from 1964 to 1968, that is, a five-year program. As distinguished from the program currently in effect, it is proposed to include in the General Plan the activity of the private sector within the several groups. From this point of view, it can be considered an over-all plan, although it is obvious that it will not be possible to plan the entire economic activity of the country.

685. The Plan will begin with bringing up to date the diagnostic studies made in the past, which were fundamentally based upon the analysis of national accounts and the principal world-wide economic data. The Plan will continue with the establishment of goals and the projection of the principal variables through the use of a relatively simple model, which includes a matrix of inter-industrial relations in order to permit a more detailed projection of secondary goals. In the same manner as with true variables, it is intended to make a study of financial variables through the use of budgets, of sources and uses of funds, and, if possible, with the assistance of statements on the movement of funds.

686. This over-all programming will make it possible to point out the basic directions and major obstacles of development, and to formulate an initial series of measures for government and private initiative.

687. Special emphasis will be placed upon policies related to administrative, tax, and financial reform and to foreign trade and international exchange policy, which will be the subject of minutely detailed chapters.

688. Many of the projects, particularly those within the over-all program, are already well advanced. The same may be said for some of the sector programs. However, in others the major obstacle is the lack of specialized knowledge, which it is not within the purview of the Board to remedy. In these cases there appears to be no other alternative than to resort to the technical assistance of the United Nations, FAO, ILO, and WHO. Through special requests made to ECLA and the AID, efforts have already been made to solve these difficulties.

E. Tax Reform

689. The fiscal structure of Ecuador is characterized by its extreme complexity, which is the result of a combination of two factors: a) the decentralization of collection agencies and the use of public revenues; and 2) the multiplicity of taxes, many of them specific, whose number increases every year. Within the past two years, the Government of Ecuador has adopted certain measures giving greater relative importance to taxes on income and inheritance.

690. In the first place, Congress passed a law taxing inheritances, bequests and gifts, whose basic purpose is to prevent tax evasion brought about by the buying and selling of goods, the creation of family partnerships, and the issuing of bearer shares of stock; to revise the tax rules in order to bring them into line with those of Latin American countries at a similar stage of development; to standardize the various taxes currently in effect, and to give greater flexibility to the system for assessing and collecting taxes.

691. On the other hand, a new income tax law has been put into effect that contemplates three important results: a) a more equitable distribution of the tax burden; b) inclusion of income that formerly was not taxed; and c) incentives to encourage savings and to channel them into investment.

692. Within this framework the law has introduced the following fundamental innovations over the previous law:

- a. By maintaining the original classification that divides incomes into four groups, rates have been converted proportionately, thereby establishing a progressive scale for the case of the over-all income;
- b. The basic tax has been unified with the others in effect;
- c. Tax schedules have been established in such a way that the tax is adequately adjusted to the various categories of income;
- d. Deductions have been increased to minimum subsistence and for dependents;

- e. Income-producing activities have been taxed indiscriminately, the tax on occasional profits has been diminished, and the capitalization of businesses has been promoted by a low-percentage tax on capital reserves; and
- f. A system of administrative measures has been established that protects the rights of taxpayers and improves the systems of control and inspection by establishing the automatic compensation of assets and liabilities between national government and taxpayers.

693. Another important tax body that has merited the attention of the government has been the import tariff office, which has been modified with respect to its rates and in its basic structure, because of the desire to convert it into an effective instrument for the economic development of the country.

694. The new tariff tends to promote industrial development by having reduced the tariff duties on the importation of raw materials and capital goods, and to avoid evasion in the fulfillment of tax obligations through the equalization of rates corresponding to the different sections of the tariff that must be applied alternatively to the same type of goods.

695. Likewise, a new Stamp Act has been submitted for consideration by the National Congress for the purpose of integrating the disparate legislation now in effect and consolidating the many taxes that are now imposed on the same act or contract, into single taxes that would facilitate their collection and improve their structure.

696. Studies are well advanced for the passage of a new sales and consumer tax law. Besides identifying the subject of taxation, and considering preferential treatment on essential consumer goods, the law will improve its system of collection and hence its productivity.

F. Administrative Reform

697. In November 1961, the Central Organization and Methods Office was established; its purpose is to curb inefficiency and restore control in the collection, custody, and administration of funds. Also, several measures that attempt to standardize the collection and control procedures for an important sector of government income have been put into practice. For the immediate future, plans are under way for the application of technical knowledge to the General Revenue Office and the General Customs Office and, at the same time, an integral program of financial statistics will be initiated, which will give periodic information on the distribution of income from taxes by economic activities by geographic sectors, and by income levels. A proposed administrative career law is being drafted which will provide for the selection and special training of public employees.

698. The immediate development plan included in the General Budgetary Law of the State for 1962 constitutes the first step in the orientation of public expenditures toward strategic sectors for economic and social development.

699. In this law there is an important change in the structure of public investment, in allocating a part of the savings of the central government to the development of agriculture, agricultural extension and education, and resettlement and irrigation, which are areas that had received little attention in the past.

700. Also, the bases were established for the immediate application of a budgetary system for programs which, containing a systematic establishment of goals for economic and social development, will be put in force in the Budget Law of 1963.

701. The allocation of budgetary funds for social work projects has been increasing since 1959. The Budget Law of 1962 allocates 464 million sucres for such purposes, or an increase of 63 per cent over the allocations for 1959. Of that amount, 302 million sucres are earmarked for educational and training purposes, 71 million for health, and 91 million for the improvement of rural living conditions.

G. Agrarian Reform

702. In its institutional aspect, the land problem is deeply rooted in Ecuador, since it is the result of land tenure systems of the Incan and colonial periods. Traditionally there have been three types of land concentration: the colonial latifundium, the native communities, and the properties of the church. The latter properties were nationalized, but their use was made public without any change in the system of tenure nor any improvement in the methods of development.

703. In summary, the problems with which Ecuador is faced in its agrarian structure are the following: a) modification or elimination of the "huasipungo" system; b) redistribution of public lands; and c) settlement along the coast and in the eastern portion of the country.

704. The Government of Ecuador conducted complete studies on agrarian reform even before concern over this problem was expressed in the Act of Bogotá and in the documents emanating from Punta del Este.

705. A group of more than 20 experts in the various fields related to agricultural problems of an economic, technical, social, or cultural nature, were brought together to draft an agrarian law.

706. After having studied several draft bills in detail, one of the legislative bodies passed a substitute bill, and it is expected that once processing has been completed it will become the law of the land and will enter into force during 1962.

707. The draft bill mentioned is national in scope and purports to change the structure of the land tenure system in an evolutionary but rapid manner, within the constitutional standards of the country.

708. The immediate objectives of the draft bill are the following:

- a. The realization of complete agrarian reform through total action, not only in land redistribution matter but also in those referring to all the important phases of an agricultural policy: settlement, agricultural credit, agricultural extension, agricultural education, regulations on land renting, over-all education, proper control of migratory movements, compensation of the farm worker, etc.;
- b. The regulation of land ownership and tenure within economically sound limits. The draft bill repudiates both the latifundium and the minifundium;
- c. The centralization of all activities concerned with the improvement of rural living conditions through the creation of the Ecuadorian Agrarian Reform Institute; and
- d. The establishment of a cooperative system in minifundium areas and those of dense population for the purpose of setting up economic agricultural units.

709. While studies were being conducted on agrarian reform in the country through an agreement between the Government of Ecuador and the United Nations Special Fund, its planning phase was being initiated on a practical basis with the program of parceling and resettlement of the large landed properties of the state, which are now being administered by the Social Service Bureau.

710. This plan is scheduled for completion in four years, a period during which it is expected that the 130 000 hectares comprising the state properties mentioned will be resettled. At present, advance surveys of all the estates have been concluded, and specific projects are about to be completed at "San Vicente de Pusir" in the province of Carchi, with 9 300 hectares, and "Pesillo" in the province of Pichincha, with approximately 2 000 hectares under cultivation.

H. Economic Integration

711. Since the Third Latin American Meeting of Consultation on Gran Colombia, the Government of Ecuador indicated in positive and decisive terms that any participation by the country in the Latin American Free Trade Association, must be based upon the application, in favor of Ecuador, of the stipulations and concessions expressly set forth in Chapter VIII of the Treaty of Montevideo for countries of relatively lower economic development. The conclusion was reached that, in order to protect the economic and commercial interests of Ecuador and to promote its industrial development, which today is limited and in its beginning stage, it was essential that the country be given special treatment that would allow its objectives to be advanced without jeopardizing the present modest development of the country.

712. For this purpose negotiations were begun with the governments that belong to LAFTA, and on the occasion of the First Conference of the Contracting Parties to the Treaty of Montevideo, the Government of Ecuador appointed a delegation of observers to this meeting for the express purpose of obtaining the statement that they wished. As a result of the work done in Montevideo, the desired objective was attained through a resolution according to which "Ecuador may invoke on its own behalf the special treatment set forth in the Treaty of Montevideo for those countries of relatively lower economic development in the Free Trade Zone."

713. As a result of its membership in the LAFTA, Ecuador foresees the following effects upon its economy:

1. Short-term:

- a. Agricultural and industrial exports from Ecuador to the countries of the Association will increase;
- b. Ecuador would continue to import the same goods from the countries of the Association, with some increase in volume, and would impart other products that would replace similar ones imported from countries outside the Free Trade Zone, to the extent that such products are included in the lists that must be negotiated;
- c. Any imbalance that occurs in the trade balance can be corrected through negotiation. The spirit of the Treaty of Montevideo lies in developing commercial relations in terms of even balance;
- d. The entry of Ecuador into the LAFTA would presuppose a fundamental change in its tax structure, which in any case the country intends to make;
- e. The concessions that will be made to Ecuador as a country of relatively lower economic development, pursuant to the requirements that may be made by the member countries of the Association, will facilitate her entry under advantageous conditions without economic or financial impact;
- f. Ecuador would be in a position to claim preferential treatment for the investment of Alliance for Progress Program funds in integration projects that it considers useful and productive;
- g. Colombia and other countries may grant Ecuador, through previous negotiations, preferential treatment to assist it in its industrial development and in its development programs without making similar concessions extensive to other members of the Association; and

- h. Colombia and Chile will denounce their trade treaties with Ecuador, and thereby the legal ties would disappear that regulate the two principal markets in Latin America that buy goods from Ecuador, with the natural, unfavorable consequences that would result.

2. Long-term:

- a. A development of the industrialization process can be expected, based upon a greater and more advantageous use of the factors of production in areas in which Ecuador has absolute and relative advantages;
- b. A better and broader use would be made of raw materials originating from the countries of LAFTA;
- c. A multiplier beneficent effect would have to be experienced in the expansion of commercial relations as a result of an accelerated economic development of the member countries;
- d. Economic and industrial complementation agreements would open up new sources of production and aid in full use being taken of possibilities for commercial expansion and economic development; and
- e. The development of transportation economies would tend to be accelerated.

714. The relatively short time in which Ecuador has been a member of LAFTA has hardly permitted it to reap the benefits of integration, but it is confident that its declared status as a country of relatively lower economic development will gain preferential treatment for it by the other countries of the Association, which will make possible its more rapid development.

715. Ecuador has already submitted its lists of requests for and offers of concessions to the other member countries of LAFTA, on the basis of which the negotiations will be developed that will be carried out in Mexico, beginning in August 1962.

EL SALVADOR

I. General Economic Developments

716. In 1961, the gross national product in real terms (1953 prices) was, practically speaking, at the 1960 level: 1 230 million colones in 1961, and 1 220 million in 1960. The per capita product fell from 500 colones in 1960 to 492 colones in 1961, a decline of approximately 2 per cent, as population increased.

717. The economy was practically static during this period, owing primarily to the weakness in the external sector, stemming from a coffee price decline. Private and public investment declined also.

718. A gross product increase of 5 per cent is expected for 1962, as a result of expected injections of public investments based on loans from external sources, the expansions and new factories promoted by the Instituto Salvadoreño de Fomento Industrial. Manufacturing has continued to show a steady growth, although it represents only 10.5 per cent of the gross product.

719. At the end of 1961, El Salvador succeeded in reducing its trade deficit, and this restored balanced trade accounts thanks to an increase in the value of exports by 41.8 million colones and a reduction in the value of imports by 34.2 million compared to 1960. The total value of exports in 1961 was 298.3 million colones, an increase of 16.3 per cent over the 1960 figures while imports totalled 271.8 million, giving a favorable trade balance of 26.5 million. This result contrasts with the deficit trade balance of 49.4 million in 1960.

720. Though exchange reserves declined by 26.5 million colones in 1961, it is expected that at the end of 1962 international reserves will probably rise by 25 million colones to 69 million colones. It is estimated that in the balance of payments it will be possible to obtain from the exportation and importation of goods and services and from transfers a net surplus of some 15 million colones, which together with an expected influx of capita and official donations amounting to 10 million colones, will cause an increase of 25 million in the foreign assets of the banking system.

II. Economic and Social Progress under the Charter of Punta del Este

A. Housing

721. The Urban Housing Institute completed 540 units in 1961 and began construction of 207 more. In the second half of 1962, a two-year 5 000 unit plan will begin, partly financed by IDB funds of 6.1 million dollars. The government will contribute 2.4 million dollars annually.

722. The El Salvador Mortgage Bank has helped private middle-income housing by providing long-term loans. In 1961, 1 027 private housing construction permits were granted with an estimated value of construction of 19.8 million dollars.

B. Education

723. The U. S. Government granted El Salvador 1.5 million dollars for the construction of 650 classrooms and 600 000 dollars for educational technical assistance and for the construction of the rural normal school.

C. Other Fields

724. New legislation in 1961 was passed to protect labor conditions, increase rural wages and provide for compulsory minimum food provisions for agricultural workers.

D. Planning

725. Under Legislative Decree 59 of April 24, 1962, the Economic Planning and Coordination Council was created and a Technical Planning Bureau established.

726. In addition, working groups responsible for drawing up and directing the various sectorial programs have been established within certain ministerial departments. The decree under which these bodies were created stipulates that the ministries, autonomous and semi-autonomous agencies, and other public bodies must furnish to the Planning Council all the information it requests of them.

727. The Technical Bureau is staffed by experts in economic, social, and physical planning, and it is planned to augment this staff with experts in project evaluation and the analysis of economic and administrative problems.

E. Agrarian Reform

728. The Ministry of Agriculture has contracted technicians to prepare a survey that will pin-point the requirements for a major expansion of agricultural production and the more rational use of land. At the same time, studies are being undertaken regarding development of agricultural cooperatives, the establishment of markets and the possibility of providing education in the rural areas.

F. Tax Reform

729. In 1961, the Income Tax Law was substantially amended for the purpose of revising the tax rate schedules and thereby raising the rate of tax on the higher incomes and on certain sources of income. The reform measures were designed particularly to favor earned income and thereby to contribute to raising the standard of living of the wage-earning class. The reforms also increased the rates of tax on the profits of companies and made undistributed profits taxable. More than 70 per cent of the public revenues comes from indirect taxes and approximately 15 per cent from direct taxes. Of the latter, the income tax accounts

for 10 per cent. It is therefore understandable, in view of the adverse conditions of foreign trade during recent years, that the government should endeavor to find a means of making up for the reduction in its revenues by increasing the direct taxes, the levels of which are, in point of fact, is low.

G. Economic Integration

730. In regard to economic integration and trade policy, El Salvador has supported all the measures adopted at the regional level for liberalizing inter-Central American trade.

731. In order to develop and strengthen the Central American Common Market, representatives of El Salvador attended in 1961 the Tenth and Eleventh Meetings of the Subcommittee on Central American Trade, at which common customs duties were negotiated for almost all categories not previously agreed upon, leaving only 25 categories to be settled to complete the Central American uniform tariff. These categories were negotiated at the Twelfth Meeting of the Subcommittee on Central American Trade, held in San Salvador in January 1962.

732. Accordingly, El Salvador considered and approved the draft of the Second Protocol to the Central American Agreement on the Equalization of Import Duties and Charges, which contains the results of the negotiations conducted at the above meetings, and also the draft of the Central American Agreement on Equalization of Tax Incentives for Industrial Development, at the time of the Third Special Meeting of the Committee on Economic Cooperation of the Central American Isthmus, held in San José, Costa Rica, in July 1962.

GUATEMALA

I. General Economic Developments

733. Guatemala's gross national product (1950 prices), increased by one per cent in 1961, to 665.1 million quetzals. The industrial sector showed a substantial increase in 1961, due fundamentally to increased production of foods, textiles, chemical and pharmaceutical products, hides and skins, electric energy, and to more intensive exploitation of woods, and non-metallic minerals. The expansion of manufacturing was facilitated by the fiscal incentives offered under the Law of Industrial Promotion; by medium and long-term credits; by a widening market as a result of progress toward Central American economic integration, and by tariff protection for new industrial enterprises. Agricultural production, which continues to account for some 30 per cent of total product in Guatemala, also increased in 1961, with the important exceptions of coffee and bananas.

734. Capital formation weakened in 1961, falling from 69.9 to 67.5 million quetzals (1950 prices). The largest drop occurred in public investment, although private investment also declined. New foreign investment which increased in 1961, was concentrated in commerce and to

a lesser extent in agriculture, in contrast to the preference expressed in previous years for the mining and industrial sectors.

735. Prices remained virtually unchanged in 1961, continuing the stationary tendency which has characterized domestic prices during the past five years.

736. The over-all balance of payments position of Guatemala showed a net deficit of 50.8 million dollars in 1961, financing of which required a decline of 5.8 million dollars in foreign exchange reserves. The deficit on trade account amounted to 6.2 million dollars.

737. Imports by value declined although not enough to fully compensate for the fall in export value. The latter, attributable primarily to a decline in the price and volume of coffee and banana exports, was offset partially by a near-doubling of exports of cotton in 1961.

II. Economic and Social Progress under the Charter of Punta del Este

A. Health

738. New measures planned for fiscal years 1962/1963 and 1963/1964, include improved health services for mothers and children; an extensive campaign against infectious diseases; the provision of water supply services, especially to communities of less than 2 000 persons; the construction of local sewage disposal systems; and the development of educational programs on nutrition, sanitation, and medical training. In addition, a total investment of more than six million quetzales has been allocated for the building, repair, and equipping of hospital facilities.

B. Education

739. In October 1961, the Technical Vocational Institute was created and courses were promptly initiated in the professional training of skilled workers. Twenty workers were graduated in that same year and 226 new workers enrolled in 1962. Extension courses are also offered by the government for industrial employees and in 1961 were attended by a total of 952 workers pursuing various fields of technical specialization. Courses in commerce, secretarial skills, and home economics are also available; and courses are offered to practicing teachers through the cooperation of the Instituto Guatemalteco-Americano and UNESCO. In addition, 22 new private schools for prevocational study and of new schools at the vocational level are to open in 1962.

C. Housing

740. The relevant agencies in Guatemala are the Rural Housing Institute (IVU), the Inter-American Cooperative Institute on Housing (ICIV), and the General Office for Agricultural Affairs (DGAA).

741. In 1961, IVU assigned 135 houses and prepared the land for construction of 200 more. ICIV during 1960-61 and 1961-62 constructed 1 448 units for low income families at an investment of five million quetzals and plans to invest approximately the same amount in the construction of 3 882 houses in the coming two years. DGAA has begun contracting for 109 houses, to be completed this year.

D. Other Fields

742. In 1961, 88 industries were allowed the privileges of the Law of Industrial Development whereby imports valued at 8.6 million quetzals C.I.F. entered free of taxation. In addition to this type of incentive, training facilities are available under the auspices of the Industrial Development and Productivity Center. The latter agency has also prepared a "Project for the Industrial Development of Guatemala" for the decade 1962-1971.

E. Agrarian Reform

743. While the government continues with the distribution of national lands and the complementary extension of credit and technical advice to new owners, the Plan for Economic Development envisages a more ambitious program of agrarian reform. Within the next two years, studies will be made which will then serve as a foundation for the next development plan, to begin July 1, 1964. Meanwhile various programs are offered by the Ministry of Agriculture and some related organizations to improve technical knowledge to encourage diversification of crops, to extend irrigation to some 43 000 hectares of farmland, to improve storage facilities and roads and, through the Servicio Cooperativo Interamericano de Crédito Agrícola Supervisado, to provide credit to small and medium sized farms.

744. Between May 1961 and June 1962 this organization distributed nearly 2 million quetzales in agriculture credit; a 5 million dollar loan from the IDB will permit future expansion of these activities.

F. Tax Reform

745. Recognizing the regressive nature of the present tax system, recommendations have been presented to Congress for: a) an income tax, b) modification of the stamp tax, and c) revision of the property tax. Also under study is the tax rate on inheritance, legacies, and donations.

G. Administrative Reform

746. With the collaboration of AID, the Government of Guatemala is undertaking a study of the present public administration with the aim of making it more effective in the tasks of economic development. Meanwhile, the Consejo Nacional de Planificación Económica recommended recently the creation of an office of planning in each of the ministries which have planning responsibilities to serve as a liaison between the ministry and

the National Council. The newly created Comisión Técnica Permanente de Presupuesto is to coordinate the financial aspects of development programming, as well as to resolve problems directly concerned with the budget.

H. Investment and Resources Surveys

747. In effect at present is a four-year investment plan for 1960-1964. For the two year period 1960-1962 an investment of 87.1 million quetzals was anticipated, of which 55.8 million has been actually expended. Foreign aid contributed 24.5 million of the realized expenditure. To date, the largest share of investment has been in the construction of highways (23.2 million). The last two years of this plan are currently under review by the national council in the light of the principles and requirements of the Alliance program. Simultaneously, and with the collaboration of ECLA, a study is being made of the Guatemalan economy as a basis for a long-term plan which is to take effect on July 1, 1964.

748. Information is being gathered by the following studies:

1. Study of hydraulic resources by the Instituto Nacional de Electrificación with the collaboration of the United Nations Special Fund and under the supervision of the IBRD. On the basis of this survey, a national program of hydroelectric power and irrigation will be elaborated.

2. The enterprise Fomento y Desarrollo Económico del Petén has solicited assistance from the United Nations Special Fund for a study of the availability and use of forest resources of the region.

3. The Ministry of Economy, through its Dirección de Minería e Hidrocarburos, plans to undertake a similar study of the mineral resources of the nation.

4. An effort is being made to organize and present information on employment at present available in ample quantity but in inadequate form.

I. Economic Integration

749. Guatemala is a member of the various agreements constituting the Central American regional market, including the most recent protocols on tariff and fiscal incentives. It has also participated in a program of price stabilization for basic products of the region and is considering agreements on standards of quality, unification of systems of migration, tax reforms, a Central American highway system and the policy of industrial integration. In October of this year, Guatemala will be host to a meeting of the Subcommittee on Electrification which will examine the ECLA studies on development of the central electrical systems of El Salvador and Honduras (the latter would supply northern Guatemala) such as the border region of Panama and Costa Rica.

HAITI

I. General Economic Developments

750. The national income of Haiti has been estimated approximately 1.12 billion gourdes for 1961 (224 million dollars), registering no significant change in the last few years. As a result, and in view of the country's growing population, per capita incomes have declined from an estimated 64 dollars in 1957 to 58 dollars in 1961.

751. Almost one quarter of the gross national product of Haiti is derived from exports, a sector which has remained static over the past five years. The one notable exception in this area has been that of sugar, which showed a 40-50 per cent increase between 1960 and 1961. Most of the other sectors, including in particular agriculture, have experienced similar inactivity, or even decline. One sector showing an expansion has been energy and power, where electricity output increased from 41.1 million kilowatt hours in 1957 to 55 million kilowatt hours in 1961. Haiti's production of cement has also increased from 30.9 million tons in 1957 to 45.4 million in 1961.

752. The country report does not include global figures of gross capital formation in the public sector for 1960 or 1961. For gross private capital formation no comprehensive data are available either, but an estimate of investment in new enterprises and self-financing reveals capital formation in this sector to have approximated 4 million dollars for the fiscal year October 1960-September 1961.

753. The cost of living index shows domestic prices to have remained stable over the past decade. The cost of living index shows prices to have gone up from 100 in 1953 (base year) to only 104 in 1961.

754. The balance of payments in Haiti shows a considerable deficit on trade account compensated by service receipts and important inflows on public capital account. Export receipts were affected by declining coffee prices, static output, and a sharp two-year cycle in the coffee market. From 29 million gourdes in 1955-56 and 19 million gourdes in 1956-57, exports declined from 25 to 17 million gourdes, respectively, in 1959-60 and 1960-61.

755. Imports throughout the period remained at a level two or three times higher than exports; over-all, they have declined substantially from 81 million gourdes in 1955-56 to 48 million gourdes in 1960-61. To finance the trade deficit, and after taking into account very modest private investment and declining tourist receipts, Haiti received United States aid in the neighborhood of 10 million dollars a year in recent years. For the fiscal year ending June 1962, United States financial assistance amounted to 9.9 million dollars, including budget support, special assistance in agriculture, education, and public health and public works projects, technical cooperation and Food for Peace.

II. Economic and Social Progress under the
Charter of Punta del Este

A. Housing

756. The country report does not include information on new housing built in 1960 or 1961, nor does there appear to be a coordinated program designed to face the deficiencies in this field.

B. Education

757. The country report does not include information on progress realized in the past few years in schoolroom construction, training of teachers, or other matters related to education. In the field of rural education, there appears to be in operation a program to build 2 300 classrooms over a period of five years from 1962 to 1966, at the cost of approximately 3 million dollars.

C. Health

758. The country report does not include information on advances made in the field of health in the past two years. However, there exists part of a plan prepared by the Department of Public Health to establish 23 health units, 66 health centers, 109 dispensaries, and 50 hospitals.

D. Other Fields

759. In the field of industrial development, the law of August 18, 1960, was designed to encourage the creation of new agricultural and industrial enterprises, and the creation of the Institute of Agriculture and Industrial Development, which replaces in part the former Agricultural Bank.

E. Planning

760. Haiti has not yet completed the organizational stage of its planning effort. The joint OAS/IDB/ECLA mission recommended the creation of a planning agency in Haiti. In the meantime, beginning March 1962, a working group was assigned to the Permanent Action Council for the Economic Liberation of Haiti. The working group prepared and assembled a number of projects which may be integrated at a future date into the country's economic and social development program.

F. Agrarian Reform

761. The country report does not include specific reference to agrarian reform.

G. Tax Reform

762. The country report does not include information on new taxes or on any tax reforms designed to stimulate the development process or contribute to greater social justice.

H. Administrative Reform

763. The country report does not refer to specific measures taken recently in that field.

III. Progress toward the Objectives of Economic Integration

764. Haiti is not a member of the Latin American Free Trade Area (LAFTA).

HONDURAS

I. General Economic Developments

765. The gross domestic product in 1961 amounted to L 545 million, showing an increase of 4.8 per cent over 1960. Population increased at an estimated rate of 3 per cent. As a consequence, per capita product increased by more than 1.8 per cent in 1961.

766. The agricultural sector (including forestry, hunting, and fishing) showed the greatest increase from L 244 million in 1960 to L 255 million in 1961, or 4.4 per cent. To a considerable extent, this increase was made possible by the banana industry where both investment and productivity increased. The increase in banana production was accompanied by a relative improvement in prices in the international market. To a lesser extent, the increase in agricultural output can be attributed to the production of cotton, sugar, and corn.

767. Compared to a 5.8 per cent increase in 1960, the manufacturing sector expanded by only 3.3 per cent in 1961. With the exception of the construction sector, the increase was shared by all other sectors of the economy.

768. Gross capital formation in 1961 was L 105 million, virtually maintaining the 1960 level. Private capital formation accounted for three quarters of the total.

769. The price indices remained nearly constant in rural zones and showed very moderate increases in urban areas.

770. In 1961, the receipts from exports of goods and services amounted to L 162.1 million, expenditures on goods and services amounted to L 163.8 million, so that Honduras' current account was essentially in balance.

771. In 1961, the commodity exports showed a L 19.5 million increase a rise of 15.2 per cent over the preceding year. The main changes in exports were shown by bananas, which rose 38.7 per cent, and coffee, which dropped 23.7 per cent, from 1960 levels. Exports of cattle and refrigerated meat showed increases. The principal export products continued to be bananas (52.7 per cent), coffee (12.2 per cent), and lumber (10.1 per cent).

772. In spite of the stabilization program in operation since 1958, imports have continued to increase. They rose from L 130.9 million in 1960 to L 132.5 million in 1961, an increase of 1.2 per cent. Imports of consumer goods increased by L 3.8 million and of raw materials by L 2.2 million.

773. These increases were partly offset (L 4.4 million), by a decrease in capital goods (including building materials) which in part have been replaced by national production, especially of cement.

774. One of the most important developments in the field of international payments since 1958 in Honduras has been greater utilization of long-term foreign loans. During 1961 such loans accounted for L 16 million, or slightly less than in 1960.

775. With the exception of coffee prices, the prices of Honduran exports did not decline substantially, in 1961. Imports remained relatively stable. These factors resulted in a decrease in the unit value index of imports and a rise in the unit value of exports which improved the terms of trade of Honduras in 1961.

II. Economic and Social Progress under the Charter of Punta del Este

A. Health

776. Central Government expenditures for the improvement of public health increased from L 8.7 million in 1960 to L 10.8 million in 1961.

777. To provide drinking water for rural communities, 7 projects were completed and two existing ones enlarged. Seven health centers were finished and nine more are under construction. Seventeen health centers already in operation were supplied with modern equipment. Seven infant-maternity centers were opened. The building of infant-maternity hospital and national nursing school was continued and improvements were made in 6 hospitals throughout the country. The malaria eradication campaign was intensified in 576 localities, protecting 72.4 per cent of Honduras population. An anti-tuberculosis campaign has been undertaken. The training program for nursing aids and sanitary inspectors was continued and several reorganizational schemes designed to improve the efficiency of health programs were put into effect.

B. Education

778. Expenditures by the Central Government in this field amounted to a total of L 15.6 million in 1961, increasing slightly over 1960.

779. Enrollment in primary schools rose by 16 000 pupils in 1961, an increase of 7.8 per cent over the 1960 figure of 205 000. Enrollment in secondary schools increased by 1 000 pupils, a rise of 6.4 per cent over 1960. University enrollment has remained at a level between 1 340 and 1 345 students. The number of teachers increased by 790 during this period for a total now in active service of 7 240. In the field of fundamental education, 112 literacy centers continued to operate throughout the country serving 7 401 pupils. The programs for training rural teachers in service were intensified. Likewise, nutritional programs were continued in collaboration with the SANAA and UNICEF.

C. Housing

780. Expenditures on public housing decreased from L 1.6 million in 1960 to L 1.1 million in 1961.

781. Government activities in housing continue to be carried out by the Housing Institute, which is also responsible for low cost housing. Forty dwellings were built during 1961 in Tegucigalpa and forty more have been started in the same area. The Housing Institute has completed a four year plan providing for the annual construction of 1 500 low cost dwellings. Some labor unions of the North Coast are initiating a program of housing for their members, with foreign assistance.

D. Other Fields

782. The Honduran Social Security Institute began operations on May 8, 1962 covering 15 590 affiliates of the working population of the Central District against four contingencies: common illnesses, maternity, occupational diseases, and on-the-job accidents.

783. Installations were set up for the medical-hospital services to permit proper attention of the insured population.

E. Agrarian Reform

784. The Agrarian Reform Law has been passed by the National Congress. To be implemented by the National Agrarian Institute, the agrarian law attempts to correct the defects of agrarian structure by redistributing lands that are not fulfilling their social function and by settling new areas. Credit, agricultural education and rural housing will also be provided. Under this program, moderate amounts of land have already been divided and distributed.

F. Tax Reform

785. A tax reform program has recently been prepared by an expert of the OAS. The report contains several proposals to implement the tax policy which the Government of Honduras has set for itself. The aim will be to modernize the financial administration system and make it more efficient, and to make the tax system more responsive to the increases to the national product. To that end, fundamental modifications of an income tax and a tax on land have been proposed.

786. Income from industrial enterprise and labor will be given favorable treatment; income or profits from speculative activities will be taxed at higher rates. The greatest part of the tax increase will fall on the upper income groups.

G. Administrative Reform

787. Important advances have been made in public administration in recent years. With reference to budgetary programming, for example, the procedure for presenting the budget by programs has improved and also that of preparing a schedule of investments.

788. With regard to financial administration, the budget is doing an effective pre-auditing job, and in 1957, the General Comptroller of the Republic was established to verify back operations. Also, control systems by the customs auditors have improved, and attention is being given to training personnel in this field. The establishment of a General Supply Office has immeasurably helped to simplify, control, improve, and distribute purchases.

789. In connection with organization and methods, small units have been established, both within the budget and in the General Comptroller Office, and on an experimental basis, a system of job classification and a uniform salary plan have been initiated.

790. To overcome the voids and defects that affect or diminish the efficiency of the public administration of Honduras, the National Economic Council is preparing a program of reforms that will cover each of the aforementioned areas. The objectives of this program may be summarized as follows:

791. Programs which have been initiated and will be continued and expanded

1. Administrative, financial, and technical reorganization of the central planning office;
2. Improvement of the budgetary administration system and procedures for execution and evaluation;
3. Standardization and improvement of supply methods;
4. Intensive training of personnel in service; and
5. Revision and improvement of procedures of financial administration.

792. New Programs

1. Establishment of a central office of organization and methods;
2. Preparation of a plan for classifying employees and for establishing uniform salaries;
3. Design and institution of a modern system for taxing property and for collecting taxes;
4. Preparation of a manual of administrative methods and procedures;
and
5. Revision of present administrative legislation.

H. Planning

793. Planning for economic and social development is the responsibility of the Consejo Nacional de Economía, which has been in existence since 1955.

794. The Council has recently prepared an over-all four-year investment program for the 1962-65 period, as well as sectorial programs of industrial and agricultural development, transportation and communications, education and health. Social investments are an important part of the program; especially the hospital service, potable water, and adult literacy. Following the recommendations of the Latin American Seminar on Economic and Social Planning held in Santiago, Chile, in February 1962, the Council is now reexamining its public investment programs with a view to preparing a shorter, more operational two-year plan. This plan would double public investment from its present level of 39 million lempiras in 1962 to 77 million by 1964. The Government of Honduras has already stated to the Secretary General of the OAS its intention to submit the plan for evaluation under the Charter of Punta del Este.

795. A bill is now before Congress which would make the President of the Republic the chairman of the Council. The bill would also allow members of Congress to participate, on a non-voting basis, in the deliberations of the Council. Finally, the bill would transfer to the Council the principal responsibility for preparing the capital budget. This would have the useful result of promoting closer integration of programming and budgeting.

796. Special emphasis is being placed on decentralized planning and programming by giving a larger share in decision making to the various sectors of public opinion, such as labor unions, cooperatives, farmers unions, and commercial and manufacturing associations.

I. Economic Integration

797. The Government of Honduras has been strictly applying the agreements and conventions for the liberalization of trade and payments signed by the

countries of the isthmus. The principal instrument of the common market is the General Treaty on Economic Integration, ratified by the Government of Honduras in April of 1962.

798. Also, in compliance with the agreements signed for the equalization of tariff barriers, duties have been revised on the articles agreed to, as a means of discouraging the importation of goods from countries outside the area and of promoting more trade within Central America. Furthermore, a number of measures and provisions are being adopted to improve the communications and transportation system to facilitate the mobility of produce and of factors of production.

799. As a result of its economic integration policy, trade within Central America has increased considerably, and Honduras' participation has grown proportionally.

MEXICO

I. General Economic Developments

A. Gross National Product

800. While the gross national product of Mexico increased in 1961 at a slower rate than it did the year before, preliminary estimates for 1962 indicate an increase of between 5 and 5.5 per cent. The per capita product, which increased by 2.5 per cent in 1960 and 0.4 per cent in 1961, should increase in 1962, according to preliminary estimates, by somewhere between 1.9 and 2.3 per cent.

B. Development by Sectors

801. One of the sectors that has shown the most dynamic growth is the electrical industry whose product increased in 1962 by 9 per cent or more for the third consecutive year. The manufacturing sector, on the other hand, which had also increased at a relatively high rate in recent years, in 1961 reflected the Mexican economy's slower rhythm of expansion, decreasing its own rate of growth to 3.5 per cent, which rate was duplicated in the first six months of 1962. This sector has developed vigorously in recent years, owing to considerable investments by the public and private sectors, particularly in basic chemical products and iron and steel. The production of iron and steel has been maintained at high levels and there has been increased production of construction materials, paper and cellulose, artificial fibers, oils and fats, and consumer goods.

802. In 1960 and 1961, the agricultural sector continued to bring up the rear of the economy, but better cotton and sugar crops and increases in the yield of corn, beans, wheat, and coffee increased its output in 1962. The same did not happen in the mining sector whose output continued to be affected by the depression of world markets for non-ferrous metals. A slight improvement is forecast for 1962.

C. Capital Formation

803. Gross fixed investment, which in 1960 had increased almost 12 per cent, increased only 3.5 per cent in 1961, under the impact of a reduction of more than 7 per cent in private investment. In both years the public sector increased its capital formation by almost 20 per cent, and the further increase of more than 10 per cent for 1962 is forecast.

D. Domestic Prices

804. Wholesale prices increased 0.9 per cent in 1961, and in the course of 1962 they rose 2.5 per cent, up to July.

E. Balance of Payments

805. In 1961 the basic situation with regard to the balance of payments improved over that of the year before. The deficit in current accounts was 70 million dollars, as compared with 174 million dollars in 1960. However, the flight of short-term capital, particularly since the beginning of 1961, brought about strong pressure on exchange resources and brought about recourse to International Monetary Fund resources. From the final quarter of 1961, to date, the flight of short-term capital has slackened and the balance of payments has returned to normal. Exports of merchandise in 1961 surpassed the previous year's level by 9 per cent, while imports --partly as a consequence of reduced private investment--diminished by 4 per cent. The gross income from tourism increased by 5.7 per cent in 1961. For 1962 a slight increase is expected in the value of exports. The growing participation of manufactured goods, which are expected to increase 15 per cent is an outstanding feature. This figure contrasts with projected increases of 3 per cent for agricultural products and 2 per cent for extractive industries. Tourism is expected to increase by at least 10 per cent.

II. Economic and Social Progress under the Charter of Punta del Este

A. Health

806. The construction of 59 hospitals, 60 clinics, and 328 health centers, of which 304 are rural, was completed in 1961-62. Thanks to these and to other previous works, in 1962 infant mortality decreased from 69.8 to 67.3 per thousand; deaths from tuberculosis decreased from 29.7 per hundred thousand to 27.0, and malaria, as a result of a campaign started in 1956 with cooperation of various international organizations, has been definitely eradicated in 82 per cent of the previously malarial areas. Seventeen million persons were immunized against various diseases in 1962, 4.5 million more than in the previous year.

807. The Government pursues its vigorous campaign against malnutrition in children, operating through the National Institute for the Protection of Children in 43 per cent of the municipalities of the country. The

Institute has established twenty eight units producing school breakfasts and is constructing eleven more. Thus it is now possible to insure the daily provision of 625 000 breakfasts, three times as many as last year, and it is being carried out in 6 140 primary schools and 150 children's aid centers. The Secretariat of Health and Public Welfare complements the work of the Institute by supplying annually 1.6 million breakfasts in rural areas and 100 000 in the Federal District.

808. A loan of 9.2 million dollars from the Inter-American Development Bank has contributed to the completion of potable water supply works that benefit 400 000 people in 110 towns, and works are being completed in another 110 areas. Moreover, the commission of Grijalva has carried out water-supply works that have benefitted 35 000 inhabitants in Chiapas and 20 000 in Tabasco.

B. Education

809. From 1960 to 1962, 11 124 schools units were constructed, 4 628 of them in 1962. Primary education has been the object of special attention since 1959, when the 11-year plan for this sector was started. Registration in the primary schools has increased by 1.3 million in 3 years, representing a much larger increase than that reported in previous periods. In 1962 also, 33 secondary schools were constructed, and another 15 were enlarged between 1959 and 1962; the number of students registered in the official secondary schools increased 65 per cent, which is another unprecedented rate. In 1958, the universities of the various states received federal subsidies of 22 million pesos, in 1962 this amount is three times larger. The Federal Government in 1962 also assigned 156 million pesos to the National University of Mexico and 144 million to the National Polytechnic Institute, which serve 73 000 and 28 000 students, respectively.

810. Although official action has kept ahead of the rapid population growth by reducing illiteracy from 58 per cent of the population in 1940 to 38 per cent in 1960, intensive efforts are being made to reduce this percentage even more in the shortest possible time. For this purpose, the country has in operation 12 000 literacy centers and 92 cultural missions, 12 of them mobile. The success obtained recently in Mexico with textbooks deserves special consideration. Between 1960 and 1962, the Government distributed free 58 million textbooks and it hopes to distribute 24 million more in 1962-1963, thus assuring that the benefits of primary education will be within the reach of all children, no matter what their social position.

C. Housing

811. The National Housing Institute constructed 1 612 houses in 1961-1962 and is constructing 1 500 more in all of the country. They are being sold with 20 years to pay, at an annual interest rate of 7 per cent. The Social Security Institute for Government Employees is building 1 040 apartments in the large Nonoalco-Tlalotelco unit in Mexico City; another 2 400 are being built by the National Urban Mortgage Bank, which has also constructed 558 houses. Four thousand houses have been built for

Penex workers, 750 for workers of the Pacific Railroad, and 967 for members of the armed forces. For its part, the Mexican Institute of Social Security has continued to build multifamily housing units, principally one project with 5 298 dwelling units in the Federal District. Total government housing construction amounted to 8 132 dwelling units in 1960-1961 and to 9 833 in 1961-1962.

D. Other Fields

812. For ten years, the National Indian Institute has been doing a systematic job of improving the economic, social, and cultural situation of the Indian communities. In 1962, the budget of the Institute was increased 33 per cent over that of 1961. As of 1961, about 1 000 kilometers of access roads and 4 aircraft landing fields had been built, a regional telephone system had been set up, and the use of radio had been introduced in one regional school system. Schools for 12 500 Indian students have been built; coordinating centers that carry out sanitary measures both preventive and curative, have been established, and economic development of the communities has been stimulated by the establishment of 21 experimental agricultural stations that carry out tasks of research, dissemination of information, and extension. The communities are also offered legal and advisory services in matters relating to land tenure and credits are granted to them.

813. The expansion of the social security system has continued. In 1962 the Mexican Institute of Social Security provided service to more than 5 million beneficiaries, through 1 700 000 affiliates. The Institute of Social Security of workers in the Service of the State aids 600 000 persons.

E. Planning

814. The National Investment Committee was established in 1954, attached to the office of the President of the Republic, in order to determine the over-all amount of public investments, to examine and evaluate the relative priority of the various programs, and to coordinate their financing. These tasks were broadened in 1959 and were transferred to the Bureau of Public Investments, and a Planning Office was established within that Bureau, responsible for regional development plans. During 1960 and 1961 the relations between these offices, both attached to the Secretariat of the Presidency, and other government offices were more clearly defined. In addition, as the preparation of general and sectorial development goals progressed under the direction of Technical experts of the Secretariat of the Treasury and Public Credit, with the collaboration of the Bank of Mexico and the National Financing Corporation, in 1962 an Inter-Secretarial Commission was established and charged with drawing up short and long-term national economic and social development plans, and with estimating the total amount, the structure, and the financing of national expenditures and investments. At the same time that the work necessary for establishing the goals for the economy in 1965 and 1970 was started an Immediate Action Plan for 1962-1964 was prepared, covering public investments and probable private investments, and the internal and external means of financing them.

815. The tax reform started this year forms a part of the plan, as to a better orientation of agricultural and industrial credit and, in general, a more adequate regulation of internal financing and better use of savings. At the same time, social programs and agrarian reform will be intensified, since the plan as a whole is an effort to integrate the various public and private programs, in order to obtain short-term results that will facilitate attainment of the ulterior goals. An average rate of growth of output of 5 per cent in the period 1961-1965 is hoped for. Thus years of lower rates will be offset by years with above-average rates. Public investment will supply approximately half of the gross domestic investment of 80 000 pesos between 1962 and 1964. The total gross investment should rise from 15.5 per cent of the gross product in 1960 to 18.4 per cent in 1965 and to 19.5 per cent in 1970; if these goals are achieved, the national product is expected to show a rate of growth of 6 per cent annually after 1965. These projections are based on the premise that in the future external demand will not show the same dynamism as in the past and that the principal advances will have to be made by domestic effort.

F. Agrarian Reform

816. Mexico has gone substantially beyond the distributional stage of land reform. Since 1915 it has granted, for the use of the communal farmers more than 53 million hectares; 19 per cent of that area was distributed between 1959 and 1962. At the same time, measures have been taken to organize the activities of the community farms in an appropriate way guiding them toward more productive results, according to the type of soil, climate, and general resources of the regions.

817. Once land reform had been consolidated, government action was directed toward the problem of assuring higher standards of living for the farm workers. For that purpose, programs to increase production are being carried out and steps are being taken to expand the agricultural extension service. Progress has been made in the establishment of support prices for agricultural producers, through the elimination of undesirable middlemen and by purchases by governmental agencies. For this purpose a national network of storage warehouses and elevators, with a capacity of 2.3 million tons, was established.

818. Irrigation has been and continues to be a decisive factor in the expansion and security of agricultural production. It has been notably increased by the government: in 1940, 271 200 hectares were under irrigation, while in 1962 the figure was four million hectares, of which 200 000 were placed under irrigation by the present administration, and it is planned to add another 300 000 hectares in 1964.

G. Tax Reform

819. The income tax was established in 1925 and was modified several times to make it more equitable. Even before the 1961 reforms, direct taxes accounted for 40 per cent of the collections of the Federal Government. These reforms consisted in the creation of new schedules for certain income that was previously exempt, the elimination of certain exemptions, and the establishment of an additional progressive rate.

This corrects previous imperfections, one of which was that the tax on total income was not necessarily progressive, because of the system of different rate schedules for different income-producing activities. In addition, exemptions and other factors made the over-all tax burden in Mexico one of the lowest of any of those in the countries undergoing development, which made the financing of programs of investment difficult.

820. The rates of certain taxes were also raised, among them the tax on dividends, when the shareholder is not identified, and the tax on interest on bonds, when the yield is more than 7 per cent. For the first time, a tax on capital gains realized by the transfer of urban real property or of personal property was established. The tax, in the case of real property, ranges from 5 to 20 per cent, according to the amount of the capital gain and the length of time between the acquisition and the transfer of the property.

821. With regard to tax incentives, an outstanding feature is the optional permission of faster depreciation write-offs. This and certain other measures are in line with the objective of stimulating private investment and working out an appropriate industrial policy. For the same reason, the system of exemption of reinvested profits remains in effect. The tax on inheritances and legacies was abolished, since it was felt that its application was ineffective and that the other measures made it unnecessary.

822. Finally, it should be pointed out that the government is following a policy of persuasion of taxpayers, in order to establish more harmonious relations between them and the tax authorities, and so that they may gain a better understanding of the responsibilities and rights of each side. The program of tax standardization has already borne fruitful results in 1961 and 1962.

H. Administrative Reform

823. The report does not give specific information on this point. However, it is evident that many of the programs referred to imply large-scale administrative changes. In addition, since it was considered necessary that the private sector gain a better understanding of the long-range objectives and the general prospects for development, the government has taken steps so that the private sector, through confederations of chambers of commerce or industry, employers' and bankers' groups, and other groups, may undertake the study of private industrial development programs and projects. It is felt that development planning cannot be rigid, and that there are many possibilities that make continuous consultation with the private sector worthwhile.

I. Economic Integration

824. Both the government and private industry have continued to give firm support to the policy of Latin American economic integration. Private businessmen have visited South America to investigate the possibilities of industrial complementation, particularly with regard to the following industries: electronics, automotive, electrical manufacturing, iron and steel, textiles, copper, and glass.

825. In 1961, during the first negotiations by the contracting parties of the Latin American Free Trade Association, Mexico granted concessions on some 300 products and, in return, obtained reductions of duty rates on some 625 products. For the first half of 1962, Mexico's sales to the free trade area increased by 22 million dollars and its imports from the area increased by 4 million dollars. It was particularly encouraging for Mexico that most of the additional exports consisted of manufactured goods and processed raw materials. Mexican trade with Central America has also been growing, and Mexico stands ready to collaborate with the economic integration program of that zone by offering technical assistance and making private investments in the industry of that region.

NICARAGUA

I. General Economic Developments

826. In 1960, the last year for which official figures are available, the gross domestic product augmented to 2 294 million cordobas, in terms of 1958 prices, which represented 1 528 cordobas per capita. Increases in the sectors of trade, finance, housing, and mining, together with the considerable expansion in government activities, compensated for a decrease in agricultural and industrial production, and the total product showed a small rise over that of the year before.

827. It is worthy of note that while agricultural production has continued its downward trend during the last two years, livestock raising and forestry production, (the latter according to a study covering up to 1960) have been increasing. So, in 1960, the decrease in the agricultural sector was caused mainly by the fact that the rise in livestock production, hunting, and fishing was not enough to offset the drop in farming and forestry production. This drop in 1960 was mainly caused by the decrease in production of export commodities, particularly cotton. Production for internal consumption, on the other hand, increased. The influence of the agricultural sector, which made up 38 per cent of the gross domestic product in 1960, is reflected in the simultaneous decrease in industrial production in that year. That production largely involves textiles and lumbering. The food products industries, however, showed a marked gain.

828. During the postwar period, the Nicaraguan coefficient of gross investment in relation to gross product showed rather broad annual fluctuations. The coefficient was 15.5 per cent in 1960, which closely approached the average of 16.6 per cent for the years 1954-1960. The private sector contributed 74 per cent of the gross investment for 1960. Although this represents an increase over the preceding year, it did not result in an increase in total investment, because of the big drop in public investment in 1960. However, the public sector did contribute more than 20 per cent of total investment, and in spite of the increase in 1960, there was less private investment than in the first part of the decade, which was reflected in the economy, along with idleness of productive capacity.

829. Consumer price indices were stable in 1961, showing an increase of only 0.2 per cent over the preceding year.

830. In 1961, the balance of payments showed a surplus of 1.3 million dollars. The f.o.b. value of exports rose 10 per cent in 1961, mainly on account of the increase in the export value of the following products: a) cotton, for which a price rise more than compensated for a drop in volume of exports; b) soluble coffee; c) meat; and d) gold and copper. The value of exports of coffee in the bean, however, went down, as a result of decreases in both volume and price.

831. Although the total c.i.f. value of imports increased in 1961, the average value for the period 1959-1961 was less than for 1956-1958, and the deficit in current accounts was decreased from 7.6 million dollars in 1960 to 3.3 million dollars in 1961.

II. Economic and Social Progress under the Charter of Punta del Este

A. Health

832. One of the most important of the projects now under way is that for malaria eradication. It receives 30 per cent of the total budget of the Ministry of Health, plus contributions from the Pan American Sanitary Bureau, UNICEF, and IDA. Other important projects are the health centers for teaching and demonstration, the water supply and sewer construction program, and the nutritional education program.

833. There are four new planning projects: a) a program for supplying sanitary and dietary assistance to the population along the Coco River; b) a program on tuberculosis; c) a program on environmental sanitation; and d) a program for the establishment and development of ten basic health centers.

B. Education

834. A National Polytechnic Institute in Nicaragua is being planned as a pilot center for training technical personnel at all levels to establish a system of technical-professional training from the vocational level up to that of higher education, and to carry out research on the problems and programs to be studied.

C. Housing

835. The National Institute of Housing is taking part in a series of housing construction programs, either building directly or supplying the land, building materials, and technical direction, as part of a self-help system and through the granting of mortgage loans for housing construction. An attempt has also been made to interest the municipalities in carrying on such programs. The Institute intends to invest 23.3 and 31.2 million cordobas in the years 1962/1963 and 1963/1964, respectively, in the construction of a total of 2 970 dwelling units (1 265 the first year and 1 705 the second year). A loan of 36.4 million from the IDB will help to finance this program.

D. Other Fields

836. In July of this year a bill of reforms to the Labor Code was presented. The reforms proposed cover, in general, the following points: 1. Compensation for a weekly day of rest, that is, payment for the seventh day after six consecutive working days; 2. Vacation time in proportion to time of service; 3. Special guarantees authorized during the prior notice period; 4. Granting of benefits to government employees and domestic workers, equal to those of other workers; 5. Establishment of an effective national minimum wage committee; 6. Procedure for labor suits involving 500 cordobas or more; 7. Procedure for settling collective economic and social conflicts; and 8. Organization of adequate conciliation and arbitration boards competent to take cognizance of such economic and social conflicts.

837. The National Development Institute (INFONAC) has been acting as an agency to stimulate industrial development, channeling funds into productive operations. The INFONAC has prepared a Five-Year Industrial Development Program for Nicaragua with the services of the Stanford Research Institute. Based on this study, the IDB granted a loan of two million dollars in 1961 to be applied to Nicaraguan industrial development.

E. Planning 35/

F. Agrarian Reform

838. The Agrarian Reform Bill is now in legislative process. The government is planning an investment of about 200 million cordobas over a term of 8 years, for which an Agrarian Reform Institute will have to be set up to take charge of carrying out the distribution of national and ejidal lands, and those acquired by the Institute through agreements or that are offered to it for settlement, as well as land belonging to private individuals who are not fulfilling their social function.

839. Lands of owners who do not fulfill their social function may be those that: a) remain uncultivated; b) show a yield markedly below that determined by the Ministry of Agriculture in the various regions and for each type of operation; c) are not directly worked by the owner; or d) seriously jeopardize the farm worker.

840. The Ministry of Agriculture has already initiated new agricultural settlement pilot projects that are benefiting 1 237 farm families.

841. Meanwhile, experimental programs for the improvement of technical knowledge, with new seeds and insecticides, and on irrigation and conservation, are going ahead. Intensified operation of the Model Slaughterhouse by the INFONAC is stimulating agricultural production. There is also a project for the re-establishment of the fauna of the forests and the waters of the country.

35. See item H, paragraphs 844-847.

G. Tax Reform

842. The new tax legislation of Nicaragua includes reforms on: a) income tax; b) the capital tax law; c) taxes on the conveyance of real estate; d) taxes on inheritance and legacies; e) the stamp law; f) taxes on the production of coffee, cotton, cotton seed, cattle, and wood; and g) general tax legislation.^{36/}

843. In addition to tax reform, the necessary steps for improving the administrative machinery of tax collection are being taken.

H. Planning and Administrative Reform

844. The new Planning Office, established at the presidential level to coordinate and organize the economic and social development of the country, began operations in February, 1962.

845. The Central Bank is also a recent creation. It was set up in 1961 as a modification of the Department of Issue of the National Bank of Nicaragua. This new institution will have important responsibilities in the regulation of the economic development of the country.

846. The Rivas Irrigation Company (Empresa de Riego de Rivas) was established in 1961 specifically for the building and administration of the works of the Irrigation Project of the Department of Rivas.

847. The National Development Institute, founded in 1953, is the agricultural and industrial planning body.

I. Economic Integration

848. Nicaragua is participating in the Central American economic integration program. This program made considerable advances in 1961, the most important among which are the following:

1. The General Treaty for Economic Integration entered into force on June 4, 1961;
2. The first Protocol to it, covering the equalization of Central American customs duties and charges, was prepared;
3. A meeting was held to deal with the equalization of tax incentives;
4. The draft Protocol on integration industries was approved;
5. The draft of a uniform customs code was prepared;

^{36.} The texts of these laws, published in June, 1962 appear in Desarrollo Económico y Social de Nicaragua OEA/Ser.H/X.3, Doc. 31 and Doc. 31 Add.

6. The General Secretariat of the Central American Treaty (SIECA) was established;
7. The Central American Bank for Economic Integration began operations;
8. The financing of the Central American Clearing House went into effect;
9. A bill on uniform Central American trade marks was drafted;
10. The initial steps were taken in the preparation of a uniform Central American port code;
11. The bases were established for preparing a Central American cadastral survey, to be financed by funds from the Alliance for Progress;
12. It was announced that Costa Rica wished to participate directly in the program. A similar commitment should be obtained from Panama;
13. The Association of Central American Chambers of Commerce and Industry was established;
14. Progress was made in the studies on land tenure sponsored by the universities and the FAO, the ILO, and ECLA;
15. Great importance was given to Central American self-sufficiency in grain.

PANAMA

849. During 1961 and so far this year, the Republic of Panama has been engaged in two extremely important undertakings: a) preparation of an economic and social development program, and b) revision of the contractual relations with the United States with respect to the Canal. These two developments together with other reforms undertaken should increase the creative capacity of the Panamanian economy and the well-being of the people.

I. General Economic Developments

850. The gross domestic product increased 7.5 per cent during 1961, reaching 457.6 million in 1950 prices. This high increase was made possible by rapid increases in the agricultural, stock raising, and forestry sector (9.3 per cent), the construction sector (10 per cent), public utility sector (13.9 per cent), banking, insurance and real estate (10.4 per cent), wholesale and retail trade (9.1 per cent), and public administration (14 per cent). The manufacturing sector rose by 3.9 per cent in 1961, considerably less than the 8.8 per cent increase in 1960. The increase in the sector of transportation, communication and warehousing stood at 4.5 per cent. The growth of the service sector equalled

that of the manufacturing sector. It may be noted that the rapid increase of the agricultural sector was due chiefly to a rise in the production of corn, rice, tomatoes, and bananas. The production of bananas increased despite the fact that the industry was hit by a strike at the end of 1960 and the beginning of 1961.

851. Services provided to the Canal Zone increased only 1.7 per cent. This was partly a consequence of the high level reached in 1960 because of the Panama Canal Company's investment program, which was continued during 1961.

A. Balance of Payments

852. Foreign exchange reserves of the banking system of Panama continued to decline in 1961. Whereas total exports increased 15.7 per cent (B 15 million), imports rose 13.5 per cent (B 19.4 million), resulting in a total merchandise deficit of B 51.7 million--9.7 per cent higher than in 1960. The merchandise deficit was accompanied by a deficit in transportation (32.5 per cent) and by an increase of 14.8 per cent in net payments abroad on investments. Hence the 1961 deficit in goods and services outside the Canal Zone was B 7.8 million, or 14.9 per cent larger than in 1960.

853. Panama's favorable balance with the Canal Zone increased 19.2 per cent in 1961. Net transfers from Panama to the rest of the world diminished 18.2 per cent in 1961. The inflow of capital decreased by B 1.8 million, and amounted to B 40.3 million in 1961. This was the result of the drop of 22.8 per cent in net direct investment and of 47.5 per cent in foreign investment in securities of official institutions; the decline was partially offset by an increase of 64.6 per cent in the movement of capital to Panamanian banking institutions.

B. Capital Formation

854. In Panama, average gross investment was 13 per cent of gross national product and net investment 6.9 per cent from 1951 to 1961. "Only in the two most recent years, 1960 and 1961, did investment increase to any considerable extent." The data with respect to investment in 1961 are not available.

855. During 1961 the public sector's total outlay amounted to B 155.9 million, of which B 93.8 million were for consumption; B 31 million were transfers to the private sector and B 31 million investment. Public investments were made chiefly in transportation (54.5 per cent), housing (27.4 per cent) and education (5.5 per cent). This pattern of public investment is consistent with the policy priorities laid down by the program of public investment for 1963-70. Most of the public investment was financed by borrowings, for there was a deficit in the current account of the government budget.

II. Economic and Social Progress under the Charter of Punta del Este

A. Health

856. One of the fundamental changes has been the program of integrating the national preventive and curative medical services. Begun with the central region, the integration program is carrying out a system of investment and operations based on ecological, statistical, and administrative studies. In Penonomé, a health center has been constructed near the hospital and the dispensary was enlarged.

857. During the year, the immunization campaigns against typhoid fever, smallpox, diphtheria, whooping cough, and tetanus were intensified. The anti-tuberculosis campaign was also strengthened, particularly in rural areas. The malaria eradication campaign which had failed before 1961 for a variety of reasons was reformed and a widespread spraying campaign was undertaken. The drilling of 45 wells as a part of an environmental sanitation program was started within a twenty-five kilometer radius of Penonomé.

858. Another major change in 1961 was the conversion of the Panamanian Waterworks and Sewage Commission into an autonomous agency called the Institute of National Waterworks and Sewage, and, in addition, Panama City street-cleaning and garbage collections were transferred to the municipal government, with new equipment and a temporary subsidy, and plans were made to do the same in Colón.

B. Education

859. The principal 1961 activities in the field of education concerned teaching programs and study plans, a school construction program, education planning work, and the literacy and adult education programs.

860. Designed to promote balanced development of pupils' personality, the emphasis has been increased in curriculum on the national language, science, mathematics, Panamanian history, and geography. Classroom hours per week were increased, which required the appointment of additional teachers. To meet manpower requirements of the country's commercial and industrial development, the study plans and programs were revised to emphasize vocational education.

861. During 1961, the building plan for 3 250 primary school classrooms, 228 secondary school classrooms and some university facilities were completed. The buildings plan is to be completed by 1966 at a total cost of B 18.4 million. One hundred rural schools with 351 classrooms and twelve large urban schools with some 300 classrooms were built in 1961. Together with two large urban schools, the total school construction cost was B 2.5 million in 1961. The new school facilities were considered sufficient to provide education to about 20 000 primary and secondary students. Additional B 600 thousand were spent to improve the existing school facilities.

862. During 1961, an attempt was made to relate educational expansion with social and economic progress by creating the Office of Planning in the Ministry of Education.

863. To effectuate literacy and adult education programs, a scheme of compensation for educators was prepared.

C. Housing

864. At a cost of B 5.1 million, 1 300 low-cost housing units were constructed in 1961, mainly in Panama City and the cities of Colón, David, Santiago, Chitre, and Natá. In 1960, about a quarter of a million balboas were spent to build 175 units. The Institute for Housing and City Planning is responsible for housing programs, research, and studies.

D. Planning

865. While Panama has been interested in economic planning for several years, the Alliance for Progress has added momentum, and planning is now a key government policy. The Planning and Administration Department includes not only the economic planning office, but also the budget office and other administrative bureaus.

866. On the basis of a series of studies, the planning office has prepared a preliminary investment program for the public sector for the 1961-66 period. The program contemplates a total public investment of approximately 209 million balboas for the five-year period. Together with a more active policy of stimulating private activity by means of fiscal and credit incentive policies, the plan is expected to accelerate the economy's rate of growth to 5.2 per cent a year.

867. Intensive work has also been done on defining and formulating machinery for action, since efficient use of the public sector, resources and investments, require legal arrangements and administrative machinery that will make it possible to translate the program into annual budgets. The need for effective coordination is basic because current and capital expenditures of the public sector are now in the hands of seven ministries and sixteen decentralized institutions; the latter have budgets financed by their own resources, by foreign and domestic loans, and by central government subsidies. The Government of Panama is considering the measures and means to consolidate a budget for the public sector covering all aspects of state activity.

868. The Planning Department is encountering both technical and political obstacles. The lack of reliable statistical data and information on human and material resources, and the lack of trained personnel are the chief technical difficulties. The redeeming feature is that the planners of Panama are aware of these difficulties, not only of present ones but also those to be encountered in the future.

E. Agrarian Reform

869. In 1961, the Executive submitted a draft Agrarian Code to the National Assembly. Part of this was a compilation of pertinent legal provisions from the 1954 Constitution; the Administrative, Civil, Fiscal, Judicial, and Labor Codes, and other existing laws. The rest was a proposal for administrative reform to concentrate all agrarian-reform functions in a new autonomous institution, the Institute of Agrarian Development. The draft Code was discussed, but not passed, in the ordinary sessions of 1961/62. It was submitted again to the special sessions that opened at the beginning of April 1962.

870. Also in 1961, the Legislative Assembly approved a law establishing a tax of 0.50 balboa per hectare on farms of more than 10 hectares that are not titled and entered in the Public Register. This law also establishes a minimum value of 30 balboas for fiscal purposes.

F. Tax Reform

871. In 1961 various short-term tax reforms were made, including the following:

1. A tax of 4 balboas per 1 000 lottery tickets was established.
2. The slaughtering tax was increased by 0.25 balboa per head, and the additional income was assigned to the Stockraising Institute.
3. The fees for passports, professional certificates, and concessions for the exploitation of natural resources were increased to 10 balboas. The law also plainly defined violations in declarations of income and other declarations for tax purposes.
4. A 0.50-balboa fiscal stamp for export declarations and cablegrams sent abroad, and a 1-balboa stamp for each customs declaration of more than 10 balboas, were created.
5. The import duty on automobiles and trucks was increased to between 22.5 per cent and 65 per cent, depending on the value of the vehicle.
6. The land tax mentioned under the section on agrarian reform was established.^{37/}
7. Import duties were increased by 0.5 per cent, the income to help subsidize the People's Credit Bank.
8. The import duty on used cars and trucks was raised.
9. A tax of one balboa per quintal (100 pounds) of coffee was imposed, which will provide the subsidy for the new Coffee Institute.
10. The taxes on importation of liquors and on the production of beer, soap, tobacco products, and on bottling of perfume were increased.

^{37/} See paragraph 870.

11. The autonomous institutes and their contractors were made subject, by law, to payment of import duties.

12. A tax was imposed on the dividends of companies exempted by contract.

13. A 1-balboa tax was imposed on telephone calls to places abroad.

14. A surtax of 10 per cent was levied on earned income, and the surtax on other income was raised from 20 per cent to 40 per cent.

15. Taxes of between 0.01 and 0.03 balboa per gallon were imposed on imported petroleum products, in order to protect the new refinery. The operations of this refinery will enrich the exchequer by 1 300 000 balboas, a higher income than was derived previously from duties on imported petroleum products.

16. Finally, administrative reforms were introduced by law to improve tax collections.

G. Administrative Reform

872. The drafting of the economic and social development program has led to efforts to change the structure of public administration so that the program can be carried out. Measures have been taken to attract and hold personnel of the caliber necessary for the performance of the activities planned. Specific action has been taken on reorganizing the Institute of Economic Development; the Ministry of Agriculture, Commerce, and Industry; the Ministry of Education; and the Ministry of Public Works. Finally, work has been done on organizing the newly established agencies, such as the Institute of National Waterworks and Sewerage, the Institute of Water Resources and Electrification, and the Institute of Tourism.

H. Other Monetary Reforms

873. During 1961, the conclusion was reached that the monetary system must be modified, since it has cost a great deal in terms of adjustments to external shocks. In 1962, Robert Triffin came to Panama and not only confirmed the need for this reform but added a sense of urgency, for the situation he found showed that the Panamanian banking system had exhausted its foreign reserves and that this would cause a dangerous restriction of credit capable of precipitating a crisis in the second half of 1962. The Triffin Report also proposed that the reform of the monetary system take the form of an "interbank reserve fund," in which every bank operating within the country would deposit part of its legal reserve. A government committee is studying this report to determine precisely what changes should be made and to prepare the necessary bills.

I. Economic Integration

874. At present Panama faces a choice between three alternatives in the field of economic integration: to join the Central American Common Market, to join the Latin American Free Trade Association, or to negotiate a preferential treaty with the United States as part of the Canal negotiations. These three alternatives are not mutually exclusive, and studying relative advantages of each and of the possible combinations is a difficult, delicate, and long-term process. However, a decision must be reached soon, and an attempt is being made to do it during 1962.

875. In 1961, a preferential treaty was negotiated with Costa Rica and Nicaragua, and the one that had been signed with Colombia was ratified. These two treaties will serve as experiments in the consideration of a more permanent decision on integration.

PARAGUAY

1. General Economic Developments

A. Gross Product

876. The gross product in 1961 registered a 2.6 per cent increase over that of 1960, a change not considered satisfactory since it is practically entirely absorbed by population growth, estimated at between 2.3 and 2.5 per cent annually.

877. Paraguay's per capita product and income are the lowest in the Americas; and it is estimated that in 1961 they were 119 and 108 dollars, respectively.

B. Development by Sectors

878. The productive sectors presented the following record: From 1956, agriculture on the whole shows a decreasing contribution. This decline can be traced mainly to the discouragement resulting from the drop of world market prices for export products, particularly cotton, tobacco, tannin, meat, etc., and in addition, to natural adverse factors that, to a lesser degree, caused agricultural production to be far from desirable.

879. The livestock industry in 1961 showed no increase over the previous year.

880. Forestry activities, strongly conditioned by foreign market conditions, recovered somewhat in 1961.

881. Manufacturing, composed of processing industries, is fairly independent of the factors affecting the other sectors and presents a satisfactory record. Production indices from 1956 on show increases. Since the investments utilized by the most important lines are of outside origin, industry grown at a rate different from that of the agricultural sector.

882. The basic services of transportation and communications, registered an increase in 1961 because of improvements in transportation media and because they have begun to render service to national production. The government has also made investments in telecommunications, which helped to increase its over-all contribution.

883. Financing firms also increased their contribution to national production; the return to the systems of free exchange and free trade made possible the incorporation of new financial institutions.

884. Services granted by the civil government and military departments also show large annual increases, which, to a certain extent, are traceable to the government's investment plan.

C. Capital Formation

885. In the period 1960/1961 there was a 28 per cent increase in capital formation in the public sector, which was brought about largely by transportation improvements; the private sector, however, showed a decline.

886. In 1960, public investment represented 3 per cent of the gross national product, and in 1961 that figure rose to 4.3 per cent. Private capital formation was 6.4 per cent of the gross national product in 1960 and dropped to 3 per cent in 1961.

887. Because of its lesser economic development and low level of income, the only picture Paraguay can present is the following: in the structural composition of expenditures, private consumption represented in 1961, 86.8 per cent of the gross national product. Thus the expenditures of private consumption increased, while the expenditures of the government remained stationary.

D. Domestic Prices

888. The drop in the prices of Paraguayan export products was more marked between 1956 and 1960. In 1961 the first sign of holding was noted. The primary products hardest hit were tannin, oils, fruits, lumber, mate, cotton fibers, and meat; comparative figures show declines ranging between 33 and 69 per cent. This situation is thought to result from the 30 per cent yearly drop in the value of total exports that began in 1957 and that reflected the discouragement of production and the disequilibrium in the balance of trade.

E. Balance of Payments

889. In 1961, the balance of payments was favorable in the amount of 2.8 million dollars; this is a good sign since there was a deficit of 3.3 millions in 1960 and the balance had been unfavorable since 1957.

890. Two contrasting factors were mainly responsible for the 1961 record; greater foreign exchange earnings and a relatively small amount of imports

charged to exchange reserves. Of great importance among the aforesaid factors is the importation of agricultural surpluses from the United States. Foreign exchange earnings deriving from the incorporation of capital should also be considered.

891. At the close of 1961, Paraguay's foreign trade, with respect to the physical movement of goods, showed a balance-of-trade deficit that was 35 per cent lower than that registered at the close of 1960.

892. In 1961, export earnings rose by 14 per cent, mainly because of increased sales in cotton fibers, lumber in general, oils and meat derivatives.

893. The volume of sales also rose by 14 per cent in 1961, which reflects relative stability in export prices, considering both the general average and the increase in volume as well as in total value.

894. Imports were 7 per cent higher than those of the previous year; there was also an increase of 12 per cent in total volume.

II. Economic and Social Progress under the Charter of Punta del Este

A. Health

895. The Ministry of Health is engaged in special health programs designed to reduce mortality rates through preventive medicine, potable water, medical care, hospitalization, and other programs.

896. The results of these efforts may be seen in a few figures, as follows:

Per capita allocation: 1957: 1.97 dollars; 1961: 2.46 dollars

Percentage of births and deaths

	<u>1955</u>	<u>1960</u>
Births	36.5	46.3
Deaths	45.9	36.4

Death and Sickness Ratio in Four Selected Diseases per 100 000 Inhabitants in Ten Years

	<u>Death</u>		<u>Sickness Ratio</u>	
	<u>1951</u>	<u>1960</u>	<u>1951</u>	<u>1960</u>
Tuberculosis	27.2	17.0	83.3	62.9
Typhoid	1.1	0.9	8.6	8.5
Tetanus	23.4	13.1	27.4	13.1
Malaria	12.7	0.3	974.0	21.9

897. Although the statistics do not reflect the degree of real progress made in comparison with conditions that prevailed some years ago, the effort at improvement, especially on the governmental level, has been great and its effects have been felt throughout the entire country. The proposed goals have not been met, however, mainly because of the lack of means for carrying out the programs for environmental sanitation and improvements in hospitals and health clinics.

B. Education

898. Public education is perhaps one of the social fields in which the government has concentrated maximum effort. This can be measured in the following figures. Whereas education amounted for approximately 10 per cent of the total regular budget of the nation in 1950, it reached 17 per cent in 1960.

899. The educational budget represents a very low percentage of the gross national product: in 1950 it was less than 1 per cent and in 1961 almost 2 per cent.

900. In 1950, registration in primary school was approximately 70 per cent of the school-age population and in 1961, 83 per cent. In secondary school there was 9 and 13 per cent registration in 1950 and 1961, respectively. In these two years, of the secondary school-age population 1.5 registered, and at the university level 2 per cent.

901. For the same two years, education establishments increased as follows: over 54 per cent in primary schools; 173 in secondary; and 86 per cent at the university level.

902. However, in spite of these efforts, the government has not been able to provide free primary education to all children of school age. Moreover, at this level there are great difficulties; first, few students reach the sixth grade--only 12 per cent do so, because of: a) lack of funds; b) shortage of schools; c) inaccessible location of schools; and d) lack of furniture and teaching material.

903. At the secondary level there is: a) lack of adequate and accessible schools; b) shortage of teachers; and c) shortage of teaching materials.

904. At the university level, schools of agronomy and veterinary medicine were established, and various schools of agriculture and public administration were added to schools of economic sciences.

C. Housing

905. Paraguay has a serious housing problem. The Housing Institute of Paraguay, established by law, cannot solve the problem unless the necessary financial means are available and the government is not able to supply them.

906. According to the 1950 population census, Paraguay has a housing deficit of 8 000 units; however, in the United Nations it was estimated

that according to population growth, it would be necessary to construct 2 000 per year in Asunción alone, that is, without taking the rest of the country into account.

907. At present, isolated efforts are being made by the municipal government of Asunción, the Social Security Institute and the Armed Forces, to construct homes. The first two entities confine themselves to construction of houses for their officials and workers and for some persons covered by the Social Security Institute. However, inasmuch as few units are constructed, they do not provide the minimum proportion in relation to the total needs of the country. The Armed Forces, however, has been constructing houses exclusively for low-income families in Asunción, who at present live in slums and unsanitary shacks. All told, the number of houses constructed represents only a small part of the national deficit in this area.

908. The government has a program to construct 6 200 houses throughout the country giving priority to low-income families in the slum areas of the capital, and to resettlement of farmers in the central region where land is scarce and exhausted.

D. Planning

909. In Paraguay no economic and social planning has been prepared on the basis of studies and investigations to establish objectives and overall goals. However, there are plans to begin the work required for preparing a program to meet the real needs and possibilities of the country.

910. A recent law established the Technical Secretariat for Economic and Social Development Planning, directly under the Office of the President. Its functions are the preparation, application, and revision of an overall economic and social development program.

911. Commissions for the planning of public works, education, public health, and agricultural activities were also established.

912. Paraguay has the statistical information required for the preparation of development plans on: population, domestic gross product, national income, public finance and the balance of payments, separated according to the principal components.

913. All of this information, except the population estimates, is prepared by the Central Bank of Paraguay. Population estimates are based on the 1950 housing and population census, projected at a yearly growth rate of 2.3 per cent. This may be confirmed by the census taken October 14, 1961.

914. In 1961, an industrial employment survey was made and as of now there is full information on the demographic composition, by job and by age, of the capital and the interior of the country.

E. Agrarian Reform

915. In 1961, agriculture accounted for 38.3 per cent of the gross domestic product, while 65 per cent of the population was rural. This represents a per capita product of only 74.30 dollars and explains why the government has taken vigorous action on this problem.

916. It is true that distribution of only some 20 thousand lots at 20-year terms does not in itself constitute agrarian reform, but it is the first step that the country, with its lack of financial resources, can take. The following are being started with credit obtained from the Inter-American Development Bank: housing, branch roads, streets, sawmills, production centers, schools in the regions of new colonies. All of these actions are accompanied by concomitant legislative measures.

F. Tax Reform

917. To reorganize its tax system, in 1961 Paraguay requested a budgetary compensation credit; unfortunately, like some other parts of the emergency plan, the result was unsatisfactory. However, within its limited possibilities, Paraguay has recently taken the following isolated measures:

1. Leveling of expenditures in accordance with government income;
2. Appointment of a mixed customs evaluation commission composed of public and private official representatives;
3. Improvement of income tax collection systems;
4. Adoption of the technique of program and activities budgeting, taken with the cooperation of experts from ECLA.

918. Tax revenue in Paraguay in 1960 and 1961 was only 22.6 and 20.9 million dollars, respectively. Also these figures represent 10.5 and 10 per cent of the gross product for the same years.

919. In general, the total revenue comes from the movement of foreign trade, since the fiscal financial structure is predominantly dependent upon such operations. In general, there was a relative regularity of collections in 1961.

920. Regular expenditures from the national budget decreased 7.2 per cent for defense and those of education and health increased to 14 and 2.2 per cent, during these two years.

G. Public Administration

921. Since 1959, Paraguay has started a public administration improvement policy, to obtain increasingly efficient personnel, and to achieve a more economical service that will be more flexible and less cumbersome. One of the most important steps was the establishment of the School of Public

Administration (with the cooperation of the United States economic mission). In 1961, this school produced better qualified officials. In view of the success obtained, the government encouraged the creation of the Institute of Administrative Research, which provides special training and analysis of the organization and administration problems of the several national and municipal offices.

H. Monetary Policy

922. In 1956, Paraguay began a program of monetary stabilization which in the following year was put on a solid basis by the restoration of the free exchange system, backed up by a stand-by line of credit from the United States Department of State. Previously, the country underwent sharp inflation that reached from 1952 to 1953 an increase of 62 per cent; from 1955 to 1956, 35 per cent. However, after the start of the stabilization program, relative increases decreased substantially. So much so, that between 1957 and 1958, and between 1958 and 1959, these increases represented 9 and 7 per cent, respectively. However, between the years 1960 and 1961 the new figures rose 21 per cent, but this was more the result of operations of the external sector emerging from stronger exchange income in the Central Bank. This, in turn strengthened the international monetary reserve, and on a lesser scale the public sector, which made advances in different ways. The last expansion could have reached higher volume if the Central Bank had not resorted to different measures of regulation; these efforts have broken the galloping inflation that plagued the country for several years.

923. The establishment of credit limitations by the Central Bank and the periodic negotiations of stand-by agreements, are important defense measures for Paraguay's relative monetary stability, as is the fiscal policy adopted by the government to balance public expenditures in accordance with revenue levels, in order to avoid as much as possible pressure on the means of payment caused by imbalances.

924. One of the principal effects of monetary regulation was evident during the change-over. A few years before adopting the 1956 monetary program, fluctuations varied up to 65 per cent. Nevertheless, since 1957 these variations have not surpassed 3 per cent.

925. The Central Bank intends to continue to maintain a relative monetary stability, in order to cooperate with the efforts initiated leading to a programming of the country's economic and social development.

I. Availability of Technical Personnel and Possible Technical Assistance Needs

926. Given the necessities of economic development programming, present technical personnel is insufficient. A number of trained personnel exist abroad (CIEF, ECLA, CEMLA, etc.) the majority of whom are taking an intensive course on economic development, recently given in Asunción at the request of the government.

927. Since technical assistance is considered necessary, with qualified experts acting at the head of working groups composed of local professional men, the Paraguayan Government signed a tripartite ECLA/IDB/OAS agreement. Under the terms of this agreement, a group of experts composed of technical experts from different fields, would be sent to Paraguay to work in the technical planning secretariat that began on September 1 of this year, for one year, with a possible extension of this period.

928. The aforementioned agreement established technical assistance in the following specialties:

1. Agriculture and livestock
2. Public Financing and fiscal policy
3. Budget programming
4. Public investments
5. Manpower
6. Transportation
7. Industry and electric power
8. Social programming
9. Foreign trade
10. General economy
11. National accounts

929. At present, an expert on transportation and another on social programming (education, public health, housing, and manpower) are in the country and are working with local professional men. The other experts have not yet been sent.

930. As the establishment of the administrative mechanism for the formulation of general development plans is very recent, continuing efforts are being made in planning work, with the assistance of officials from government agencies. The personnel of the technical planning secretariat was appointed and at present is studying, under the direction of the aforementioned experts, existing projects--such as, transportation, education, and public health--in order to introduce changes that will facilitate their inclusion in long-term planning.

931. At the same time, research is being carried out in agricultural sector, in tax and budget policies, as a preparatory action that will facilitate the attainment of economic and social aims that they determine.

III. Summary

932. Paraguay has made enormous efforts recently; it has increased basic infrastructure, such as highways, bridges, transportation, schools; improved education and health, initiated an agrarian reform program; bettered public administration; achieved relative monetary stabilization; established the Technical Secretariat for Economic and Social Development Planning; organized the National Development Bank, and completed several projects of economic infrastructure.

933. The two main difficulties have been: a) the drop in prices for export products; and b) the lack of timely aid in financing projects committed under the Alliance for Progress.

934. It should be recognized that basic measures or structural changes will not be carried out or that over-all development plans will be completed, until foreign aid is available.

PERU

I. General Economic Developments

A. Gross Product

935. It is anticipated that the gross national product of Peru will reach 56.9 million soles in 1962, an increase of 5.9 per cent. The rate of growth was 5 per cent in 1961. Since the net growth of the population was 3.2 per cent, it is estimated that the per capita rate of growth was 1.9 per cent in 1961 and 2.7 per cent in 1962.

B. Development by Sectors

936. The above-mentioned rates of growth were fundamentally due to expansion of the mining sector, which showed a rate of 42.0 per cent in 1960; to the increase in manufacturing industry, with rates of 8.4, 5.7, and 6.6 per cent; and to the agricultural sector, which has maintained an almost uniform evolution with an average rate of 6.5 per cent for the same period.

937. The evolution of sectorial gross national product is reflected in significant per capita increments, particularly in the agricultural, industrial, and service sectors, which are expected to show rates of increase of 3.9, 3.4, and 4.6 per cent, respectively, for 1962.

938. It is noteworthy that after its considerable increase in 1960, the mining sector suffered substantial decreases in 1961 and 1962, as a result of drops in price for some of its products.

939. The increased sectorial productivity (per capita) has been reflected in agricultural and service activities, which are expected to achieve rates of growth of 4.5 and 3.5 per cent, respectively, in 1962.

940. In the same period, agriculture and industry showed the highest percentages of participation in the total gross national product. Agriculture went from 24.5 per cent in 1960 to 25.2 per cent in 1962; industry from 17.1 per cent in 1960 to 17.3 per cent in 1962. Mining, however, decreased from 15.5 to 15.1 per cent in the same period.

C. Capital Formation

941. In the 1960-1962 period total gross investment rose in real terms by 22.0, 29.5, and 23.8 per cent, the highest increment, therefore having been in 1961.

942. This increase was mainly due to the confidence of the national investors, which permitted expansion rates of 59.8, 27.0 and 22.1 per cent for the years 1960, 1961, and 1962, respectively. Foreign investment, on the other hand, showed a drop of 38.5 per cent in 1960, but recovered considerably, reaching rates of growth of 39.9 per cent in 1961 and 30.3 per cent in 1962.

943. The public sector showed its highest rate of investment in 1961, with a growth of 125.6 per cent, and its lowest in 1960 (1.0 per cent). Agriculture and transportation were the items with the highest rates.

944. The highest rate in the private sector, 24.6 per cent, was obtained in 1960; and the lowest, 15.3 per cent, in 1962. The greatest expansion was in machinery and equipment, with rates of 25.5, 24.2, and 16.7 per cent for the years 1960, 1961, and 1962, respectively.

945. In relation to the make-up of total gross investment, national investment went from 80.6 to 78.0 per cent during the period under discussion.

946. With regard to the make-up of investments, the public sector amounted to 9.3 per cent in 1960 and 22.0 per cent in 1962, while the private sector ran to 90.7 per cent in 1960 and 78.0 per cent in 1962. Thus the public sector showed an upward trend.

D. Balance of Payments

947. The balance of payments for 1960 was favorable as regarded current transactions, amounting to 30 million dollars, resulting mainly from the fact that FOB exports totaled the unprecedented sum of 445 million dollars in comparison to total FOB imports of 319 million dollars, a figure below that of 397 million dollars for 1957. The favorable balance in current transactions plus net capital receipts of 9 million dollars permitted the Central Reserve Bank to accumulate international reserves of 39 million dollars.

948. In 1961, foreign exchange revenue from exports again exceeded that of previous years, reaching the sum of 511 million dollars, while imports regained their 1957 level of 401 million dollars.

949. Net capital receipts for this year were 30 million dollars. Added to 11 million dollars received from current transactions, they gave an international dollar reserve of 41 million dollars.

950. It is estimated that export revenue will continue the upward trend of recent years and will reach approximately 500 million dollars in 1962. The latest figures on imports indicated that they are reaching a higher level than in previous years, i.e., approximately 455 million dollars.

951. The balance on current transactions is estimated to be 30 million dollars, but it is also anticipated that net capital movement for this year will compensate for this negative factor.

II. Economic and Social Progress under the Charter of Punta del Este

A. Health

952. The government of Peru has initiated an intensive program for training public health personnel, both professionals and auxiliary technicians. It has also embarked on a survey of human resources in the public health area in collaboration with the School of Public Health of the Johns Hopkins University. In 1962, it has inaugurated nine new hospitals with 1 496 beds; and it has begun construction of 12 hospitals, a health center, and 19 medical and sanitary posts, which will go into service in 1963.

953. The campaign for the eradication of malaria has continued and one for the control of tuberculosis has been initiated.

954. Studies and projects relating to water-supply and sewerage systems are being completed in various urban localities; and in rural zones, several water-supply and sewage-disposal projects have been finished. Some studies and projects are being carried out with the aid of external financing. Some autonomous, self-financed bodies have already been set up to take charge of these services in metropolitan areas.

955. Studies have been concluded on a low-cost protein-rich, dietary supplement of vegetable origin, utilizing local products. Also, a large-scale school food program has been initiated with external aid (Food for Peace).

B. Education

956. The Peruvian Government has given top priority to investments for the development and improvement of educational services. The state provides free education for 85 per cent of the school population of the country. Public expenditures for education have been increased to the maximum (over 3 per cent of the gross national product and 20 per cent of total government expenditures). This effort has made it possible to maintain average annual rates of increase in enrollment of 6 per cent in elementary schools, 15 per cent in general secondary schools, 10 per cent in vocational schools of secondary level, 20 per cent in normal schools, and 10 per cent in institutions of higher education.

957. Present net coefficients of enrollment--78 per cent at the elementary level, 21 per cent at the secondary school level, and 3 per cent at the higher-education level--show an encouraging rate of quantitative development, if compared with the goals of 110, 50, and 12 per cent set for 1970 at the recent Conference on Education and Economic and Social Development in Latin America held in Santiago, Chile, in March 1962. Nevertheless, significant deficiencies continue to exist: there is 45 per cent illiteracy; 45 per cent of teachers are without pedagogical training; 75 per cent of elementary-school pupils and, 45 per cent of secondary school students drop out; there are 15 per cent failures; there is an inadequate number of teachers with degrees; school supplies and equipment are insufficient; funds are limited, etc.

958. The greatest efforts are now being expended on the administrative reorganization of education, and on the rationalization of expenses and costs for the preparation of functional program budgets and for the integration of educational development programs into national economic and social development plans, in order to achieve the goals set by the Alliance for Progress. In spite of the extraordinary internal efforts being made, technical and financial aid is indispensable for the purpose, especially in the form of "soft" loans for capital expenditures for school construction and equipment and for the preparation of audiovisual teaching aids. These could be amortized with resources from special accounts whose funds are going to be considerably increased.

C. Planning

959. A project for the establishment of a planning organization at the national level has been studied and prepared. A preliminary analysis has been made of 14 sectors of the economy and more detailed investigations are being carried out. Peru has also initiated an over-all inventory of investment projects specifying the status thereof and their requirements for financing. The latter cover complementary studies, works, and operating and maintenance costs. The country has overhauled the budgetary process in order to begin program budgeting in 1963.

960. Establishment of an office for the evaluation of natural resources has been facilitated. It will be the function of this office to determine national potential as regards natural resources. Measures have been initiated to finance an over-all project for the evaluation of natural resources, which will employ modern aerial photography techniques.

961. Finally, a project has been prepared for organizing the office which will replace the OCEP in the future, likewise its work program. These are awaiting high-level decision. The work program consists in drafting a short-term plan and the Ten-Year Development Plan.^{38/}

³⁸. Sectorial coordinating offices have also been established in various ministries.

D. Housing

962. The government has prepared two housing programs: one, a ten-year plan covering the period 1962-1971 and the other a biennial one for the period 1962-1963. The ten-year program will cost 807 million dollars. It provides for building 790 000 new houses and repairing 344 000 existing ones. Its purpose is to reduce the existing housing deficit by 30 per cent and at the same time to meet the requirements arising out of population growth and the need to replace buildings that become unusable during that period.

963. The biennial program provides for the construction and improvement of 35 200 houses in the period 1962-1963, for the establishment of a pilot project for houses with adjoining gardens for family cultivation, for a certain reservation of lands for the ten-year program, for indispensable complementary facilities and annual works, and for the necessary research and training. Approximately half of this program is being financed by a loan of 22 800 000 dollars from the Inter-American Development Bank using funds of the Alliance for Progress. It is being carried out by the Housing Institute, established in 1960 to coordinate governmental activities in this field. The Housing Institute has various self-help programs in operation in cities of less than 10 000 inhabitants, where it plans to build 6 250 dwellings. In cities of more than 10 000 inhabitants it plans to build 11 000 dwellings and it had 2 899 practically finished by September 15 of this year. It has initiated urban renewal projects for replacing or improving 11 500 substandard dwellings, especially in marginal areas, supplying them with water, sewage disposal, and electricity. It is estimated that 264 000 people have been benefited in 5 cities. The Institute has a program for the direct construction of 5 350 dwellings.

964. The Institute works in coordination with the housing institutions of the country among which the following are worthy of mention: the National Housing Corporation, which plans and builds dwellings and is especially entrusted with solving the problem of slum areas; and the National Housing Fund, which finances the savings and loan associations and the housing credit cooperatives that are charged with solving the housing problem, especially for the middle-income groups.

965. Special legislation has been also passed in Peru which, through tax incentives, encourages the participation of private industry in the construction of low-cost housing.

E. Tax Reform

966. The following tax reforms are already in force:

1. Direct filing of returns and payment by the taxpayer.
2. Measures for preventing evasion:
 - a. Tax amnesty.
 - b. Standardization of tax infractions and system of corresponding fines.

3. Initiation of the dissemination of information on tax norms.
4. Trip of five officers of the General Tax Office to the United States to receive training.
5. Use of electronic equipment in the control of tax payments.

967. The government is considering establishment of the following tax reforms in the near future:

1. Unification of income tax legislation.
2. Simplification of the system of returns through the establishment of a single declaration.

3. Collection of taxes by a state agency.

4. Modification of the organization and functioning of tax administration:

- a. Decentralization of functions in the central and departmental offices.
- b. Changes in fiscal practices (integrated use of the system of automatic accumulation of data; substitution of a qualitative, guided review for a quantitative, random one; the establishment of a service permitting investigation of individual capacity to pay taxes).
- c. Reform of the organization in charge of the settlement of tax appeals on the administrative level.
- d. Establishment of a permanent organization for the training of tax administration personnel and of standards for accepting new personnel upon the completion of proper training.
- e. Development of an intensive tax information plan.
- f. Possibility of establishing a land tax in relation to the utilization of natural resources and the needs of urban expansion.

F. Agrarian Reform

968. The case of Peru deserves special mention because of the particular gravity of its agrarian problem. Population density per hectare of cultivated land is one of the highest in the world; agricultural methods, especially in the Andean zone, are among the most backward in use, and yield is among the lowest recorded. The majority of the farm workers live on the margin of the market economy and even lack the minimum requirements for decent living. These conditions are determined in large measure by extreme inequities in land distribution.

969. The Bill for Agrarian Reform, prepared in 1960 and later presented to Congress, has not as yet been approved. Under its present terms, the

bill authorizes expropriation of government-owned and private rural property. In the latter case, it establishes three basic criteria for expropriation: a) the lands are worked indirectly by sharecroppers, or any other similar system that links payment with personal service, whether remuneration is made in money or not; b) the lands are abandoned or insufficiently exploited, and c) an excessive concentration of rural property exists in the area where the lands are located.

970. Another set of provisions complements those referring to the transformation of the agrarian structure. These establish the need for assigning annually the necessary funds to provide the people of rural areas with technical, economic, and social assistance. The law looks upon the Agrarian Reform as a process intimately connected with the economic and social development of the country, and, taking the scarcity of human and financial resources for granted, it authorizes execution of the reform by stages and by areas, commencing with those in which conditions are particularly bad.

G. Administrative Reform

971. The following administrative reforms have been carried out:

1. The corresponding committees have been named and are carrying out the respective studies.
2. Electronic equipment has been installed in various government divisions.
3. The program for training government personnel has been strengthened.

972. Other reforms are being implanted, as follows:

1. Application of reforms deriving from inventory studies to be carried out.
2. Coordinated use of the equipment mentioned above.
3. Expansion of the training program, in coordination with the plan for administrative reform.

H. Monetary and Credit Policies

973. A firm position has been maintained on exchange, during the 1960-62 period. This condition was reached, among other factors, owing to the notable growth in exports, which increased 24 per cent from 1960 to 1962. This has permitted the demand for capital goods, raw materials, and even imported consumer goods of a supplementary nature to be fully supplied.

974. Another factor to which attention should be called in this respect is the absence of inflationary pressures due to the timely fiscal and

monetary measures adopted. The government maintained the firm policy of a balanced budget, without recurring to the Central Bank, as is shown by the drop of 3.8 per cent in allotments to the public sector by that institution from 1960 to 1962.

975. At the same time, the regulatory measures on bank cash reserves established by the Central Bank prevented what was considered excessive expansion of credit and payment facilities, beyond the needs of production and trade. This has enabled the commercial banks to meet normal requests for credit at a level in keeping with the growth of foreign trade and greater economic activity.

976. Thus commercial bank credit shows an increase of 31 per cent in farm credit, 46 per cent in industrial credit, 36 per cent in commercial credit, and 75 per cent in mining credit during the aforementioned period. In the same way, specialized government banking credit recorded an increase of 7 per cent between 1960 and the time elapsed in 1962.

977. The development of this policy, together with other factors already mentioned, has made it possible not only to maintain stability in the rate of exchange from 1961 to date, at 26.81 soles per dollar, but even to show an improvement of 2 per cent over the 1960 average of 27.30 soles to the dollar. At the same time, it has permitted a 46 per cent increase in the reserves of the Central Bank, which rose from 63.3 million dollars at the end of 1960 to 92.4 million dollars during September 1962.

DOMINICAN REPUBLIC

I. General Economic Developments

A. Gross Product

978. There are no data available on the gross product in constant values. Adjusting the figures in current values by the cost of living index, it may be seen that the growth of the real gross product was approximately 2 per cent in 1959, 10 per cent in 1960, and 4 per cent in 1961. The available statistics are believed to suffer serious deficiencies.

B. Development by Sectors

979. There is no analysis of the gross national product by production sectors.

C. Capital Formation

980. Investments in 1959, 1960, and 1961 were approximately 16, 11, and 10 per cent of the gross national product. Public investment in these same years was 49, 56, and 56 per cent of the total, respectively. Adjusting the figures in current values once again by the cost of living index, the changes in total real investments were--12 per cent in 1959,--33 per cent in 1960, and--1 per cent in 1961.

D. Domestic Prices

981. The cost of living index remained stable in 1959, declined by 4 per cent in 1960, and by another 3 per cent in 1961. Between January and July 1962 it rose by 5 per cent. The drop in 1961 occurred beginning in June of that year, owing to the abolition of taxes on basic articles of consumption and the reduction of retail prices of products of monopolistic industries, later expropriated. Since September of the same year, the index has been rising, as a result of greater mass purchasing power brought about by large changes in wage levels. In December 1961, wages were 30 per cent higher than in 1960, increases having occurred in the salaries of government workers, of the armed forces, and of many workers and employees in private industry. The present inflationary pressure owes its origin principally to increases in the level of wages.

E. Balance of Payments

982. After reaching a peak in 1960, exports decreased by 22 million Dominican pesos in 1961. Imports, at the same time, were restricted, beginning in 1959, by direct controls on exchange and trade, and, since 1960, by a monetary and fiscal policy aimed at preventing disequilibrium in the balance of payments. Although the trade balance for 1960 was unusually favorable, part of the credit from current accounts was applied to payment on the foreign debt resulting from the purchase of several sugar enterprises by the Haina Sugar Company.

983. In 1961, the trade balance was again highly favorable, and served to facilitate the flight of capital. By April of 1962, the net international reserve position of the banking system amounted to only 31 million dollars. Weakness of the prices of such major export products as sugar and cocoa, plus an increase in the level of imports due to greater purchasing power present serious problems for future international trade of the Dominican Republic. The new law governing sugar purchases by the United States has affected considerably the sale price of that product. The figures below summarize some trends in the balance of payments.

	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>
	(in millions of Dominican pesos)			
Exports	136.5	-131.8	163.4	141.3
Imports	-134.4	-124.9	-90.5	-70.3
Net balance on services	- 13.6	- 26.5	-23.9	-16.3
Net balance on current account	- 11.5	- 19.6	49.0	54.7
Balance of private capital	33.8a/	13.7a/	-16.0a/	-82.0b/

a. International Monetary Fund, International Financial Statistics.

b. OAS Official Records, OEA/Ser.H/X.3, Doc. 24.

984. It should be mentioned in regard to public capital that the International Development Agency granted the government a loan of 25 million dollars in 1962 at an interest rate of 0.75 per cent for a term of 20 years. The United States Export-Import Bank financed the purchase of a thermal plant for the Electricity Corporation at a cost of 3.5 million dollars and the Inter-American Development Bank granted the Agrarian Bank a loan of 3.0 million dollars.

II. Economic and Social Progress under the Charter of Punta del Este

A. Health

985. A program has been undertaken by the Secretariat of Public Health for improving the nutritional state of the population in order to reduce diseases caused by unadequate diets. To this end an effort is being made to inculcate better dietary habits among the population, as a part of the educational process at both the school and the university level, and technical personnel are being trained for this field. A malaria eradication campaign is also being carried on, with the help of the World Health Organization, as is a campaign to eradicate tuberculosis. Plans are now being prepared for the construction of new hospitals, and health centers for the practice of preventive medicine. At present, there is one hospital or clinic bed for each 366 inhabitants.

B. Education

986. The University of Santo Domingo became autonomous in 1962 and will be allotted for 1963 at least 5 per cent of the national budget, or 6 million pesos, as compared to 1.1 million assigned it in 1960. The curricula of several of the schools of the University have been revised and a number of new schools have been established, including a School of Agriculture. The budget of the Secretariat of Education and Fine Arts was increased by 34 per cent and in March 1962 it received 5 million pesos from the United States loan to the government of 25 million. Of the money assigned to the Secretariat, 3.2 million pesos were earmarked for school construction; 0.8 million for equipment, furniture, and school supplies; 0.3 million for teacher training plan; 0.4 million for the adult literacy campaign; and the remainder went for vocational education and administrative expenses. The training period for rural school teachers has been extended from two to three years and the teaching of modern languages has been introduced once more into secondary education.

987. The Secretariat of Education and Fine Arts, with the aid of the IDA, the OAS, and UNESCO, has initiated a fellowship program for teachers and educators, under which 100 inspectors, principals, and teachers have already gone or will soon go to various American countries for advanced professional training.

988. At the present time, there is one teacher for every 50 pupils, and while there are 353 school-age children for every school, the typical

Dominican school accomodates only 40 pupils. The international institutions Caritas and CARE are cooperating in a school lunch program for 150 000 to 200 000 children and 200 000 reading books will be distributed in rural and urban primary schools.

C. Housing

989. In 1962, the National Housing Institute, the National Housing Bank, and citizens' savings associations, were established and are now developing plans for cooperatives. The large industrial companies, for their part, have put into practice plans for the construction of housing for their workers and employees. The government will invest 2 million pesos in the construction of 1 470 low-cost houses during the coming months and plans are also being prepared for building concrete dwellings in the rural zone, through the agency of the Dominican Agrarian Institute. This will be carried out through a self-help, mutual-aid system.

D. Other Fields

990. There has been intensive activity since June of 1961 in the organization of professional associations and trade unions.

E. Planning

991. The National Planning and Coordination Board was created in January 1962 and began operations the following April. Among the activities already carried out is the establishment, in cooperation with the competent authorities, of various development organizations, such as the Dominican Agrarian Institute, the National Housing Institute, the National Housing Bank, the Industrial Development Corporation, and the National Water Supply and Sewerage Institute. The Board collaborated in the preparation of specific plans for the utilization of the 25 million dollar loan granted by the government of the United States. These included plans for rural resettlement, construction of low-cost housing and farm-to-market roads, reforestation, the development of agriculture and animal husbandry, and many others. The work of the Board has been hampered by lack of adequate statistics and of trained technical personnel. The majority of the secretariat are better informed about physical planning than about economic planning.

F. Agrarian Reform

992. A Land Reform Law has been passed and the Dominican Agrarian Institute was established to carry it out. The Institute has settled 300 families on government-owned lands in the four months since it began operations. It has 56 000 hectares of the best farm land available for distribution among low-income farm workers, and it anticipates accomodating another 2 000 families in 1962 and about 10 000 in 1963.

993. In collaboration with the Agricultural Bank, the Institute grants loans to the settlers together with the land, builds houses and farm-to-market roads for them, and, insofar as possible, provides basic public services. The Agricultural Bank has been reorganized and is granting loans on a selective basis in accordance with the great need of the country to develop production of basic food crops, the demand for which has increased tremendously as a result of the rise in income of the masses. The Bank now grants about 100 loans a day--many more than in the past; and the average loan is for only 150 pesos.

994. The Tobacco Institute has also been established as an autonomous agency for expanding cultivation of this crop. The Institute plans to increase from 10 000 to 20 000 the number of families that derive their income from tobacco, by supplying technical assistance and credit, and by maintaining a watch on prices.

995. The National Livestock Institute was also established in May 1962, with the purpose of aiding in restocking the country with cattle. A general forestry office, an agricultural extension service, and a department of cooperatives have been set up in the Secretariat of Agriculture.

G. Tax Reform

996. An income tax law was passed in May 1962 and the tax on profits has been abolished. The new law combines the tax based on categories or schedules (discriminating between sources of income in establishing the applicable tax rate) with a complementary tax on gross income. The rate goes as high as 63 per cent on the amount remaining after family and basic subsistence deductions have been made. Taxes on income from wages and salaries are collected through a monthly withholding system. It has been estimated that this reform and others will increase budgetary income from direct taxes, which now yield only 14 per cent of the total, to about 30 per cent next year. This is more likely since many indirect taxes on consumption and on basic services have been abolished. The tax on personal identity cards has also been abolished and a revision of import taxes is under study.

H. Administrative Reform

997. No further information is available on this area of reform. The National Planning Board has been included in the administrative organization and the functions for which it is responsible have been established. Needless to say, many of the specific reforms mentioned imply broad administrative changes in the fields of taxation, credit policy, and others. Establishment of a civil service is also being studied.

VENEZUELA

I. General Economic Developments

998. Even though in recent decades the Venezuelan economy has shown a high growth rate (8.8 per cent cumulative per annum), this has not been sufficient to meet adequately the over-all demand. Similarly, this growth has not led to changes in the traditional sectorial structure of the gross product. This structure is characterized by the low contribution of the agricultural sector, in comparison to petroleum and mining, which together contribute about one fourth of the value of goods produced. This is why hydrocarbons exercise a preponderant influence on the Venezuelan economic cycle. At the same time, this dependence reveals a considerable vulnerability to the effects of changes in the world situation.

999. For this and other reasons, the economic policy of Venezuela is closely tied to the fluctuations in international oil prices, to the extent that these determine, to a large degree, the total revenue of the government.

1000. Moreover, this relationship leads to a clear-cut Venezuelan policy in regard to petroleum price fixing on the world market, which it implements internationally through the Organization of Petroleum Exporting Countries.

1001. A significant fact in the development of the Venezuelan economy in recent years is that per capita gross fixed investment has remained at a level similar to that of the whole of the last decade, in spite of the explosive population growth the country has been experiencing. Likewise, a substantial change is evident in the orientation of this investment, which is now being carried out within a systematic priority program in keeping with the economic and social needs of the country. An essential part of this investment is that being carried out directly or indirectly by the public sector, in manufacturing as well as in agriculture, housing, and social services.

1002. The financing of investment is done almost exclusively out of domestic savings. Roughly one third of these savings comes from the public sector and between 15 and 20 per cent from the oil companies.

1003. At the same time, a marked trend towards expansion is evident in public expenditure, due to the significant participation of the central government, which accounts for 75.6 per cent of the revenues and 51.2 per cent of the expenditures. However, it should also be taken into consideration that the effective revenue of the government has not been derived solely from ordinary sources. It is evident in Venezuela that expenses are made up through the substantial contribution of special receipts, which have been obtained, as in the period of the government in power prior to 1958, through the sale of oil concessions, or as in the time of the constitutional government, through public credit operations.

1004. This shift in the type of special income received by the government could also imply an adequate structure of current tax sources for the public sector. This is made evident by the fact that only one of these, the extractive industries, contributes 60 per cent of revenue, while land contributes only 19 per cent.

1005. Thus, it can again be seen and understood that the fiscal cycle should be understood in relation to the petroleum cycle, and that because of the lack of flexibility in the tax burden on that activity, resort must be had to going into debt in order to maintain and raise the level of income-producing expenditures.

1006. The economic and social development of Venezuela cannot be properly understood without taking into consideration, in relation to the indices of growth of total product, the revenues, expenditures, and investment, and the significance and magnitude of needs to be covered, as required by the rapid population growth.

1007. The country had a population of 8 020 000 at the end of 1961, and it is estimated that the figure will reach 9 310 000 in 1966. If the economic distribution of the population for 1961 persists, 32 per cent will consist of workers. This means that jobs must be provided for 82 000 additional persons each year. Because during the last decade job openings did not increase at the same rate as the population, the country is suffering from structural unemployment, which amounted to over 13.5 per cent of the active population in 1961.

1008. As regards its distribution according to activities, there has been an evident trend in the Venezuelan population towards a reduction of the labor force engaged in agriculture, with an increase in manufacturing. Nevertheless, the latter sector has not played a dynamic role sufficient to utilize the manpower surplus caused by increased agricultural productivity and natural population growth. The manpower surplus, therefore, had to be given a place in the construction industry and in services. Venezuela presents the problem of insufficient capacity on the part of the dynamic sectors of its economy to absorb the growth of the labor force, a phenomenon apparently similar to that occurring in the other Latin American countries. Nevertheless, this insufficiency is basically different. While in the other countries it generally arises from the low level of investment, in Venezuela, it is rather the product of the low employment capacity of the manufacturing and construction sectors, as a result of the high ratio of capital per employee, which in turn is derived from the purchasing power of domestic savings in terms of its investment in imported goods.

II. Economic and Social Progress under the Charter of Punta del Este

A. Planning

1009. The Central Office for Coordination and Planning was created on December 30, 1958. This office has been responsible for drawing up the country's development plans, especially as regards government participation in matters affecting capital formation. The planning system adopted calls for a quadrennial plan, which permits annual revisions and adjustments in accordance with what is accomplished. The first plan was for the period 1960-64, and another is now being prepared, which will run through 1966. At the same time, this office is responsible for coordinating the various measures that make possible the execution of the plan and is concerned with carrying out the tasks provided for in these instruments.

1010. There are also some sectorial planning offices that operate on the same level as the national executive agencies (ministries and independent agencies). The work of the Central Office is complemented by that of regional development agencies, such as the Venezuelan Guiana Corporation, which plans and executes the most important investment projects in iron and steel, power, aluminum, and other activities related to the availability of the specific resources of the southeast area of the country. Similar steps are being taken to create an Andean Corporation, which will be concerned with the development of the western region of the country.

1011. The planning work is complemented by operational instruments, such as the program budgeting.

1012. Another part of the planning work is the rationalization of methods and procedures of public administration. This function is the responsibility of the Public Administration Commission.

B. Agrarian Reform

1013. Agrarian reform is being carried out in Venezuela in accordance with the principles and objectives of Agrarian Reform Law, passed on April 19, 1960, whose provisions conform in spirit to the Act of Bogotá and the Charter of Punta del Este.

1014. The object of agrarian reform, as stated in this law, is to "change the agrarian structure of the country and to incorporate the rural population into the economic, social, and political development of the nation. This is to be done by substituting for the latifundia system, a just system of ownership, tenure, and exploitation of land, based on equitable distribution thereof, on an adequate supply of credit, and in over-all assistance for farm workers. In this way, the land will be for the man who works it, the basis of his economic stability, the foundation of his progressive social welfare, and the guarantee of his freedom and dignity."

1015. Agrarian reform is, therefore, an over-all process carried out with the assistance of various agencies: The National Agrarian Institute, which is responsible for furnishing land; the Ministry of Agriculture, which gives technical assistance; and the Agricultural Bank, which gives credit facilities.

1016. As of the beginning of 1962, 42 119 families had been resettled on 1 358 375 hectares. Now, however, the number of families resettled exceeds 50 000, and it is hoped to settle some 100 000 families more by 1964. Of the land divided, 20 per cent was under private ownership.

1017. As the result of a survey made in 1961 to appraise the progress of agrarian reform, it was evident that the farm settlement program should be supplemented with irrigation projects, the building of farm-to-market roads, the opening of wells, etc. Such works were begun in 1962.

1018. Plans have been drawn up that are basically geared to increasing the income of the farm masses and educating them in modern agricultural

practices. One of these is the corn plan, which was begun this year and will benefit more than 18 000 farm families. Its aim is to raise the annual production of corn to 600 000 tons.

1019. Agricultural extension is carried on through extension agencies located in the most important regions of the country. As of the beginning of this year, there were 140 of these, as compared to no more than 23 in 1958.

1020. During the last three years, more than 550 million bolivars of credit were granted by the Agricultural Bank, of which 40 per cent were farm credits. This is in contrast to the credit granted in 1957, which did not exceed 45 million bolivars and was assigned only to the entrepreneurial sector.

1021. In the last three years, 94 million bolivars have been invested in irrigation projects, bringing the area under irrigation to 21 600 hectares. Also in the last three years 126 million bolivars have been invested in farm-to-market roads and farm access roads; 6 000 kilometers have been constructed.

1022. Agrarian reform is chiefly financed through budgetary assignments to various state agencies and also through the establishment of a farm debt, in the form of state bonds, which are designed to pay partially or totally, for the property that must be expropriated in accordance with the agrarian reform law. During the second half of 1961 and the present fiscal year, approximately 600 million bolivars from the national budget have been invested in this area, and the national congress authorized an issue of bonds to cover up to 200 million bolivars of the agrarian debt.

C. Industrialization

1023. From the beginning of its administration, the constitutional government has determinedly stimulated the country's industrialization, considering that this is one of the fundamental elements in Venezuela's economic and social development. Industrial policy has been conceived as a part of economic policy in general, and for this reason the measures applied in other related sectors are also applied here.

1024. In its industrial policy, the Government of Venezuela seeks:

1. To reduce the vulnerability of its economy to fluctuations of outside origin;
2. To create new jobs, in order to meet the problem of structural unemployment in the Venezuelan economy; and
3. To raise the standard of living of the population.

An effort is being made to achieve these objectives by making better use of installed capacity, vigorously continuing the process of substituting for imports, and creating export industries.

1025. Since 1961, specific categories of priorities have been adopted which have been approved and reaffirmed in the Declaration of Economic Policy. Also, measures have been adopted to stimulate industry. The application of these measures has resulted in significantly diversifying manufacturing production, and has also created opportunities for direct or indirect employment for tens of thousands of people. This has meant a net investment in industrial manufacturing activity of about 1 098 million bolivars in the last three years.

1026. In the same way, a significant increase has been achieved in the agricultural production of raw materials for industrial use. Also, approximately 1 200 000 000 bolivars worth of imports have been replaced by local products, and imports tend now to be intermediate and capital goods rather than consumer goods. The progress here is evident, if it is considered that the value of Venezuelan industrial production during the three year period 1959-61 was 26 900 million bolivars at 1960 prices. This represents an increase of 27 per cent over the preceding three-year period. It should be emphasized that industrial production in 1961 exceeded that of 1960 by 486 million bolivars.

1027. Application of the credit policy has resulted in the granting of 483 million bolivars of credit by the Venezuelan Development Corporation and the Industrial Bank, plus 15.3 million bolivars lent to 1 171 industries by the recently created National Financing Commission for Small and Medium Industries.

1028. At the technical level, the Venezuelan Commission on Industrial Standards checks on the quality of the products manufactured, and the Venezuelan Productivity Institute and the National Institute on Educational Cooperation are responsible, in their respective fields, for achieving greater efficiency through worker training.

1029. With reference to the entrepreneurial efforts of the state, the declaration on basic aspects of the economic policy of the constitutional government states that:

The proper functioning of a mixed economy, such as that of Venezuela, requires that the economic policy be outlined in a clear, over-all manner, and that it be carried out systematically and firmly. Knowing the extent of the state's entrepreneurial activity in the economy, the private sector is in a position to act with more assurance. Thus, the public and private sectors will cooperate with, and complement, each other, in hastening economic development. Generally speaking, the government limits the entrepreneurial activity of the state basically to the following:

1. Railroads, telecommunications, electricity, and gas, which, as public utilities, correspond to the government's sphere of action; and

2. Basic industries that require large investments and supply materials that exercise a powerful influence of the entire economy.

In addition to the industrial sectors mentioned, the state may, according to the circumstances, participate in the formation of specific industries which must be promoted in the public interest, especially when, because of their initial low return, they are not sufficiently attractive to private capital.

1030. The Venezuelan Guiana Corporation, a regional development institution, is in charge of the Orinoco steel plant. It has recently begun to produce, and by the end of this year will have installed capacity for producing 760 000 tons. At the same time, this plant has started producing seamless tubes, barbed wire, steel bar sections, and iron strips, and by the end of 1962 its total production will be worth approximately 150 million bolivars.

1031. The Venezuelan Petrochemical Institute comprises three groups of industrial plants: the chloro-soda group, the fertilizer group and the refinery. Production in the first group is 11 400 tons; fertilizers produced approximate 89 000 tons; and the refinery produces 59 million liters of gasoline and some 34 000 tons of asphalt, these figures being estimates for the year 1962.

1032. The Venezuelan Guiana Corporation, in cooperation with a U. S. firm, established the Caroní Aluminum Corporation, a mixed company, whose aim is to install and operate an aluminum reduction plant in the Caroní district of the State of Bolívar. This plant will have a production capacity of 22 500 tons of aluminum ingots and represents an investment of approximately 65 million bolivars. It will begin operations in 1964.

1033. There are also a number of projects being carried out by the private sector, among which the program for developing the automotive industry deserves special attention.^{39/}

1034. The Corporation for the Administration and Development of Electricity (CADAFE) is responsible for planning and administering the electrification program in the country. Its total activities in 1951 amounted to 424 million bolivars, which increased to 683 million in 1961. In 1959 it had 212 000 kilowatts capacity and sold 694 million kilowatt hours to 202 000 subscribers for a total value of 85 million bolivars. In 1961 its installed capacity was 368 000 kilowatts and it sold 942 million kilowatt hours to 279 000 subscribers for a total value of 117 million bolivars. At the end of 1961, this firm supplied one third of all the electricity used in the country and gave employment to 42 per cent of the workers in the electrical industry. It served 30 per cent of the total population using electricity and supplied 37 per cent of the electricity used in national industry. In its plans, the program for rural electrification deserves special mention because of its social significance.^{40/}

39. See Desarrollo Económico y Social de Venezuela OEA/Ser.H/X.3, Doc. 36, pp. 44-52.

40. Ibid.

1035. Of special significance to Venezuela is the utilization of the hydroelectric energy of the Caroní River, since this will have important implications for the development of the whole southeast region of the country and will be a basic element in the over-all growth of the country's economy. The Venezuelan Guiana Corporation is responsible for the studies entailed by this program and for its administration. In 1961, the installation of six turbogenerator units was completed in the Central Macagua No. 1, with a guaranteed capacity of 300 000 kilowatts and a generating capacity of 370 000 kilowatts. Up to the end of 1961, 284 million bolivars had been invested in these works, of which 72 per cent had been paid off between 1959 and 1961.

1036. The extraordinary hydroelectric potential of the Caroní River (240 meters drop and 5 000 meters of mean flow) requires that its development be planned on a long-range basis, in successive stages, within a general program and in accordance with the growth in demand for electrical energy. The last stage of this project is the building of the Guri Dam, and in its second phase of construction, the plant will generate approximately 3 000 000 kilowatts. The national government is willing to undertake this work, which it is hoped will be finished in 1958.

D. Housing

1037. The scarcity of housing is one of the acute problems facing the Venezuelan population. It has been estimated that the present deficit amounts to between 700 000 and 800 000 units. The demand increases annually by some 100 000 to 130 000 units. This picture reveals the need for investing some 700 to 1 000 millions of bolivars a year, in order to overcome this disturbing situation.

1038. The chief permanent organs for carrying out the housing policy of the national government are the Worker's Bank and the Division of Rural Housing of the Ministry of Health and Social Welfare. The first has been responsible for building and financing housing in the urban areas and for low income groups. During the 1959-1961 period, 18 400 dwellings were constructed directly by the Workers Bank, the Ministry of Health and Social Welfare, and the regional governments; in addition, credits were granted in the amount of 233 million bolivars for building 11 000 more housing units. During the fiscal year 1962, funds for constructing 26 300 units were assigned.

1039. The problem of the scarcity of housing is of such magnitude that it cannot be resolved by the action of the government alone. Therefore, the government policy has been directed to gaining maximum coordination of the efforts of various sectors of the country, in order that the nation may have adequate financial institutions and laws favorable to the mobilization of private savings, which complement public investment in this field. In this respect, the law regulating the operation of banks and other credit institutions has already been reformed. Besides certain general provisions for insuring public savings, authorization was given to the organization of mortgage banks, which may grant long-term credits. Also established on a provisional basis was a Savings and Loan Commission,

which will operate until the National Congress passes a law creating a system through which it is hoped to mobilize private savings and channel them toward the construction of housing that can be purchased under highly favorable financial conditions.

1040. Reforms in the tax laws have been introduced, which create incentives for constructing new houses by exempting these from taxes on lease rentals during certain periods.

1041. In August 1961, a Board of Credit for Urban Housing Construction was created. It administers a special fund of 200 million bolivars, financed jointly by the government and the enterprises holding petroleum concessions.

1042. It has been the policy of the government to create certain stimuli so that the persons affected by the housing problem will be the ones contributing chiefly to its solution. Of special mention is the program for rural housing, which is being undertaken by the Ministry of Health and Social Welfare. It is primarily a self-help plan.

E. Education

1043. The educational policy that has been followed and will be followed by the national government will be directed toward training adolescents, "in those studies from which they can obtain the greatest return and through which they can win a stable position in productive life. It is also directed toward technical and vocational schools in general, to which the future economic development of the country is limited."^{41/}

1044. In matters of preschool education, the government proposes to stimulate long-range development, with the aim of achieving within 20 years a childrens' educational system productive of excellent results. Private cooperation will be important in this branch.

1045. In elementary education, the government will serve to eliminate the educational deficit within the next 15 years and to make substantial improvement in the quality of instruction. Of course, for secondary education the objective will be to diversify instruction and to expand to a maximum, in accordance with the needs of the country, vocational education for industry and agriculture.

1046. The purposes of education at this level will be:

1. To eliminate the deficit of secondary-school teachers within the next 10 years;
2. To establish and expand training for secondary-level engineers, particularly in the fields of chemistry, electronics, and industrial branches in general;

^{41.} Presidential message of March 11, 1961.

3. To provide university training both on the level of the liberal professions and on the scientific level, in order to meet the professional needs of the country.

1047. The measures that the government is applying in the area of higher education are:

1. Establishment of a national polytechnic institute in 1963. This will train secondary-level engineers in the various branches of industrial engineering. The United Nations Special Fund is supporting this project;

2. Establishment and strengthening of new universities;

3. Establishment of the Center for Development Studies (CENDES), to train personnel and to carry out needed studies in the fields of planning and economic and social development.

1048. The impulse that has been given to education in Venezuela during the last three years is such that no comparisons can be brooked with any other period in the country's history. In 1958 there were 608 428 pupils in public elementary schools. In 1961 enrollment in those schools reached 1 111 056--an increase of 502 628 pupils in three years. To this number must be added those enrolled in 958 private schools, which brings the total to 1 227 861 pupils.

1049. In 1958 students at the 16 state normal schools numbered 7 690; and 6 636 were enrolled in 75 private institutions. Currently students at both classes of institution number 32 057.

1050. The total of 71 355 secondary-school students registered three years ago has now risen to the very considerable number of 118 950. To this figure must be added 18 355 adults attending night schools.

1051. In the field of vocational education, 50 940 students are receiving instruction in private and public institutions, compared to 25 478 three years ago.

1052. Elementary instruction is currently given by 35 863 teachers, compared with 19 247 in 1958; normal-school education is imparted by 747 teachers as against 330 at the beginning of the period of constitutional government; secondary-school teachers number 5 422 as against 3 846; vocational schools now have 2 493 teachers, a number considerably greater than at the beginning of the period under consideration. The three universities existing in 1958 had 8 188 students. Today there are five universities with 26 829 students; to which must be added 3 375 enrolled in private institutions.

1053. The literacy campaign has taught 676 701 people to read and write, reducing illiteracy to 20 per cent, on the basis of a population of 7 523 999.

1054. The government has made a sustained and insistent effort to carry out an efficient policy of school construction. This has been necessitated by the growth, already pointed out, in all branches of education. In three years, 1 322 primary schools representing 5 344 classrooms, have been built and put in service. Seven normal schools have been built, equipped, and put in service, and two more will soon be functioning. Eight secondary schools were built and put in service in 1961 and four more will soon be finished. To give a complete picture of the constitutional government's activity in this sphere, to this number must be added 14 secondary schools built in 1960.

1055. The budget of the Ministry of Education in 1958 was 178 340 825 bolivars, and the current budget is 579 149 936 bolivars.

F. Health

1056. Venezuela has set as its goal for action in the field of health the preservation of human resources. This applied not only to the treatment of endemic or other disease, but also to cases in which it is possible to put into practice coordinated action for preventing disease through sanitary campaigns, mass vaccination, controls in schools, and nutritional protection for the general population. The majority of these requirements have been met at state expense. The Venezuelan health budget is 446 400 000 bolivars, including funds for nutritional campaigns.

1057. The area from which malaria has been eradicated was increased to 430 920 km². Deaths from malaria have dropped to the insignificant rate of 0.01 per 100 000 inhabitants.

1058. Typhoid and paratyphoid have dropped from 4 deaths per 100 000 inhabitants to 0.5 per 100 000 in recent years. Deaths from gastroenteritis have fallen from an average of 162.4 per 100 000 during the five years 1954-1958 to 112 per 100 000, and in the city of Caracas, for the same periods, from 78.4 to 46.2. Smallpox has been eliminated from the country, no case of this disease having been registered in the last five years. The fight against poliomyelitis has been kept up constantly, in a highly specialized form. State action has been supplemented by private action, satisfactorily coordinated.

1059. Periodic check-ups and controls are carried out by specialized agencies in schools and labor centers. Deaths from tuberculosis have continued their impressive drop from 260 per 100 000 inhabitants in 1944 and 110 in 1952 to little more than 25 per 100 000 inhabitants in 1961. Deaths from syphilis have dropped from a rate of 17.1 per 100 000 inhabitants in 1952 to 3.0 in 1961.

1060. Programs for the nutritional protection of the population have been significantly increased; protection of this kind is provided in particular for groups requiring special attention, such as expectant mothers. The combat against dietary deficiencies in children was intensified. Posts distributing a dietary supplement consisting of skim milk and additives (mineral salts, vitamins, etc.) have increased in number from 70 in 1958 to 825 at the present time, each with a capacity for protecting 100

children a year, or a total of 82 500. The program of food subsidies for workers has also been broadened, by the sale of meals at less than cost in people's and industrial workers' restaurants.

1061. In a three-year period, the National School Restaurant Foundation significantly increased the number of dining rooms, from 334 in 1958 to 776 in 1961. They served 19 067 885 free lunches to undernourished pupils. In 1959 they cared for 72 650 pupils and in 1961 for 127 000. This figure will be exceeded in 1962, reaching 167 000.

1062. With regard to medical and hospital care, in 1962 there were 23 575 beds in 64 institutions, including general and special hospitals and health centers. This represents an increase of 20 per cent in the last three years. Twenty-nine buildings of this type are in an advanced state of construction; these will provide an additional 2 545 beds.

1063. With regard to water supply and sewerage systems, the rapid growth of the population and limited financial resources have not permitted covering deficits in these regards--1 700 000 persons without drinking water supply and 2 825 000 without sewage disposal services. In view of this grave situation, a ten-year program has been drawn up for extending water supply and sewerage services in urban and rural areas, with the aim of covering 50 per cent of the rural population and 70 per cent of the urban population by 1970. Investment called for during the decade is approximately 531 725 000 bolivars. Financial aid has been obtained from the Inter-American Development Bank and the United States Export-Import Bank, and technical assistance from the Pan American Sanitary Bureau.

1064. The death rate, in accordance with the population estimates of July 1, 1961, is 7 per 1 000 inhabitants. Even allowing for failure to register some deaths in rural zones, the definite rate should not be more than 9 per 1 000.^{42/}

G. Community Development

1065. The basis of the community development program in Venezuela lies fundamentally in the coordination of all national, regional, and local programs concerned with community welfare and better use of human resources, with a view to achieving effective participation by the individual citizen in the preparation and execution of the program of community action, through the employment of self-help and mutual-aid methods. The principal objective of the program is to raise the standard of living in the urban and rural communities in which it operates. At the same time it endeavors to bring about a psycho-sociological change in the community, instilling in the population a sense of responsibility for its problems, directing it toward seeking a solution therefor on the basis of the means at its disposal.

^{42.} For more complete data see Desarrollo Económico y Social de Venezuela OEA/Ser.H/X.3, Doc. 36, pp. 61-69.

1066. The community development program began in January 1960 in only four places in Venezuela. Currently it takes in 450 communities in 14 states. A Foundation for Community Development and Municipal Promotion has been established. This is a financial instrument for receiving, mobilizing, and channeling in coordinated fashion available national resources and the financial aid that has been requested of the Agency for International Development, with the aim of providing greater flexibility for the program, which includes works of real local interest, such as aqueducts, sewerage systems, streets, low-cost housing, electrification for small communities, playing fields for sports, and other similar undertakings.

H. Economic Integration

1067. Venezuela has declared specifically that it is disposed to enter the Latin American Free Trade Association once a series of studies of Venezuela and the countries making up the LAFTA have been made, with a view to finding a suitable formula for profitable entrance into the Association. To this end, it has agreed to the establishment of a mixed commission of representatives of the LAFTA and of Venezuela, to study the various aspects of the matter. Venezuela named an observer to the Second Series of Negotiations, in Mexico City in September-November 1962, and it has named a permanent observer in Montevideo.

I. Mobilization of Domestic Resources

1068. Venezuela has made a series of changes in its fiscal and tax laws for the purpose of promoting domestic savings and channeling them toward better ends, and of guaranteeing more adequate control of the investments made by the institutions to which the public has entrusted its resources. Some credit institutions were authorized to issue securities, such as mortgage bonds and capitalization certificates. Recently a savings-and-loan system was created, the activities of which are directed toward housing construction.

1069. In the tax field, reforms have been made with a view to obtaining greater financing resources for public investment for social purposes. Specifically, the income tax law was altered, and as a result of the change, taxes in the upper brackets were increased almost 100 per cent. At the same time, incentives were retained to stimulate private investment. Other changes were also made in inheritance tax laws and in ones referring to indirect taxes and administrative reforms have been made for the purpose of improving control and inspection in the tax field.

J. International Cooperation

1. Technical Assistance

1070. Several organizations have taken part in programs of technical assistance for Venezuela. First of all, the United Nations Organization

has cooperated through some of its agencies, among them: the International Telecommunications Union, the International Labor Office, the Special Fund, the FAO, the UNESCO, and the World Health Organization. In addition to the advisory service Venezuela receives on a permanent basis, missions have been sent to the country on several occasions for specific purposes. These have helped in making studies on urban transit, the development of river basins, community development, and the possibilities of Venezuela's entrance into LAFTA. These missions have also given advice on programs for reorganizing public administration and in matters of government accounting.

1071. Venezuela has received technical assistance from the Organization of American States chiefly with reference to housing programs. In this respect, mention should be made of OAS participation in organizing the Municipal Housing Institute in the city of Maracaibo, and of the advice it has given on rural housing.

1072. Venezuela has also received technical assistance from the Inter-American Development Bank. Its experts have helped both technically and administratively, in programs to reorganize the Industrial Bank of Venezuela and the Workers' Bank. They have also assisted the National Agrarian Institute in preparing projects for the consolidation of rural settlement, with a view to requesting credit to finance them.

1073. At the end of 1961, arrangements were made with the U.S. Government to bring members of the Peace Corps to Venezuela.

1074. Finally, we must mention the technical cooperation of the Agency for International Development, whose activities have increased considerably in recent months. The fields of action of the local mission are broad, extending from technical assistance in matters of industry and education (primary and secondary) to advice in matters of public administration. Also, mention should be made of the work that the AID experts are doing in the housing field, particularly in the savings and loan system.

2. Financial Assistance

1075. The first credit agreement has been signed, whereby the IBRD will lend 45 million dollars to cover the cost, in U.S. currency, of two highways to join the industrial area of Valencia with the second port of the republic. These works, whose length is 92 kilometers, are already well advanced, and it is expected that they will be finished in 1964.

1076. Recently, the AID granted another loan, this time to the Agricultural Bank, amounting to 10 million dollars for the purpose of helping a supervised agricultural credit program, which will be carried out by the Bank on a scale totalling no less than the equivalent of 20 million dollars. The Foundation for Community Development and Municipal Promotion has requested a loan amounting to 50 million dollars to finance part of a broad program.

1077. During the middle of 1961, this agency authorized a line of credit for the Government of Venezuela amounting to 100 million dollars. To date, two agreements have been signed for 82.5 million dollars and it is hoped that the balance may be contracted for shortly, for the purpose of financing specific projects. These funds are used to carry out programs for industrial credit, housing construction, agricultural development, purchase of sanitation pipe lines, and construction of irrigation works and farm-to-market roads.

1078. In August 1961, this agency granted the Venezuelan Development Corporation a loan amounting to 7 million dollars and 10 million bolivars, for the purpose of financing industrial development projects. At the end of the year, a second credit amounting to 12 million dollars was granted, to help finance a building program of 21 000 rural housing units within a period of two years.

1079. At the beginning of this year, the Inter-American Development Bank granted another loan to the Republic of Venezuela for 10 million dollars to finance 50 per cent of the cost of drinking water supply works to serve 330 rural communities, or a total of 100 000 persons. An equal amount of credit was extended to the National Institute of Sanitary Works, to finance in part works that will provide drinking water for 55 localities, benefiting 380 000 persons.

1080. In June an agreement was signed by the IDB and the Workers' Bank of Venezuela, whereby the former is opening a credit of 10 million dollars, to be used to complete financing a broad program of construction of urban dwellings. On August 24 of this year, the National Institute of Sanitary Works signed a credit agreement for 6 million dollars to finance in part the work of extending and improving the aqueduct of Maracaibo, the second city of Venezuela. Finally, negotiations are under way involving a 10 million dollar credit to the National Agrarian Institute, to finance in part several projects for consolidating farm settlements, within the Agrarian Reform Program.

- 195 -

APPENDIX.

CHANGES SUGGESTED BY CERTAIN DELEGATIONS

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CHANGES SUGGESTED BY CERTAIN DELEGATIONS

ARGENTINA

It is suggested that paragraph 571 be changed to read as follows:

An office of educational planning has been created in the Ministry of Education whose responsibility shall be to evaluate, in cooperation with the National Development Council, the need for human resources and the ability of educational organizations to fulfill such requirements. To attain these objectives, courses for proficiency in the field of technical education have been intensified. Within the framework of the Alliance for Progress, funds are being directed toward the improvement of teaching methods and of equipment in national universities.

BRAZIL

It is suggested that paragraphs 131 and 132 be changed to read as follows:

1. 131. Presently, important reforms are in the process of preparation or are being executed in Brazil. In administration, a complete reform was made by the Ministry of Agriculture with the creation of a Superintendency of Agrarian Reform. All the offices connected with supplies were also reorganized according to the new plan. In the next few days, a fiscal reform will have to be presented to the Congress in advance of the general development and stabilization plan which is being prepared and which will be put into effect next year. The activities connected with this plan have been placed under the supervision of the Minister of State and he is specifically responsible for their being carried out. All decisions pertaining to monetary, fiscal and exchange matters will be made only after proper consultation with the Planning Minister. The major objective in planning, supposing that the same rate of growth of the last few years is maintained which is close to 7 per cent, is to reduce the rate of inflation by 50 per cent for each of three consecutive years.
132. By such a proposal, it will be possible to redistribute and increase taxes, consumer subsidies will be eliminated and a higher level of investments will be maintained in the public sector as well as in the private. Therefore, it is planned to put several institutional reforms into practice, particularly in the agricultural sector, reforms which are strongly supported by public opinion and which the President of the Republic proposes to put into actual use.

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2. It is proposed to change the text of paragraph 341 to read as follows:

The determining factor in external financing and above all in the function of programs and projects is the proper use of domestic resources which is particularly reflected in the rate of development achieved by a country.

HONDURAS

It is suggested that paragraph 116 be changed to read as follows:

In order to give greater authority to the economic planning organization, necessary studies are being made to elevate the rank of the National Economic Council.

MEXICO

It is suggested that paragraph 38 be modified to read as follows:

Finally, it should be pointed out that the Inter-American Development Bank (IDB) began its operations in 1961 and has contributed to the solution of some of the most urgent economic and social problems of Latin America through the granting of loans from its own funds as well as those of the Social Progress Trust Fund, whose administration has been entrusted to the Bank through a contract signed with the United States, which have been set aside for use in such cases. The funds of the Bank have been used in part to finance industrial projects of the private sector but have been principally utilized to finance substructural projects. Also, the Bank has concurrently carried out an active and broad program of technical assistance. The greater part of Trust Fund resources have been used for public housing, public health, and better land utilization.

PERU

1. It is suggested that the following sentence be deleted from paragraph 187:

The law returning all unimproved lands in the country to the ownership of the state has been approved; this law is basic to the proper organization of agrarian reform.

2. Paragraph 345 which refers to tourism as a source of incoming foreign exchange seems to be in the wrong order; it should be located under Section 3 "International Organizations" immediately following paragraph 354.